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**Effects of Firm-Level Corporate Governance on Foreign Initial Public
Offering Underpricing - Evidence from the UK**

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Abstract

- Title:** Effects of Firm-Level Corporate Governance on Foreign Initial Public Offering Underpricing - Evidence from the UK
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- Authors:** Axel Albertson Witting & Linus Lundberg
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- Five key words:** Underpricing, foreign IPO, corporate governance, signaling, information asymmetry
- Purpose:** The purpose of this thesis is to investigate the effects of certain firm-level corporate governance characteristics on the underpricing of foreign IPOs issued on the London Stock Exchange.
- Method:** This thesis relies on a quantitative research method, using a deductive research approach, testing hypotheses through multiple regression analysis.
- Theoretical perspective:** This thesis is founded on financial theories on IPO underpricing, information asymmetry and adverse selection, signaling and firm-level corporate governance. In addition, relevant previous studies on domestic and foreign IPOs are presented.
- Empirical foundation:** The empirical foundation consists of a unique sample of foreign IPOs on the LSE and AIM between 2004-01-01 and 2011-12-31.
- Conclusions:** The study concludes that the size of a firms' board of directors does not influence foreign IPO underpricing in any direction. Further, higher proportions of independent board members do not impact foreign IPO underpricing. Statistical significance is found for a negative association between having an independent chairman and foreign IPO underpricing. Furthermore, the study concludes that CEO/founder duality is not statistically associated with foreign IPO underpricing, but interesting tendencies towards a positive association are found.

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List of Abbreviations

AIM	Alternative Investment Market
GBP	Great British Pounds
IPO	Initial Public Offering
LSE	London Stock Exchange
OLS	Ordinary Least Squares
SEO	Seasoned Equity Offering
SOA	Sarbanes-Oxley Act
TRD	Thomson Reuters Datastream
UK	United Kingdom
US	United States of America

1. Introduction

This introductory section presents a brief background on the subject of foreign IPOs. This is followed by a research problem discussion leading up to a presentation of the purpose of this thesis. Important demarcations are established and an outline of this thesis is given.

1.1 Background

Over the past ten years, the financial world has witnessed several spectacular cross-border Initial Public Offerings. The list includes Prada in Hong Kong and Manchester United in New York (PWC, 2012). Recent attention is directed at the anticipated IPO by Alibaba, the Chinese E-commerce giant, in New York. These events shed light on complex global trends towards increasingly global capital markets (Stulz, 1999).

Scholars are fairly united around the thought that national markets are becoming part of a global equity market (Oxelheim, 2000). This new reality adds additional dimensions to the traditional capital raising decision. Firms wishing to secure funding today face crucial decisions regarding geographical location (Henderson, Jagadeesh & Weisbach, 2006).

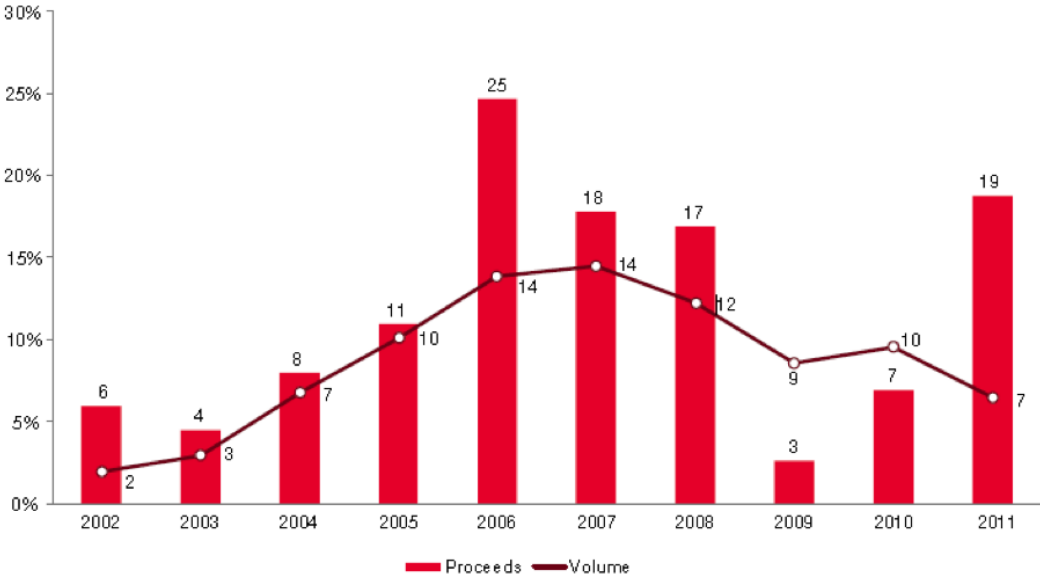
One important aspect when understanding global capital streams is the occurrence of initial public offerings (from now on: IPOs) on foreign, non-domestic marketplaces (Caglio, Weiss Hanley & Marietta Westberg, 2013). These occurrences are here referred to as foreign IPOs or cross-border IPOs¹.

A growing number of firms take the decision to list their shares on foreign stock exchanges, leading the supply of possible listing destinations to grow and the competition among them to intensify (Chemmanur & Fulghieri, 2006). In today's world, firms originating from countries with less developed home institutions can increasingly bypass them through the use of foreign capital markets, leading to a situation where listing destinations are becoming less obvious and the group of cross-border issuers more heterogeneous (Doidge, Karolyi & Stultz, 2012). During the last two decades, there has been an increase in significance of firms seeking to raise initial equity capital on stock exchanges located outside of their home country. This development has not only yielded scholarly attention, but is also the focus of practitioners. A

¹ A deeper discussion on the exact definition of a foreign IPO can be found in section 1.5.

report from 2012 by PWC shows that foreign IPOs now make up a considerable portion of total IPO volume and value worldwide². Figure 1 below shows the significance of cross-border IPOs presented as proportions of worldwide IPO volumes and values. Between 2002 and 2011, foreign IPOs represent 9 percent of the total volume and 13 percent of the total value of all IPOs. A peak is reached in 2006 before the financial crisis, reaching 25 percent of the global value of all IPO proceeds. In 2011, the number is once again approaching the levels witnessed in 2006, indicating that the financial crisis of 2007 and the years following had a negative impact on the attractiveness of foreign IPOs (see figure 1 below). It is however well documented that IPOs generally fluctuate significantly over time, impacted by periods of high demand for capital and varying levels of investor sentiment (Lowry, 2003). Research scholars have also documented the activity. For example, Doidge et al. (2012) report that the share of worldwide IPO proceeds raised outside of issuers' home markets is double what it was in year 1990. According to Calgio et al. (2013), total proceeds from IPOs by firms going public on foreign stock exchanges between 1995 and 2007 represent almost half a trillion dollars, or 25 percent of the total value of all IPOs worldwide.

Figure 1. The shares of annual worldwide IPO proceeds and volume accounted for by foreign IPOs between the years 2002 and 2011. Numbers shown inside the graph are rounded percentages.



Source: PWC report, 2012

² The definitions of cross-border IPOs in PWC (2012) differs slightly from the stricter definition used in this thesis. PWC defines a cross-border IPO as one where more than 50 percent of proceeds are raised abroad.

1.2 Research Problem discussion

The research field investigating foreign equity listings is well-explored and well-developed, with multiple scholars leaving important contributions (Pagano, Roell & Zechner, 2002; Doidge, Karolyi & Stulz, 2004). Part of the research problem addressed in this thesis springs from the lack of attention awarded fundamental differences within the field of foreign equity listings.

Most commonly, researchers investigating foreign equity listings have done so within the field of international stock cross-listings (for definitions, see section 1.5). To bundle all types of foreign equity listings under the research field of cross-listings poses problems stemming from heterogeneous aspects of the included listings. Caglio et al. (2013) point out two important differences between cross-listings and the focus of this study, foreign IPOs that have been left aside in foreign equity listing literature. Yet, foreign IPOs alone are of sizeable economic importance, shown in section 1.1. First, cross-listings include both companies with and without previous trading history. Second, cross-listing transactions do not necessarily involve raising new capital, as is a criterion for foreign IPOs (Caglio et al., 2013). Bruner, Chaplinsky and Ramchand (2006) shed light on this issue when acknowledging that a large part of firms included in studies on foreign listings already trade on their home exchange. The decision to cross-list is most commonly a strategic manoeuvre to establish a second market for shares already traded on the respective home exchange (Karolyi & Gagnon, 2010). In a well-cited study, Pagano et al. (2002) state a fundamental reason to why distinctions between foreign IPOs and cross-listings are not necessary and subsequently have not been made. The authors argue that the decision by a firm to list its shares for the first time on a foreign market is closely related to the fundamental reasons behind why firms go public at all, abroad or at home.

Aligning with Caglio et al. (2013) and Jonathan (2013), several aspects do however indicate that foreign IPOs are a unique target for research and that traditional IPO research on domestic samples fall short on defining important differences between domestic and foreign IPOs. This thesis is founded on growing evidence that foreign IPOs offer a distinct target of research, when compared to both domestic IPOs and international stock cross-listings.

At the present time, there is a lack of corporate governance studies directed at the UK (Guest, 2008), and much foreign equity listing literature has been focused on US capital markets. The research value of corporate governance studies with a focus on the UK, as opposed to the US, is highlighted by the special properties of the UK legal system (Moore, Bell & Filatotchev, 2012). Corporate governance regulations for public firms in the UK have a long tradition of “softer” laws, with an emphasis on self-regulatory arrangements and personal networks (Moore, Bell & Filatotchev, 2010). The two common law systems vary significantly in many regards, rendering firms corporate governance arrangements in the UK subject to much greater variation, due to a looser legal regulations regarding corporate governance (Guest, 2008).

As a consequence of the limited literary attention, firms who seek to go abroad at the time of an IPO have been left without important theoretical recommendations. Research on corporate governance characteristics in the context of foreign IPOs is a highly unexplored research field, with few existing recommendations on successful firm-level corporate governance signals (Moore et al., 2010). Studies on domestic IPO samples have been carried out (Certo, Covin, Daily & Dalton, 2001; Filatotchev & Bishop, 2002), showing how internal corporate governance arrangements play important signaling roles in determining short-term performance of domestic IPOs. Many indications also point to compounded difficulties for foreign IPO firms, in comparison to domestic IPOs. It is argued that foreign firms will face more severe information asymmetry problems when making themselves known to a foreign market investor community (Kadiyala & Subrahmanyam, 2000; Francis, Hasan, Lothian & Sun, 2008). These findings represent important research problems addressed in this thesis, leading up to the purpose outlined in the next section.

1.3 Purpose

The purpose of this thesis is to investigate the effects of certain firm-level corporate governance characteristics on the short-term performance (IPO underpricing) of foreign IPOs in the UK (LSE and AIM).

On the one hand, the purpose of this thesis is to build on a restricted, but growing, number of studies carried out on the subject of foreign IPOs, contrasting much previous research on foreign equity listings where this particular group of companies have not until recently been

singled out as an unique target of research. Furthermore, this thesis has an important practical purpose. Industry practitioners and firm representatives are facing increasingly multifaceted listing decisions and call for practical guidance towards the best possible outcomes. This study aims to fill a gap of direct recommendations on firm-level corporate governance signals, by showing how specific components impact the performance and costs of conducting an IPO abroad.

1.4 Research question

In order to fulfil the purpose of this thesis, the following research question is asked:

In what ways do the firm-level corporate governance characteristics board size, board independence, chairman independence and CEO/founder duality impact the short-term performance (IPO underpricing) of foreign IPOs?

1.5 Demarcations

In order to enhance the readers' experience and understanding of this thesis, some demarcations and limitations are presented in order to exactly frame in the research objects.

To fulfil the purpose of this thesis, IPOs by foreign firms on the UK stock markets LSE and AIM are studied. To simply talk about foreign IPOs requires a more detailed definition. Caglio et al. (2013) defines three different options when pursuing an international equity listing. The first option is to bypass the home market and go public on a foreign market, also known as a foreign IPO. The second option is to go public in the home market and in one or more foreign markets simultaneously, known as a global IPO. The third option is to go public at home and then cross-list either new or existing shares on a foreign market exchange, commonly referred to as cross-listings or international cross-listings. This study is directed exclusively towards option number one above, aligning with recent research conducted by Bell, Moore & Al-Shammari (2008) and Moore et al. (2010, 2012) to study strictly foreign IPOs. A clear distinction is important for the purpose of this study and to capture exactly the research problems presented earlier. For more in-depth foreign IPO distinctions, see section 6.1.2, where the sample criteria are presented.

1.6 Thesis outline

Directly following this introductory section is **section 2**, where important motives for foreign IPOs and foreign equity listings in general are presented. In **section 3** the London stock markets (LSE and AIM) are introduced as the target markets for this study. Section 3 also serves to map out the regulatory framework for corporate governance in the UK. In **section 4** the theoretical framework for this thesis is established. This has the important purpose of building the foundation for the hypotheses that are presented at the end of section 4. In **section 5** previous empirical findings are presented with the purpose of building an understanding for where this thesis adds knowledge. **Section 6** will present the research method and statistical techniques used to test the hypotheses. The section includes information on how data is collected and processed into a final sample of foreign IPOs. In **section 7** the empirical findings are presented, analysed and put into perspective using previous findings and underlying theory. **Section 8** will be a conclusive section, split into two parts. The first part is a concluding discussion and the second part gives suggestions for interesting further research fields and possible extensions of this study.

Section 2: Motives for Foreign IPOs

Section 3: The UK Capital Markets and Legal Environment

Section 4: Theoretical Framework and Hypotheses

Section 5: Previous Empirical Findings

Section 6: Method

Section 7: Empirical Findings

Section 8: Conclusion

Section 9: References

Section 10: Appendix

Section 11: Article

2. Motives for Foreign IPOs

This section gives a background to the fundamental reasons behind why firms go public abroad. It will present the reader with several important benefits of issuing initial equity on foreign capital markets.

To fully understand the underlying theory behind foreign IPOs, it is important to briefly examine the strategic decision to list on a foreign stock exchange. The focus is to convey the most relevant motives and determinants of seeking initial equity capital away from home. Increased financial globalisation has in many respects compounded the comparative benefits of seeking to raise initial public equity abroad (Caglio et al., 2013).

Some scholars discuss motives for foreign equity listings in terms of overcoming information asymmetries across national borders, and as a result internationalising the cost of capital (Oxelheim, 2000). The information gaps that a foreign equity listing seeks to close are often related to financial and commercial marketing (Oxelheim, 2000). Stulz (1999) argues that the resulting internationalisation of a firm's shareholder base can improve risk sharing and lead to the benefit of a lower cost of capital.

Furthermore, Pagano et al. (2002) discuss ten important motives for listing shares on a foreign exchange, presented in table 1 below. The motives are originally discussed in a general context of foreign equity listings, hence without the important distinctions outlined in section 1.5. The motives, however, are argued to be extra relevant in cases where additional (new) capital is raised and significant financial constraints exist in the firms' home markets (Pagano et al., 2002). Therefore, the benefits stand out as highly relevant motivations for foreign IPO activity when exclusively new equity is issued and firms increasingly tend to originate from emerging economies (Bruner et al., 2006; PWC, 2012).

Table 1. Ten important motives for foreign equity listings

Motive for foreign listing	Explanation
1. Raising capital for investment	The most important underlying motive. Especially for firms in high growth in need of new capital to fund investments. Extra motivated if debt capacity is limited and price to earnings value is high.
2. Stock sales by existing shareholders	Common motive for newly privatised firms without special investment needs. Going abroad might increase the value of the shareholders stakes.
3. Broadening shareholders' base	High risk firms might see reasons to broaden the shareholder base. Initial shareholders might see a need to spread risk onto new owners, and potentially lowering the cost of capital.
4. Foreign expertise	Common in high-tech sector, and among firms with large R&D spending, to access analysts with expert knowledge of the specific industry.
5. Commitment to disclosure and governance standards	This motive is especially relevant to firms from countries with low domestic regulatory standards. Commitment to higher standards abroad can send positive signals and possibly lower cost of capital.
6. Liquidity	Access to more liquid markets from for example entering a market with better microstructure.
7. Relative mispricing	Capitalising on a temporary high price of the firms' shares on a foreign exchange, in relation to the home market.
8. Capitalising on product market reputation	High fraction of foreign sales might lead to benefits of listing where local investors are already consumers, especially relevant in consumer products.
9. Strengthen the company's output market	Product market competitors are already listed on the same exchange. As opposed to the previous, the firm lists where potential for an increase in foreign sales exist, not where it already exists.
10. Listing costs are low relative to benefits	Listing abroad is associated with high costs; therefore larger firms should be more likely to have higher benefits than costs.

Source: Pagano, Roell, & Zechner (2002).

In an extensive study, covering a global sample of IPOs, Caglio et al. (2013) study determinants of going public abroad. In line with Pagano et al. (2002) and the ten stated motives behind foreign equity listings, the authors find that companies going public abroad do so in order to bypass information frictions and maximise the amount raised at the IPO. Another stated determinant include findings that foreign IPO firms largely come out of countries with few recent IPOs by industry peers and lower disclosure standards. The search for more developed capital markets is another important determinant. In contrast to Pagano et al. (2002), Caglio et al. (2013) stress the importance of making a distinction between firms

doing an IPO abroad and firms going public at home first and then subsequently cross-list on a foreign exchange.

In line with the purpose of this section, motives and possible advantages of foreign equity listings are presented. Nevertheless, foreign equity listings are associated with high costs and possible disadvantages. Possibly high costs for foreign equity issuers include listing fees, professional advisory services and compliances with foreign regulatory standards (Pagano et al., 2002).

3. The UK capital markets and legal environment

The third section introduces the London stock exchange (LSE and AIM) as the target market for this study. The section seeks to explain the regulatory environment for IPOs on the LSE. Moreover, the section discusses UK corporate governance regulations and its contrasting features to the US.

For the purpose of understanding the environment that meets foreign firms when listing on the LSE, this chapter initially maps out some important aspects of London as a destination for foreign IPOs. To fully comprehend the examined effects of having certain internal corporate governance arrangements on foreign IPO performance, the legal boundaries are outlined and put into perspective. This section has a special focus on corporate governance related regulations in the UK, shown to include important and unique characteristics. The special properties of the UK legal environment offer an interesting setting to study firm-level corporate governance characteristics of foreign IPO firms (Moore et al., 2012).

3.1 The London stock exchange

Founded more than 200 years ago, the LSE is one of the oldest and most important financial institutions in the world. The LSE consists of the main market and the AIM, which was founded later, in 1995 (London Stock Exchange, 2014). At the end of year 2011, the number of listed companies on the LSE was 2886, and 598 of these originated from outside the UK. The foreign firms on the LSE at the end of year 2011 represent 20.7 percent of the total number of listed corporations in comparison to 16.3 percent for the New York stock exchanges (Nasdaq and NYSE) at the same time (PWC, 2012). Between the years 2002 and 2011, 41 percent of all cross-border IPOs, worldwide, were targeted at the London capital markets. During the same time period, foreign firms raised more capital than domestic UK firms (PWC, 2012). These figures make the LSE one of the most diverse and international stock markets in the world.

3.2 Regulatory framework and UK corporate governance code

The regulatory framework for foreign (and domestic) firms seeking to list on the LSE differs if the firm wishes to go through with a standard or a premium equity listing (London Stock Exchange, 2010). This study includes firms from both categories, and it is important to

highlight the distinction since firms that are standard listed are not obliged to follow the UK combined code for corporate governance. Because of its obvious implications for foreign IPO firms' firm-level corporate governance arrangements, the UK corporate governance code is discussed and specified further below.

A framework for corporate governance code started to develop in the early 1990s in the UK. At the time, the framework consisted of a series of reports, stating corporate governance related recommendations (Cadbury, 1992; Hampel, 1998). Founded on recommendations in these reports, a combined code on corporate governance (the code) was first given out by the Financial Reporting Council in 1998 (Filatotchev, Jackson, Gospel & Allcock, 2007). Since 1998, the code is published regularly and is divided into five subgroups: leadership, effectiveness, accountability, remuneration, and relations to shareholders (Financial Reporting Council, 2012). UK corporate governance code takes a voluntary approach and is enforced only through a comply-or-explain system. Non-compliances with the corporate governance code have to be accounted for in annual reports or in the case of IPOs, in IPO prospectuses or in admission documents³ (Guest, 2008). The “soft” nature of the UK combined code gives corporations in the UK enhanced freedom to structure their own boards and do not have to make potentially weakening compromises (Guest, 2008). One argued problem with the code is the fact that non-compliances, and the explanations behind them, are not always effectively communicated to investors. It is argued that the flexibility inherent to the code is only effective when investors are able to interpret companies' decisions to not comply (Filatotchev et al., 2007). Guest (2008) shows evidence that the code does have a significant impact on board structures in the UK, but also concludes that many companies use their right to not comply.

The voluntary nature of UK corporate governance code is contrasted to the mandatory compliance with the Sarbanes-Oxley Act (SOA) in the US that came into effect in 2002 (Guest, 2008). SOA offers regulations on corporate governance and disclosure standards for public corporations in the US (Moore et al., 2010). Non-compliance with the “hard laws” of the SOA can be costly and its legislative power covers domestic as well as foreign public firms (Moore et al., 2012). The UK and US share a common law legal system and tradition, and are similar with regards to, for example, dispersed ownership and high investor protection

³ Admission documents are from now on included in the term IPO prospectus.

(La porta, Lopez-De-Silanes, Schleifer & Vishny, 1998). Scholars have let room to argue for diverging tendencies within civil law traditions, but less attention has been paid to differences within common law (Moore et al., 2010). Even though the US and UK share common law legal traditions, there are important differences when looking at legal regulation and self-regulation (Moore et al., 2010).

According to Guest (2008), the two systems differ in several aspects. These include enforcement of directors' legal duties, board structure, roles of institutional investors and as mentioned above, diverging approaches of the corporate governance reforms. Scholars sometimes link the voluntary nature of the UK system to the presence of "gentlemanly capitalism" (Currie, 1979). "Gentlemanly capitalism" promotes an informal institutional environment where individuals act collectively to establish norms and codes of practice, managed through ties between networks, influential individuals and organisations (Moore et al., 2012). To overcome information asymmetry problems usually connected with IPOs, it is argued that a mandatory approach to corporate governance regulations could be more efficient. Bebchuck (2002) argues that firms' corporate governance decisions are not appropriately steered entirely by market mechanisms. As mentioned above, the flexibilities inherent to the UK corporate governance regulations might only be of use, and be of overall good, if the public can observe deviation from the code (Filatotchev et al, 2007).

Comparative features of corporate governance systems is not the focus of this study, but are presented for the purpose of introducing the legal environment and to give understanding of the UK corporate governance context.

4. Theoretical Framework and hypotheses

This section gives a theoretical background and foundation to the concepts that this thesis is based upon. The theory and concepts presented in this section boil down to four hypotheses, presented in connection to their respective theoretical concept. The section concludes with a compilation of the hypothesis investigated in this thesis.

Much of the theory that is presented in this section is deduced from traditional IPO literature on domestic IPO samples, screened for relevance in a foreign IPO setting. The first section introduces the subject for explanation in this thesis, IPO underpricing, with regards to underlying theory, evidence and firm-level implications. The following section maps out the IPO context by presenting information asymmetry and adverse selection theories. Signaling theory is presented as a direct response to costs arising from asymmetric information between the three main stakeholders in an IPO: the issuing firm, the underwriting investment bank and the outside investors (Ljungqvist, 2007). Signaling theory is applied to four internal corporate governance characteristics, directly derived from four concepts within corporate governance literature. The hypotheses are stated in direct relation to the respective corporate governance concept.

4.1 IPO Underpricing

IPO underpricing, along with “hot issue” markets and long-run underperformance, are three empirically documented and widely accepted characteristics of IPOs (Ritter, 1998). As a measure, IPO underpricing is intuitive, basically capturing the percentage difference between opening price and closing price for a new equity issue (Certo et al., 2001). Additionally, IPO underpricing is sometimes presented as the monetary value of the one day stock price difference, computed as the first day price increase multiplied by the number of shares offered (Loughran & Ritter, 2002). The phenomenon IPO underpricing is, however, complex and has been the subject of much speculation (Tinic, 1988). The reasons behind underpricing are heavily debated and make way for multiple theoretical explanations, many of which are not proven empirically. The most common theoretical explanations behind IPO underpricing, as stated by Tinic (1988) and Ritter (1998), are compiled and briefly explained in table 2.

Table 2 Ten common theoretical explanations for IPO underpricing

Reasons for underpricing	Explanation
1. The winner's curse hypothesis	The winner's curse means that less informed investors only will get the number of shares desired in overpriced IPOs, or in other words less favourable IPOs, and might therefore stop investing their money. In order to attract the less informed investors to participate in the subscription of the IPO, the firm and underwriter might underprice the IPO to create a larger shareholder base.
2. The market feedback hypothesis	In order to get information from investors, the investment bank intentionally underprices new issues. Compensation to investors for revealing their valuations is subsequently given in the form of underpriced IPOs.
3. The bandwagon hypothesis	Investment banks underprice new issues to create a reaction among investors. If the stock is underpriced, it will generate attention and lead investors to buy, sometimes regardless of their own interpretations.
4. The investment banker's monopsony power hypothesis	Bargaining power of investment banks, against especially smaller speculative firms and start-ups, is used to intentionally underprice new issues. The hot new issues are then offered to important, "favoured" clients, as means of marketing or to strengthen client ties.
5. The lawsuit avoidance hypothesis	Participants of the IPO underprice the new issue in order to mitigate the risk of a potentially costly lawsuit because of untruthful information stated in the prospectus. Shares in less regulated environments however, have not been shown to be less underpriced.
6. The signaling hypothesis	Issuers, according to this hypothesis, underprice their new issue in order to spark high demand and to be able to price later offerings at a higher price.
7. The ownership dispersion hypothesis	Issuers underprice their shares in order to attract many investors and increase ownership dispersion. The increased dispersion will lead to a more liquid market and a situation where it is harder to collectively challenge the management.
8. Speculative bubble hypothesis	Speculative investors that did not get to buy the shares at listing because of oversubscription instead buy in the aftermarket, leading prices to rise above the fair value that they were priced at the time of the IPO. There is no empirical evidence of this theory to date, despite some attempts.
9. Asymmetric information hypothesis	The hypothesis is divided into two categories, one where underpricing is caused by information discrepancies between the investment banker and the issuer (Baron & Holmstrom, 1982) and another that focuses on the relationship between informed and uninformed investors (Rock, 1986). Information asymmetry between the involved parties causes a mispricing of the new issue.
10. Risk-averse underwriter hypothesis	Based on a proposed risk-aversion on the part of the underwriter where the investment bank would underprice a new equity issue in order to reduce price related risks and costs. Simply to avoid unsuccessful listings and to secure the selling of the shares.

Source: Tinic (1988) and Ritter (1998)

Relying on the classification of Ljungqvist (2007), IPO underpricing theory can be divided into four main sub categories: information asymmetry, institutional reasons, control considerations and behavioural approaches. The idea that IPO underpricing, in some way, is a consequence of information frictions is well supported (Ljungqvist, 2007). As a response to this, and to fulfil the purpose of this study, theoretical explanations for underpricing with a foundation in information asymmetry problems will be given disproportionate attention.

4.1.1 Evidence of underpricing

According to almost unanimous empirical evidence, new equity issues are systematically mispriced and on average encounter an upswing in stock price during the first day of trading (Ibbotson, 1975; Tinic, 1988). Underpricing as a phenomenon is well established, explained to occur with “remarkable empirical regularity” (Ljungqvist, 2007 s. 378). Average levels of underpricing have been shown to differ over time, historically displaying strong cyclical patterns. Evidence of abnormal returns on the first day of trading exists on every stock exchange, and in every country around the world, as shown in figure 2 below (Ritter, 1998).

Figure 2. Domestic IPO underpricing evidence from various markets.

Country	Author(s) of Article(s)	Sample Size	Time Period	Average Initial Return
Australia	Lee, Taylor & Walter	266	1976-89	11.9%
Austria	Ausseneegg	67	1964-96	6.5%
Belgium	Rogiers, Manigart & Ooghe	28	1984-90	10.1%
Brazil	Aggarwal, Leal & Hernandez	62	1979-90	78.5%
Canada	Jog & Riding; Jog & Srivastava	258	1971-92	5.4%
Chile	Aggarwal, Leal & Hernandez	19	1982-90	16.3%
China	Datar and Mao	226	1990-96	388.0%
Denmark	Bisgard	32	1989-97	7.7%
Finland	Keloharju	85	1984-92	9.6%
France	Husson & Jacquillat; Leleux & Muzyka; Paliard & Belletante	187	1983-92	4.2%
Germany	Ljungqvist	170	1978-92	10.9%
Greece	Kazantzis and Levis	79	1987-91	48.5%
Hong Kong	McGuinness, Zhao and Wu	334	1980-96	15.9%
India	Krishnamurti and Kumar	98	1992-93	35.3%
Israel	Kandel, Sarig & Wohl	28	1993-94	4.5%
Italy	Cherubini & Ratti	75	1985-91	27.1%
Japan	Fukuda; Dawson & Hiraki; Hebner & Hiraki; Pettway & Kaneko; Hamao, Packer, & Ritter	975	1970-96	24.0%
Korea	Dhatt, Kim & Lim	347	1980-90	78.1%
Malaysia	Isa	132	1980-91	80.3%
Mexico	Aggarwal, Leal & Hernandez	37	1987-90	33.0%
Netherlands	Wessels; Eijgenhuijsen & Buijs	72	1982-91	7.2%
New Zealand	Vos & Cheung	149	1979-91	28.8%
Norway	Emilsen, Pedersen & Sættem	68	1984-96	12.5%
Portugal	Alpalhao	62	1986-87	54.4%
Singapore	Lee, Taylor & Walter	128	1973-92	31.4%
Spain	Rahnema, Fernandez & Martinez	71	1985-90	35.0%
Sweden	Rydqvist	251	1980-94	34.1%
Switzerland	Kunz & Aggarwal	42	1983-89	35.8%
Taiwan	Chen	168	1971-90	45.0%
Thailand	Wethyavivorn & Koo-smith	32	1988-89	58.1%
Turkey	Kiyamaz	138	1990-95	13.6%
United Kingdom	Dimson; Levis	2,133	1959-90	12.0%
United States	Ibbotson, Sindelar & Ritter	13,308	1960-96	15.8%

Source: Ritter (1998)

Apart from the evidence of domestic IPO underpricing, a more restricted number of studies on foreign IPOs have shown evidence of a systematic underpricing. Bruner, Chaplinsky and Ramchand (2004) show that foreign IPOs in the US, when compared to their domestic counterparts, do not on average incur higher listing costs, with underpricing being one such cost. The same authors argue that the strict listing requirements of the US, along with other aspects, predominantly attract larger, less risky firms and thereby compensate for problems related to being a foreign firm. Blass and Yafeh (2001) found initial underpricing of 20 percent for Israeli firms going public in the US compared to domestic Israeli IPOs, where underpricing was almost non-existent. Bell et al. (2008) found an average mispricing of 71 percent for foreign IPOs listing in the US between 1997 and 2004. Moore et al. (2010) found an average IPO underpricing of around 50 percent for a sample of foreign firms listed for the first time in the UK and US between year 2002 and 2006. The two latter indicate rather grave mispricing issues when compared to similar studies on domestic IPOs within approximately the same time frame (see Certo et al., 2001; Filatotchev & Bishop, 2002). Some scholars suggest it, but evidence that underpricing is more severe for foreign firms compared to domestic is not entirely conclusive.

4.1.2 Taking a firm level perspective

For the firm, and its original shareholders, the first day upswing in price can be regarded as “money left on the table” (Loughran & Ritter, 2002). As stated previously, initial IPO underpricing is a well-documented occurrence, leading to a situation where the “money left on the table” is regarded as a predetermined cost of going public (Ogden, Frank & O’connor, 2002). IPO underpricing has not been empirically concluded upon as either a negative or a positive phenomenon, evident also from the diverging theoretical reasoning in section 4.1.

The argumentation varies much depending on which stakeholder perspective is considered (Certo et al., 2001). Three perspectives are commonly investigated in IPO underpricing literature: the issuing firm, the underwriting investment bank and the public investors (Ljungqvist, 2007). All three stakeholders are obviously affected differently by IPO underpricing, leading to a delicate situation of diverging interests, which is not always easily understood. The initial shareholders can both suffer and benefit from underpricing if their entire stake in the company is not sold at the time of the IPO, allowing them to capitalise on the initial price upswing (Certo et al., 2001).

A natural consequence of our focus on firm-level corporate governance and in order to fulfil the purpose of this study, this thesis is aligned with Certo et al. (2001) in seeing initial stock underpricing as a case of unretained shareholder wealth. IPO underpricing is seen as a direct transfer of wealth from the original owners of the firm to the new first-day investor base (Filatotchev & Bishop, 2002).

The difference between the issuing price and the first day closing price, or the value of the unretained wealth, can potentially be substantial. Moore et al. (2010), for example, find an average unretained value of \$13 million for a sample of foreign IPOs listing on the US and UK stock exchanges between the years 2002 and 2006. Loughran and Ritter (2000) find an average unretained value of \$9 million, arguing that this amount is twice as much as the average underwriting fees.

With the theoretical foundation and documented evidence of IPO underpricing put forward, the following section introduces information asymmetry and adverse selection as a theoretical framework when understanding foreign IPOs. Implications related to these issues are proxied by studying IPO underpricing, since this study highlights that much of the theoretical explanations for IPO underpricing can be found by looking closer at information asymmetries and adverse selection costs (Ljungqvist, 2007). Less foreign IPO underpricing is seen as positive from the company's point of view and a sign of less severe information asymmetry problems. To frame the following context is important to fully see the potential effects and signaling properties of specific corporate governance arrangements on foreign IPO performance.

4.2 Information asymmetry and adverse selection

At the heart of the issues surrounding IPO underpricing are theories of asymmetric information. Levels of information frictions are even argued to be important for the decision to issue equity at all, as opposed to taking on debt (Myers & Majluf, 1984), but that is an entirely different story. The IPO offers a unique event for which information asymmetry problems are investigated (Filatotchev & Bishop, 2002). As noted above, three key actors in IPOs are commonly investigated: the issuing firm, the investment bank serving as a marketer and underwriter of the IPO and the public investors (Ljungqvist, 2007). Two relationships among these are typically in focus (Tinic, 1988). The first is the relationship between

informed and uninformed investor groups, basically saying that some investors hold superior information compared to the average investor, or even to the issuing firm or the investment bank (Rock, 1986). The other relationship commonly in focus is between the issuing firm and the investment bank. With ideas stemming from agency theory, it is argued that the investment bank draws advantages from holding superior information on market demand for new securities (Baron, 1982).

Akerlof (1970) sets the tone for the underlying idea behind information asymmetry problems, using a well-known car market analogy to show how buyers (investors) often find themselves suffering from an informational disadvantage towards the more informed sellers (issuers). When the situation of asymmetric information leads to undesired results, such as unretained wealth at the time of the IPO, this is commonly referred to as adverse selection costs (Akerlof, 1970; Leite, 2007). Information asymmetries arguably exist in every market, but appear especially pronounced in financial markets (Leland & Pyle, 1977). Moreover, issuing firm insiders are said to possess information about the true value of the firm and its operations that outside investors cannot access, leading insiders to value the firm closer to its true value (Healy & Palepu, 2001). Building on Akerlof's theory (1970), Healy & Palepu (2001) construct a situation where only two types of ideas exist, "good" and "bad". If information asymmetries leave investors unable to distinguish between "good" and "bad" ideas, the two ideas might end up equally priced by the capital markets, logically leading to an aftermarket increase of securities issued by "good" idea firms, reinforcing an equilibrium relationship between supply and demand. Direct adverse selection costs of going public have been measured as the difference between the maximum possible IPO proceeds in front of equally uninformed investors and the expected proceeds in front of unequally informed investors (Leite, 2007).

Firms going public typically have limited operational track records, and as an effect of having been privately held have given out very little public information about previous performance. This "liability of newness" puts a strain on information asymmetries between the firm and market actors (Moore et al., 2010). Francis et al. (2008) share this view and claim that foreign IPOs commonly encounter more severe information asymmetry than their domestic counterparts. Furthermore, Moore et al. (2010) argue that for foreign IPO firms a dimension of "liability of foreignness" is added to the equation, further complicating problems of information asymmetry. Firms seeking to access foreign markets will need to hold firm-level

advantages to compensate for liabilities of being foreign (Petersen & Pedersen, 2000). Francis et al. (2008) refer to Bruner, Chaplinsky and Ramchand (1999) when making the point that foreign firms face a tougher task in making themselves known to the investor community of the host market. Information asymmetries for foreign firms are increased by factors such as language, culture, institutions and analyst coverage (Bruner et al., 2006). Higher levels of asymmetric information associated with foreign IPOs should cause higher levels initial underpricing (Kadiyala & Subrahmanyam, 2000). The combined problems of information asymmetry generally associated with IPOs and varying degrees of “foreignness” and cross-border differences make foreign IPOs interesting research targets.

As noted in the beginning of section 4.1.2, underpricing can be seen as an undesirable consequence of going public. Underpricing can arguably be reduced by limiting the degree of information asymmetry and adverse selection costs arising from heterogeneous information between informed and uninformed investors (Ljungqvist, 2007). The incentives would then be to tackle the informational frictions argued to be exacerbated in the context of foreign IPOs. The following section introduces signaling theory as a response to these problems.

4.3 Signaling theory

A dominant theoretical application to problems associated with information asymmetry and adverse selection is signaling theory (Moore et al., 2010). This thesis extends domestic IPO research where signaling theory serves as the theoretical foundation (Certo et al., 2001; Filatotchev & Bishop, 2002). Signaling theory, as it is referred to here, must not be mixed with a specific theory behind IPO underpricing under the same name (see table 2, section 4.1). The previous section presented the problems of domestic and foreign IPOs predominantly as a result of information asymmetries between involved stakeholders. Signaling theory arises from the direct need to bridge asymmetric information problems (Spence, 1973).

Using a well-cited job market example, Spence (1973) successfully communicates the basic mechanisms of how a “high quality” job applicant will have to send signals to the potential employer in order to separate him or herself from “low quality” applicants, where one such signal could be a good education. Moreover, Ross (1977) finds that in order for a signal to be effective, it has to be observable and difficult and/or costly to replicate. In short, signaling theory constitutes the manner by which decision-makers bridge information asymmetry

problems and costs (Spence, 1973). Leland and Pyle (1977) call the signals information transfers and state that “high quality projects” must initiate such transfers. Entrepreneurs seeking to raise capital can benefit from informational transfers if the actions they take are observable (Leland & Pyle, 1977).

Asymmetric information in an IPO context makes way for potentially harmful agency costs, arising between the three main stakeholders: the issuing firm, the underwriting investment bank and the outside investor community (Filatotchev & Bishop, 2002). To avoid mispricing at the IPO, the firm will have to take actions in order to show its true value (Certo, 2003). The signals sent out by the issuing firm at the IPO, directed towards both the underwriter and the public investors, will have to be difficult for other firms to imitate (Filatotchev & Bishop., 2002). To avoid imitations from “lower quality” firms, the IPO firm will have to make sure that the signals are observed and well understood by the receiving ends (Certo, 2003). Many signals have been previously observed to play important roles at the event of an IPO (see Moore et al., 2010). Theoretical indications suggest that successful signals could be derived from firm-level corporate governance characteristics (Filatotchev & Bishop, 2002).

In the light of the previous discussion, and in order to fulfil the purpose of this thesis, four firm-level corporate concepts are proposed in the next section. The four concepts make up propositions for firm-level signals, aimed at mitigating information asymmetries, adverse selection costs and agency costs, arising from the relationships between the foreign firm, the investment bank and the host market investor community. As a consequence of the previous sections, these relationships are argued to be especially hard to manage in a foreign IPO setting.

4.4 Firm-level corporate governance

In order to complete the theoretical framework needed to answer the research question and fulfil the purpose of this study, four firm-level corporate governance perspectives are introduced theoretically. The four internal corporate governance perspectives, and proposals for signaling theory applications onto foreign IPO performance, are: board size, board independence, chairman independency and CEO/founder duality. Based on previously introduced theoretical context, and upcoming concept specific discussions, hypotheses are presented in alignment with the following four sections.

4.4.1 Board Size

The board of directors is arguably the most important part of a firm's internal control system, and problems stemming from flawed internal corporate governance most commonly start with the board (Jensen, 1993). Theory on how board size might cause problems is typically divided according to two main sources: communication and coordination problems in large groups and agency conflicts where the board fails in its controlling role over firm management (Eisenberg, Sundgren & Wells, 1998). Jensen (1993) recognises that one important aspect of the composition of the board is its size, and that keeping a board small can help to increase board performance and quality of decision making within the board. A larger board might also be easier for a CEO to control, undermining the importance of the board as an internal control organ (Jensen, 1993). Furthermore, aligned with boards' important role within the internal control system is its proposed responsibility to monitor management on behalf of shareholders. Lipton and Lorsch (1992) take the same side and argue that a board consisting of more than ten members is a major threat to the effectiveness of its decision-making. If the board is too large and in the presence of time constraints, all board members might not be given sufficient space to express their opinions (Lipton & Lorsch, 1992).

A smaller board would presumably lead to better decision-making, allowing all directors to contribute and reach a consensus (Lipton & Lorsch, 1992). A well-cited report by Yermack and Shivdasani (1999) do provide empirical evidence of smaller boards being more effective, showing a negative relationship between board size and firm value. Eisenberg et al. (1998) document the same relationship for small and medium sized firms in Finland. An agency conflict perspective can be applied to board size, claiming that free-riding problems within boards increase with the number of board members, potentially rendering a more symbolic board taking less responsibilities when it comes to managing the firm and controlling the management (Hermalin & Weisbach, 2003). This in turn might lead the management team to become too powerful in terms of decision power, with increased agency conflicts between managers and shareholders as a natural consequence (Hermalin & Weisbach, 2003). Hearn (2010) supports the view of Hermalin and Weisbach and claims that larger boards increase the information asymmetry and lead to lack of coordination. Coles, Daniel and Naveen (2008), claim to see a consensus among researchers saying that smaller boards carry out monitoring more effectively. This is however contradicted by some scholars referring to resource dependence theories, saying that board size could reflect the extent to which a firm is able to

ensure critical external ties and secure vital resources (Filatotchev et al., 2007). In line with this and contrary to previous statements, lie arguments that larger boards are better at monitoring, since a larger board should be harder for a CEO to dominate and more effective, coming from arguments that a larger board is a more heterogeneous board (Zahra & Pearson, 1989).

The theories on board size are shown to go in several directions. However, empirical findings do show that smaller boards can be more effective. Arguments that larger boards can become diffuse and subject to harmful agency costs could prove problematic for a foreign IPO firm. A possible situation where the board no longer has the power to prevent underpricing on behalf of shareholders leads up to the hypothesis below.

Hypothesis 1: A larger board size is positively associated with foreign IPO underpricing

4.4.2 Board independence

For a clarification of the concepts and operationalizations of board independence, this thesis refers to Dalton, Daily, Ellstrand and Johnson (1998) for the separation between inside board members, outside board members, affiliated board members and independent board members. Inside directors are defined as having operational responsibilities, such as management positions within the firm, therefore potentially limiting their abilities to fill important functions. Outside directors are defined as not being directly employed by the firm and not having any professional or personal ties to the firm or its management. This definition is in line with the independency criteria used in this thesis, further specified in section 6.3.2. An affiliated director is defined as not being a firm executive, but nonetheless remaining in some form of personal or professional relationship with the firm and/or its management. The concept of an independent director is according to Dalton et al. (1998) a director who follows the criteria of an outside director, but with the extension of having been appointed before the current CEO of the firm. The distinctions are of importance for the upcoming section, and help when grasping the literature and complications of independently functioning boards or board members.

Research on the subject of board independence, and whether it has any real impact on firm performance, is mixed (Rosenstein & Wyatt, 1990). Despite this, some scholars do claim that a semi-strong consensus is present around the proposition that a higher relative share of

outside directors on the board is equivalent to a more effective board (Dalton et al., 1998). The notion of having a board comprise of exclusively outside directors is often supported by practitioners (Dalton et al., 1998). Furthermore, Jensen (1993) argues that the only insider who should possess a permanent position on the board is the CEO. Opinions are often contingent on a few different underlying theoretical perspectives. Scholarly support for boards with a high proportion of outsiders commonly take a stand in agency theory, focusing on the balance between the owners of the firm and those in control of it, namely management and the CEO (Jensen & Meckling, 1976; Eisenhardt, 1989). The independent director is supposed to function as a financially accountable middleman, ensuring that interests of residual claimants (shareholders) are satisfied and not violated (Buckland, 2001). In order to control and monitor management, and to steer them away from actions that could potentially damage the firm and shareholder value, outside directors fill a vital function on the firm's board (Johnson, Daily & Ellstrand, 1996). Outside directors, separated from the interests of management, are in that situation argued to potentially improve firm performance (Dalton et al., 1998).

Certo et al. (2001) discuss the relevance of the agency theory perspective of board independence in the context of IPOs. The same authors make the point that the importance of outside directors, with regards to controlling management and specifically management's use of excess funds, may not be as relevant among IPO firms, who actually often sell shares because of a shortage of capital to fund growth or further investments. It is argued that potential investors in IPO firms instead value an emphasis on strategic direction, perhaps better delivered by insiders who typically hold in depth firm-specific information (Certo et al., 2001). In an IPO context, that would then contrast previously stated suggestions of boards consisting entirely, or almost entirely, of outside directors.

Another common justification for high involvement of outside directors is linked with resource acquisition (Certo et al., 2001). Resource dependence theory views outside directors as a necessary link with external market participants (Dalton et al., 1998). Including a high share of outside directors, with ability to secure external connections and expertise, could possibly be beneficial in an IPO context, where firms are typically young, small and especially vulnerable to poor decisions by management (Certo et al., 2001). Having competencies to secure resources and provide expertise on the board may be of enhanced

importance for diverse firms operating in complex international environments (Dalton et al., 1998).

In the light of diverging theoretical viewpoints, the perceived importance of external connections and expertise when going public on a foreign market contributes to the hypothesis below. Furthermore, independent directors' incentives are argued to be more aligned with residual claimants' interests. Based on the previous discussion, it can therefore be argued that independent board members should be concerned with foreign IPO underpricing.

Hypothesis 2: Higher proportions of independent board members are negatively associated with foreign IPO underpricing

4.4.3 Independent chairman

Turning the discussion to the independency of the chairman of the board, it is important to acknowledge that much of the argumentation mentioned in the previous section is transferred onto the basic requirements of an independent chairman. Jensen (1993) makes the point that appointing an outsider as chairman can offer relief to the rest of the board, coming from the notion that the rest of the board can then pass on much of the monitoring tasks onto the chairman, who is then more likely to have such interests.

The more part of research on chairman independence focuses on CEO and chairman duality, and the argumentation that such a duality can severely hinder the effectiveness of the board in fulfilling its monitoring functions towards the shareholders (Filatotchev et al, 2007). Hart (1995) takes position in the fact that UK corporate governance regulations says that a duality "should" not be in place for public companies in the UK, and makes the point that boards with an independent chairman arguably more effectively fill their purpose. It is argued that a chairman with no current or previous commitments within the firm's management function is arguably more likely to properly align with the interests of shareholders (Coles & Hesterly, 2000). If so, an independent chairman should be concerned with foreign IPO underpricing, previously identified as a cost of going public to the initial shareholders of the firm. This argumentation leads up to the third hypothesis.

Hypothesis 3: Having an independent chairman is negatively associated with foreign IPO underpricing

4.4.4 CEO/Founder duality

According to Certo et al. (2001) founders who remain as CEOs when transforming the firm into publicly owned, could constitute both untested and inexperienced firm management. If these characteristics are present, that might cause more severe information asymmetries between the firm and the underwriter, as well as between the underwriter and the outside investors (Certo et al., 2001).

On the one hand, scholars have found multiple reasons for why a founder should have skills and hold incentives that logically lead to better firm performance and to more effective decision-making (Jayaraman, Khorana, Nelling & Covin, 2000). The argument is that a founder should be more prone to put effort into ensuring the success of the firm, stemming from for example higher personal stakes in the firm. Jayaraman et al. (2000) refer to evidence of higher risk taking characteristics, along with a deeper need for achievement, found among founder CEOs. They argue that such risk taking could unlock stronger firm performance over time. On the other hand, these founder CEO characteristics are argued to lead to a higher information asymmetry between the issuing firm and underwriter, causing risks of higher underpricing (Certo et al., 2001). A relationship between founder-led IPO firms and underpricing that has been proven to hold in a US context, for domestic IPOs (Certo et al., 2001).

Another cause for concern is also a possible discrepancy between how the underwriter evaluates a founder as CEO and how an outside investor would generally look at an entrepreneur leading the firm (Certo et al., 2001). Founders leading their own firms might be suffering from extreme overoptimism (Cooper, Dunkelberg & Woo, 1998). Underwriting investment banks can be argued to view objectivity problems linked with optimistic founders more cynically than for example outside investors, who tend to look positively on successful entrepreneurs (Certo et al., 2001). In addition, Moore et al (2012) claim that the CEO/founder duality might be priced higher and received with less scepticism in the UK than in the US, partly due to the stricter regulatory corporate governance environment present in the US. Even so, in accordance with underpricing theory, risk-averse tendencies among underwriters

might lead them to set a lower price on firms where they are concerned about uncertainties regarding the incentives and mind-set of the CEO and/or firm management (Tinic, 1988), leading to hypothesis number four.

Hypothesis 4: CEO/founder duality is positively associated with foreign IPO underpricing

4.5 Hypotheses

H0: There is no relationship between the independent variable and foreign IPO underpricing

H1: A larger board size is positively associated with foreign IPO underpricing

H2: Higher proportions of independent board members are negatively associated with foreign IPO underpricing

H3: Having an independent chairman is negatively associated with foreign IPO underpricing

H4: CEO/founder duality is positively associated with foreign IPO underpricing

5. Previous empirical findings

This fifth section presents the reader with brief presentations of the key empirical findings of two studies on domestic IPOs that this thesis is heavily influenced by. Following that, reviews of relevant previous empirical studies on foreign IPOs are given.

5.1 Domestic IPOs

Certo et al. (2001) study IPO underpricing for a large sample of domestic US IPOs between the years 1990 to 1998. The study focuses on the effects of being a founder-managed firm on IPO underpricing. IPO underpricing is viewed from the perspective of the firm, and its original owners, regarded as unretained shareholder wealth. The findings suggest that founder-led firms in the US are on average more underpriced than their non-founder-managed counterparts. It is also shown that the extent of IPO underpricing among founder-led firms is moderated (decreased) by two properties: the market share of the investment bank in charge of the underwriting and the share of “insider” directors on the firms’ board.

Filatotchev and Bishop (2002) carry out a similar study, using a sample of domestic UK IPOs between the years 1999 and 2000. The study investigates the effects of board composition and share ownership structures on IPO underpricing. IPO underpricing is seen as a wealth transfer from the firm to the first-day investors. The study investigates what endogenously chosen board characteristics are important to reduce IPO underpricing. The findings support causality between a high proportion of non-executive directors and lower levels of IPO underpricing.

5.2 Foreign IPOs

Kadiyala and Subrahmanyam (2002) study a sample of foreign firms going public on the US market between the years 1996 and 2000. The authors investigate IPOs as well as seasoned equity offerings (SEOs). Average underpricing for the foreign IPOs is shown to be 18.75 %. The results show that firms listed on NASDAQ suffer from larger IPO underpricing than companies listed on NYSE/AMEX. The authors explain that difference in underpricing as caused by higher disclosure standards on the NYSE stock exchange. The authors conclude that SEOs are less underpriced than IPOs due to reduced information asymmetry between outside investors and the firm. Kadiyala and Subrahmanyam (2002) show that high-tech firms are more underpriced than others due to difficulties setting the true value.

Bruner et al. (2004) studies IPOs in the US between the years 1991 and 1999, comparing domestic IPOs with cross-border listings. The study focuses on issuing costs or more particularly underwriting fees and underpricing costs. The authors take a stand in the notion that high country risks and information gaps between issuing firms and the host market incur higher costs on foreign firms seeking to raise capital on a US market. Their findings suggest that foreign issuers carry on average the same costs as domestic issuers. This is explained by certain characteristics of the foreign issuers that cancel out some of the involved risks. Observed characteristics of the foreign issuers involve a large size, with a large pool of tangible assets, usually coming from a home market equity listing and strong stock performance at home. *Bruner et al. (2006)* add to these findings concluding that there is no significant difference in issuing costs between firms originating from emerging markets as opposed to developed markets when listing in the US. Furthermore, the additional country risks and information gaps are bridged by the fact that these firms share certain characteristics of being large, from stable industries (less high-tech) and with previous strong performance in the home market.

Francis et al. (2008) carry out a study investigating if foreign IPO underpricing may depend on the underpricing theory of signaling. The study is based on 413 IPOs between the years 1985 to 2000, with a follow up of 70 SEOs (SEOs made within three years after the IPO). The study shows significant differences between companies originating from integrated compared to segmented financial markets. The results show that the companies originating from segmented financial markets tend to be more underpriced. The empirical findings show that the most underpriced companies more commonly issue SEOs within a shorter time of the IPO, and also suffer from smaller price drops at the announcement of the SEO.

Bell et al. (2008) study a sample of foreign IPO firms listing in the US between the years 1997 and 2004, investigating the impact of country of origin on the IPO underpricing. The findings include that firms originating from countries with higher levels of economic freedom, measured on an institutional and macroeconomic level, experience significantly less underpricing at the time of the foreign IPO. They further show that a foreign firm's communicated legitimacy, resulting in a better IPO performance, is linked with previous international presence and also with the firm owners' decision to retain a respectable share in the company after the listing.

Moore et al. (2010) study a sample of foreign IPOs issuing in the US and UK capital markets between the years 2002 and 2006. The focus is home and host country institutional effects on short-term performance measured as initial stock underpricing. A separate focus is also on the comparison of the US and UK as host countries for foreign IPOs. The findings show that underwriter prestige decreases underpricing, while larger board size has a positive effect on underpricing in both the US and UK. Investor protection in the home country significantly decreased initial day underpricing of the foreign IPOs.

Moore et al. (2012) present a comparative study on capital market choice with a sample of foreign IPOs listed in the US and UK between the years 2002 and 2006. The approach is to analyse how internal and external governance characteristics impact the decision of listing market and the institutional fit in the host market. The findings include that CEO/founder duality, board independence and underwriter prestige significantly influences the choice of capital market. It is concluded that foreign IPO firms choose a host market that best fits with certain firm-specific corporate governance characteristics.

6. Method

The sixth section gives understanding of the research method used to empirically test the hypotheses. The first sections explain the data collection and data sampling process. The following section introduces the specific statistical techniques used, along with the regression equation. This is followed by a section on operationalizations, showing how the variables are constructed. The last three sections discuss the limitations, reliability and validity of this study.

The research approach used in this thesis is quantitative; the study relies on numerical data to test the hypotheses presented in section 4.5. The interplay between theory and research is deductive, meaning that our hypotheses are derived, or deducted, from existing theory and previous empirical findings with an objective view on reality (Bryman & Bell, 2005).

The statistical techniques used to empirically test the impact of internal corporate governance arrangements on foreign IPO underpricing are influenced partly by two studies on domestic IPO samples, namely Certo et al. (2001) and Filatotchev and Bishop (2002). Additionally, the research method is inspired by recent studies on foreign IPO samples, such as Moore et al. (2010) and Moore et al. (2012). All these studies were introduced in section 5.1 and 5.2. In line with this, the hypotheses are tested empirically using a multiple regression analysis, which is further detailed under section 6.2. The analysis is founded on a unique sample of foreign IPOs, hand-picked using a set of predetermined sample criteria in order to optimally serve to answer the research questions. The data is gathered in order to test the hypotheses empirically (Bryman & Bell, 2013). The following two sections give complete details on the data gathering work process, divided into data collection and data sampling.

6.1 Data

The data gathering process is divided into two sections. The first section shows how the data is collected from various sources. The second section describes the data sampling process, or in other words how the IPOs are narrowed down from an initial sample to a final sample, using a set of sample criteria.

6.1.1 Data collection

The full list of IPOs by foreign firms on the LSE main market and AIM is extracted from the LSE website, presented in the “new issues” file (London Stock Exchange, 2014). This complete list is narrowed down using a set of strict sample criteria explained in the next section on data sampling. The initial list consists of 300 foreign IPOs. The same “new issues” file also contains information on total IPO proceeds and industry, used to construct two of our control variables introduced in section 6.3.3. The companies are also identified in Thomson Reuters Datastream (from now on TRD) in order to find price evolutions during the first day of trading for the foreign IPOs. In cases where price evolutions cannot be retrieved in TRD, financial information websites such as Yahoo finance, Google finance and the LSE website are used as a complement. Price figures are used to construct the dependent variable of the regression analysis, detailed in section 6.3.1.

Regarding the remaining data relevant to the data analysis, the individual firms’ IPO prospectuses are consulted. The IPO prospectus is a standardised document, part of the listing procedure of the LSE, containing detailed information on firm specific corporate governance arrangements (see section 3.2). The IPO prospectuses are collected from the individual companies’ websites or via search engines such as Google. A similar study on domestic IPOs conducted by Certo et al. (2001) collect IPO prospectuses by written requests to the individual companies resulting in a response rate of 26.8 percent. Another study from 2002, conducted by Filatotchev and Bishop, partly rely on the same technique, but collect most of the IPO prospectuses from the “Global Access” database. In the absence of a relevant database for IPO prospectuses, and without sufficient time to send individual requests to companies, documents are located manually using the aforementioned work process. IPO prospectuses for 164 of the 300 companies in the initial sample are successfully located, giving a response rate of roughly 55 percent⁴. Company specific information about firm-level corporate governance, relevant to the independent variables, is collected manually from the IPO prospectuses. Information on revenue from the last year before listing, as well as firm age, is likewise collected manually from the IPO prospectuses. For detailed information on how the variables are constructed, see section 6.3.

⁴ All observations where IPO prospectuses are not found are presented in Appendix 10.2.1.

6.1.2 Data sampling

The data sampling process starts with the “new issues” file, containing all IPOs on the LSE and AIM, supplied by the LSE on their website (London Stock Exchange, 2014). In order to fulfil the purpose of this thesis, a number of sample criteria are applied to this list of IPOs. This section aims to give understanding on the sampling process as well as explain and motivate the sample criteria. The first screening is done with the purpose of only including IPOs issued at any time within the chosen time period from 2004-01-01 to 2011-12-31. By using this specific time period, the study investigates a time frame that has not previously been covered in the area of foreign IPOs. This time period includes years before and after the economic recession of 2007, resulting in a sample with companies issuing an IPO in different economic climates. This is motivated by arguments saying that research results can vary substantially if focus is directed onto momentary peaks and troughs (Daily, Certo, Dalton & Roengpitya, 2003). The second screening is the exclusion of all IPOs issued by companies incorporated in the UK, since the purpose is to study foreign firms listing in the UK. Consistent with Moore et al. (2010), firms based in countries usually motivated solely by tax reasons such as the Cayman Islands, Bahamas, Bermuda and Channel Islands are excluded. After applying these country specific criteria the initial sample consists of 300 companies. As previously mentioned in section 6.1.1, 164 out of 300 IPO prospectuses are located.

In line with previous studies on domestic IPOs (Filatotchev & Bishop, 2002) and foreign IPOs (Moore et al., 2010); transactions following mergers and acquisitions, spin-offs of publicly listed companies, warrants, units and rights offerings are excluded. In order to differentiate this study from the majority of previous research on foreign equity listings and to fulfil the purpose of this thesis, an additional set of sample criteria are applied to the group of 164 firms. Bruner et al. (2006), and later Moore et al. (2010) acknowledge that much previous research on foreign equity listings do not separate between previously listed firms and firms seeking to raise initial equity capital on a foreign exchange. Caglio et al. (2013) highlight the same problem, referring to important differences between going public on a foreign market and cross-listing shares on a foreign market. The discussion is introduced earlier in this thesis and is further highlighted by the growing number of firms seeking to go public on foreign exchanges. Therefore, all firms with previous trading history, as well as all firms not offering new equity, are excluded from the study. Consistent with the terminology in Caglio et al. (2013) this thesis separates global from foreign IPOs, leading to the exclusion of all firms not

uniquely seeking to list on the UK stock exchanges (see section 1.5). After applying all the sample criteria, the final sample includes 86 firms⁵. The final sample, including information on the date of the foreign IPO, country of origin and industry belonging is available in Appendix 10.1. The complete list of sample criteria is presented below.

1. IPO on the LSE main international market and AIM between 2004-01-01 and 2011-12-31.
2. Incorporated outside the host country the UK, as well as outside the Cayman Islands, Bahamas, Bermuda or Channel Islands (locations used for tax reasons).
3. Not a result of M&A or spin-off, not including offering of units, warrants or rights offerings.
4. Foreign IPO by company selling unseasoned equity securities with no previous trading history.
5. Not a global IPO or in other words no IPOs where securities or company shares are simultaneously being listed on one or several other stock exchanges.

6.2 The regression model

To empirically test the hypotheses outlined previously in this thesis, the variables are tested by constructing a multiple linear regression model, including only cross-sectional variation (Brooks, 2008). The regression equation is presented below, showing underpricing as a function of the independent variables and the control variables. The equation includes a constant term (α) and an error term (μ). The variables are individually presented in the following sections.

The variables are constructed using information relevant to one event, the IPO, and do not reflect information that changes over time. This method is consistent with Certo et al. (2001), Filatotchev and Bishop (2002) and Moore et al. (2010). The independent variables' effects are estimated, and the individual coefficients are interpreted as partial regression coefficients (Brooks, 2008). This enables an investigation of all the individual variables' respective explanatory power on the dependent variable, while holding the other variables constant (Brooks, 2008). Ordinary least squares (OLS) is utilised as estimation technique, which in turn requires five basic assumptions to hold in order for the model to be well specified and the

⁵ Excluded observation because of sample criteria mismatch are presented in Appendix 10.2.2.

results of it unbiased (Brooks, 2008). In order to ensure that the model fulfils the five assumptions, several tests are run. Since the model contains an intercept and since the data does not vary over time, there is no need to test our model for constant error terms or autocorrelation. Hence, the residuals are tested for heteroscedasticity, non-stochasticity, and non-normality. A Breusch-Pagan test is run to check for heteroscedasticity. The model shows no sign of heteroscedasticity, this since the null hypothesis of the Breusch-Pagan test is not rejected. After running a correlation test, the residuals are concluded to be non-stochastic, since the regressors are all highly uncorrelated with the residuals. The model does not fulfil the normality assumption, since the null hypothesis of a normal distribution in the Jarque-Bera is rejected. However, since the sample is large, the violation is left without any impact on the results (Brooks, 2008).

Regression Model

$$\begin{aligned} \text{Underpricing} = & \\ & \alpha + \beta_1 \text{BoardSize} + \beta_2 \text{BoardIndependence} + \beta_3 \text{IndependentChairman} + \\ & \beta_4 \text{CEOFounder} + \beta_5 \text{Revenue} + \beta_6 \text{IPOProceeds} + \beta_7 \text{HighTech} + \beta_8 \text{FirmAge} + \\ & \beta_9 \text{UKConnection} + \mu_i \end{aligned}$$

6.3 Variables and Operationalizations

The three following sections describe how the variables in the regression model are constructed and how certain theoretical concepts are operationalised in this thesis.

6.3.1 Dependent variable - underpricing

As previously mentioned, this study aligns with Certo et al. (2001), Filatotchev and Bishop (2002), and Moore et al. (2010) to use underpricing as the indicator of short-term IPO performance. The operationalization can be visualised below and equals the percentage stock return on the first day of trading. It is calculated as the price at the end of the first day of trading minus the issue price divided by the issue price (Certo et al., 2001).

$$(P^1 - P^0)/P^0 = U$$

6.3.2 Independent variables

Board size

In corroboration with Darmandi and Gunawan (2012), one of the explanatory variables is board size. Moore et al (2010) and Bell, Moore and Filatotchev (2012) also include board size in their regressions as control variables. Regarding the operationalization, the size of the board is simply measured as the number of members included in the board of directors at the date of the IPO. Any mentions of future additional appointments to the board of directors mentioned in the prospectus, coming into effect after the date of the IPO, are not included.

Board independence

In accordance with Filatotchev and Bishop (2002), Bell et al. (2012), Moore (2012) and Darmandi and Gunawan (2012), one of the independent variables measures board independence. The operationalization used in this study only follows the method of the latter three and calculate the independence of the board as the number of board members considered independent divided by board size, resulting in an independence ratio. Filatotchev and Bishop (2002) use a dummy variable to capture if the board consists of more than 33 percent non-executive directors. The operationalization of board independence utilised in this thesis is stricter than just to draw the line between executive and non-executive board members. As mentioned in the theory chapter (section 4.4.2), Dalton et al. (1998) are referred to for a detailed description of different board structure operationalizations.

For the purpose of this thesis, the criteria for independence are in line with the criteria for an “outside” director. For the director to be considered an outsider in this thesis (here: independent), he or she must not be employed by the firm or involved in the operational activities. He or she must not have any professional or personal ties with the firm, management or other board members. Dalton et al. (1998) state a further layer to completely fulfil the “independency” criteria, stating that the director should have been serving on the board before the current CEO was appointed. This criterion is not incorporated into the independency criteria of this thesis, as it does not add further strength to the fulfilment of the specific purpose of this study.

Independent chairman

Similar to Filatotchev and Bishop (2002) this study examines the effect of having an independent chairman heading the board of directors. Filatotchev and Bishop (2002) study the impact of a non-executive chairman on IPO underpricing. In contrast, this study does not investigate the effect of a non-executive chairman, which indicates less strict independence criteria. Instead, this study investigates the effect of having an independent chairman, defined in the exact same manner as for the board as a whole, referring to the discussion in the previous paragraph. The impact of an independent chairman is measured using a dichotomous variable, coded 1 if the chairman is considered independent and 0 otherwise.

CEO/Founder duality

Based on the foundation presented in the theory chapter, this study extends domestic IPO research by Certo et al. (2001), investigating if CEO and founder duality has any impact on foreign IPO performance. Moore et al (2012) build on traditional IPO research when investigating if CEO/founder duality helps explain choice of listing market (comparative US and UK). The relationship between CEO/founder duality and underpricing is operationalised the same way in this study, using a dummy variable, and coded 1 if the CEO and the founder (or co-founder) is the same person and 0 if this is not the case.

6.3.3 Control variables

To be consistent with previous IPO research on domestic and foreign IPO samples, and to control for certain characteristics that might impact the level of IPO underpricing, six control variables are added to the regression analysis.

Firm age is controlled for by introducing a variable consisting of the time between the year of firm establishment and the year of the foreign IPO. This construction is consistent with Filatotchev and Bishop (2002) and Moore et al. (2010). The rationale is based on Certo et al. (2001), saying that older firms have been shown to outperform younger ones (Ritter, 1998), potentially reflecting in after-market stock performance and/or IPO offer price.

Furthermore, in order to stay consistent with much previous IPO research, revenue is used to control for firm size by the inclusion of a variable showing revenue from the year immediately preceding the IPO. As in Moore et al. (2010), revenue is included and presented

in million GBP. When revenue is stated in another currency than GBP in the IPO prospectus, an average exchange rate for the focal year is used.

IPO size is also controlled for by including a variable for total IPO proceeds, further enabling a differentiation between big and small IPOs, suspecting that those characteristics might influence the level of underpricing (Daily et al., 2003).

Scholars point to possible industry effects on IPO underpricing (Certo et al., 2001). Evidence consistently indicates excessive mispricing of high-tech IPOs, sometimes stemming from valuation difficulties (Certo et al., 2001). Consistent with Moore et al. (2010), a firm's industry is considered as high-tech if the firm is active within any of the following: Pharmaceuticals, Biotech, Software or Communications. The variable is thus coded 1 if the firm is active within a high-tech industry and 0 if not.

The effect of having an experienced CEO on the level of foreign IPO underpricing is captured by a control variable. Arguments are put forward saying that more experienced, or older, CEOs decrease uncertainty towards the underwriting investment bank (Certo et al., 2001). The variable is operationalised as the difference between the year of the CEO's appointment and the year of the IPO.

The last control variable included in the regression is UK connection, capturing the effect of having a connection with the host market on the board of directors. To our knowledge, no previous studies have included this variable. There are reasons to believe that the effect of a connection with the UK reduces information asymmetry between the stakeholders of the foreign IPO, thereby reducing the level of initial underpricing. UK connection is measured as a dichotomous variable coded 1 if one or more directors on the board originate from the UK, or have clear previous professional and/or educational experience from the UK, and 0 if no such connection is present on the board.

6.4 Limitations

Possible limitations regarding the use of secondary data are acknowledged. Secondary data is potentially limiting because it is gathered by external institutions and organisations as part of their ordinary business. This study acknowledges (1) that secondary data might cause

implications because of a lack of familiarity with the data, since it is not originally collected by the authors. The authors also (2) stay vigilant with regards to possible problems caused by the high complexity of the data. The quality (3) of the material can also cause misleading results and this study therefore solely relies on validated and well established data sources that are handled with criticism. Lastly (4), the authors know that because the information was collected by someone else, for other purposes, we therefore stay open to the risk of missing key variables with regards to this unique study (Bryman & Bell, 2005).

The collection of the data is also a limitation. The best possible databases for this study are not accessible. A larger sample could possibly lead to a different results, analysis, and conclusions.

Further limitations of this study are discussed at the end of this thesis, under further research in section 8.2.

6.5 Reliability

Reliability refers to whether or not this study could be made again, by someone else, to achieve the same results, and if it is subject to random or temporary errors (Bryman & Bell, 2013).

In this study, information and data relevant to the sample of foreign IPOs are gathered from trustworthy sources. The information on firm-level corporate governance is taken from the IPO prospectuses of the companies. The prices are mainly collected from TRD, which is a financial database commonly used in research studies. Some prices are not found in datastream. For these situations, financial websites such as London Stock Exchange, Yahoo Finance and Google Finance are used. Regarding the analysis of the data, Eviews 8 is used in order to retrieve the estimators of the variables included in the regression, and there is no need to disbelieve the presented output.

One aspect of the work process is identified as a possible threat to the overall reliability of this study. All the information and data from the IPO prospectuses, as well as from TRD, are manually transferred into excel sheets in order to run the regression model. However, the transfer from the original sources is made under great caution and is manually checked for

errors several times. The risk for error is therefore limited, strengthening the reliability of the study.

6.6 Validity

Bryman and Bell (2013) categorise the concept of validity under four main sections: measurement validity, internal validity, external validity and ecological validity. The three first are applied to this study and discussed further below. The latter (ecological validity) is left aside, since it relates more to qualitative research methods including surveys and questionnaires.

This study avoids measurement validity related problems by utilising common, empirically tested and well-known operationalizations of the theoretical concepts. The operationalizations, and the studies they are based on, can be found under the individual variable descriptions earlier in this section 6.3. Regarding the dependent variable, it has been argued whether one day is sufficient to capture all price corrections or not. Ljungqvist (2007), however, state that for all developed capital markets, where no restrictions on daily price increases or day-to-day trading exist, one day is normally enough to witness the full effect of the initial stock mispricing.

Regarding the internal validity, concerns are raised whether all the variation in the dependent variable is exclusively explained by the included independent and control variables. The possibilities of other variables, not included in this study, having explanatory power on the underpricing of the IPOs in the sample must be acknowledged. However, the purpose of this study is not to explain all the variation of underpricing. Many previous studies have documented other variables having significant explanatory power on IPO underpricing. Venture capitalist involvement, underwriter reputation and firm-level risk factors, for example, are common approaches when examining the extent of IPO underpricing (Certo et al., 2001).

As mentioned in section 6.1.1 and 6.1.2, some difficulties in the data collection process and the availability of certain information lead to the exclusion of several original observations. Circumstances out of the authors' control could possibly affect the external validity of this study. Concerns are specifically raised on the possibilities of some firm types being over

represented in the final sample. Skewed information availability over the sample, and a possible over-representation of “more successful” firms, stemming from the fact that information is more difficult to find for either acquired or dead firms, potentially leads to less generalizable results.

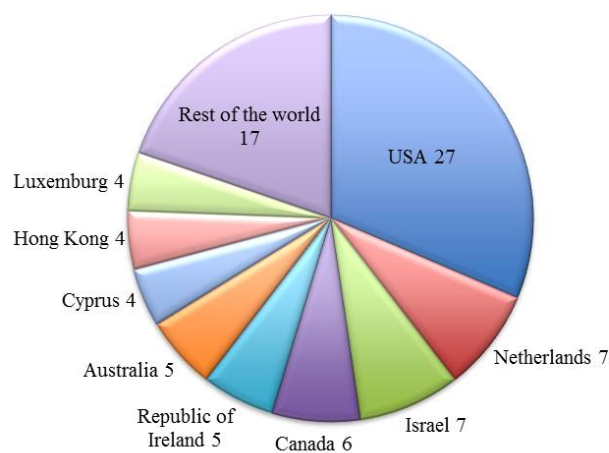
7. Empirical findings

This section gives a description of the final sample. This is followed by an analysis based on descriptive statistics for the variables in the model. The overall results of the regression analysis are presented and discussed. The discussion is then turned to the individual hypotheses, which are analysed based on the results of the regression model and in relation to previous theory and empirical findings.

7.1 Description of sample

The final sample of 86 foreign IPOs is presented in Appendix 10.1, containing information extracted from the “new issues” file distributed by the LSE (London Stock Exchange, 2014). In order to give an understanding of the foreign IPOs, this section starts by presenting the characteristics of the firms included in the final sample.

Figure 3. Sample distribution among the foreign IPOs, sorted after country of origin.

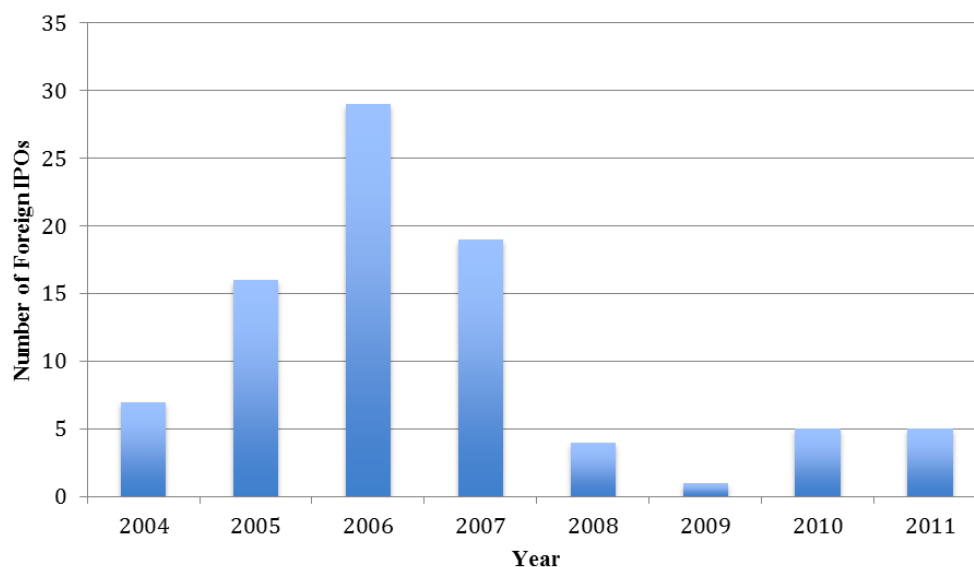


The firms in the sample originate from 19 different countries around the world. As shown in figure 3 above, the most frequent country of origin in the sample is the US with 27 firms, followed by the Netherlands and Israel with seven firms each. The firms in the final sample operate within 31 different industries, making it difficult to deduce any real patterns with regards to industry belongings.

Figure 4 displays the sample distribution of the foreign IPOs by issuing year. The number of IPOs conducted each year varies from one to 29. The highest concentration of foreign IPOs is

in year 2006, with roughly 34 percent of the total population. Similar to the pattern shown in figure 1, section 1, there is a peak among the final sample firms in 2006, before the financial crisis. A strong down cycle can be seen with the financial crisis, seemingly coming into full effect in year 2008.

Figure 4. Number of foreign IPOs in the final sample, sorted after year of issuance.



7.2 Descriptive statistics

A deeper analysis of the issuing firms in the sample is presented in relation to the variables included in the regression model. The analysis is founded on descriptive statistics, generated as a part of the regression output in Eviews 8. Descriptive statistics for the variables are presented in figure 5; displaying statistics relevant to the in-text discussion (see Appendix 10.3 for the complete output). The analysis logically starts with a discussion in relation to the dependent variable, foreign IPO underpricing.

As presented below, in figure 5, the average first day upswing in stock price is found to be 7.27 percent. This is equivalent of saying that the firms in the sample, on average, are underpriced by 7.27 percent. Moreover, 79 percent of the firms in the sample are underpriced, or 68 out of 86 companies. 79 percent of the sample firms thus experience a positive first day return after the foreign IPO. Seven firms remain at the same price after the first day of trading and the remaining eleven firms experience a negative first day return. The span of foreign IPO

underpricing in the sample ranges between a 37 percent stock price decline after one day of trading to a positive return of 42 percent for the most underpriced IPO in the sample. Although problematic because of different time periods, different samples and the previous discussion on IPO cyclicalities, the average underpricing can cautiously be compared to much higher figures found in some of the previous studies on foreign IPOs that are highlighted in section 5. Moore et al. (2010), for example, find 50 percent underpricing for foreign IPOs in the UK and US. Moreover, 7.27 percent stands out as a relatively low figure when compared to previous research findings within traditional IPO research, shown in figure 2 (section 4.1.1)⁶.

Regardless of previous studies, the underpricing of 7.27 percent found in this study represents a large amount of unretained wealth for the initial shareholders, or “money left on the table”. The total monetary value of the underpricing for the sample represents almost 200 million GBP.

Figure 5. Descriptive statistics for the variables in the regression analysis.

	Mean	Median	Maximum	Minimum
Underpricing	0.07269	0.04508	0.41666	-0.374
<i>Independent variables</i>				
Board size	6.3	6	12	3
Board independence	0.568	0.571	1	0.222
Independent chairman	0.674	1	1	0
CEO founder duality	0.349	0	1	0
<i>Control variables</i>				
CEO experience	5.13	4	23	0
UK connection	0.826	1	1	0
Firm age	11.92	8	121	0
Firm size (£m)	125.3	3.6	6943.2	0
High-tech	0.326	0	1	0
IPO proceeds (£m)	31.85	12.29	304.43	0.5

In order to continue the analysis, focus is shifted onto the four independent variables used in the regression model. In terms of board size, the average board size for the foreign firms in

⁶ Certo et al. (2001) find 17 percent IPO underpricing among domestic IPOs in the US. Filatotchev and Bishop (2002) find 29.7 percent for a sample of domestic UK IPOs.

the sample is 6.3 members. Regarding the board independence ratio, the boards on average consist of 57 percent independent board members, or members of the board considered independent from the criteria of independence used in this study. When the independence focus is shifted to the chairman, the descriptive statistics show that 67 percent of the companies in the sample have a chairman that meets the independency criteria used in this study. Among the sample firms, almost 35 percent of the firms have the founder of the company in the position of CEO, and are thereby identified as having a CEO/founder duality.

In terms of the control variables included in the regression model, descriptive statistics give useful insights to the sample. The average experience of the CEOs in the sample is just over five years. 83 percent of the companies included in the sample are identified as having one or several board members with a direct connection to the United Kingdom. The mean firm age of the sample is just under 12 years and the average revenue of the companies is about 125 million GBP. The average IPO proceeds are 31.8 million GBP and 33 percent of the companies in the sample are operating in a high-tech industry, using the criteria previously mentioned in section 6.3.3.

7.2.1 Correlations

Appendix 10.4 shows a correlation table over all the variables in the model. No warning flags are raised over any variables being too highly correlated, and that would indicate that multicollinearity will not be a danger to this study. The rule of thumb and cut off point of 0.8 is used to investigate the presence of any multicollinear variables (Brooks, 2008). None of the variables are correlated above the cut-off point. The only two variables correlated above 0.7 are firm size and firm age, indicating a known, not particularly surprising, relationship saying that older firms in general have had time to generate higher revenues. One interesting feature is that, contradictory to Certo et al. (2001), the high-tech dummy variable is not especially correlated with the dependent variable.

7.3 Regression analysis

Attention is now turned to presenting and discussing the results of the regression analysis. The section begins with a presentation of the overall regression results. This is followed by a deeper analysis, divided among the four hypotheses that are deduced from theory and tested empirically in this thesis.

The results of the regression model are displayed in figure 6 below. For the original regression output, see Appendix 10.5. The results of two regressions are presented. The first results are the main regression results and the second shows results of a second model, run as a robustness test (see section 7.3.1). The model is performed with HAC (heteroscedasticity and autocorrelation consistent) standard errors in order to ensure that these conditions are corrected for, even though the likelihood of the occurrence is small since the model was checked for both conditions as mentioned in section 6.2.

As presented in figure 6, the R-squared, a measure of how much of the variation in the dependent variable is explained by the right-hand side variables included in the model (Brooks, 2008), is modest at just above ten percent. The low R-squared is in parity with a similar study by Filatotchev and Bishop (2002) and is indicative of other factors, not represented in the model, having explanatory power on foreign IPO underpricing, something that is discussed as internal validity in section 6.6. The high p-value of the f-test indicates that a joint significance test of all the variable coefficients in the model fails to reject the null hypothesis saying that they have a determined collective explanatory power (Brooks, 2008). The intercept of the regression is significant, statistically proving that the firms in our sample are underpriced. The p-values displayed in the regression output are two-tailed probabilities. This has implications for the interpretation of the one-sided hypotheses produced in this thesis. It means that the probability in one tail of the distribution will be half the value that is presented in figure 6.

Figure 6. Results from the regression analysis

	Main results		Robustness model	
	Beta	P-value	Beta	P-value
Constant	0.111303	0.0298**	0.135111	0.0144**
<i>Independent variables</i>				
Board size	0.000501	0.9352	0.002653	0.6719
Board independence	-0.013431	0.8823	-0.113809	0.3157
Independent chairman	-0.053254	0.0802*	-0.072716	0.0380**
CEO founder duality	-0.027961	0.3033	-0.027577	0.3561
<i>Control variables</i>				
CEO experience	0.003129	0.3072	0.007466	0.0645*
UK connection	0.032776	0.2262	0.050040	0.0879*
Firm age	-0.002346	0.0436**	-0.003561	0.0147**
Firm size	3.36E-05	0.0714*	5.52E-05	0.0231**
High-tech	0.009657	0.7729	0.046701	0.2913
IPO proceeds	-0.000345	0.0961*	-0.000260	0.2536
R²	0.100143		0.186906	
ΔR²			0.086763	
Equation F-value	0.834656	0.596934	1.333242	0.235031

* = P-value < 0.1 (two-tailed), ** = P-value < 0.05 (two-tailed), *** = < 0.01 (two-tailed)

7.3.1 Robustness test

In order to ensure that the relationships generated by the main regression analysis are robust and not the result of spurious relationships, a robustness check similar to the one used in Certo et al. (2001) is run. The results presented to the right of our main regression results are generated after 20 percent of the sample is deleted on a random basis. All variables, except for “CEO founder duality” and “IPO proceeds”, are associated with higher significance levels in the model where 20 percent of the firms are excluded. All previously significant variables are strengthened in the second model and R squared is improved, indicating that the results are likely to reflect definite structures in the data set (Certo et al., 2001).

7.4 Analysis of hypotheses

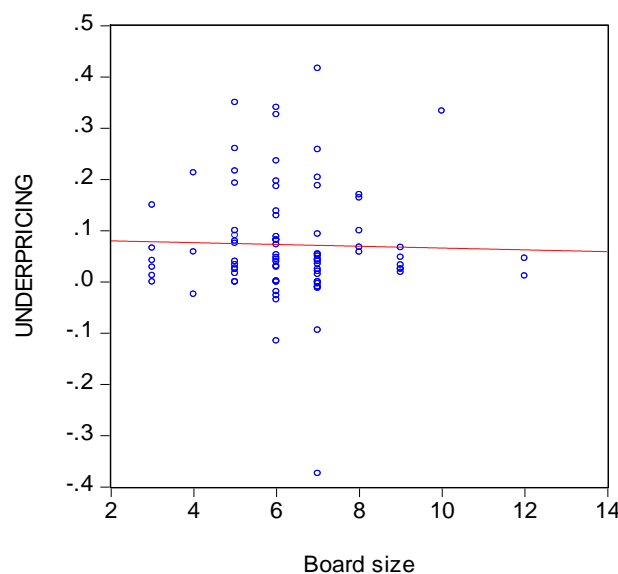
7.4.1 Board size and foreign IPO underpricing

H1: A larger board size is positively associated with foreign IPO underpricing

The analysis now continues to investigate the first hypothesis produced in this thesis. This study anticipates a positive relationship between the size of the board and IPO underpricing, indicating that a larger board on average is associated with higher IPO underpricing.

From the regression results presented in figure 6, the generated relationship between board size and underpricing is visualised. The relationship is barely positive and the coefficient is highly insignificant. Any statistical causality can therefore not be deduced from the regression output. Above that, the observations for board size and underpricing are plotted in a scatter graph, visualised including a fitted regression line showing the estimated relationship in figure 7. As visualised in the figure, no clear pattern among the plotted observations for the variables board size and foreign IPO underpricing can be found, rendering an almost horizontal regression line. Without the possibility of statistically determining a relationship between board size and underpricing, it instead seems as the size of the board has no determining power on underpricing in a foreign IPO context. In other words, the null hypothesis of a non-existent relationship cannot be rejected in this case.

Figure 7. The observation distribution for foreign IPO underpricing and the board size variable (number of board members).



However, the indication of a positive relationship between board size and underpricing is consistent with Moore et al. (2010), even though Moore et al. (2010) statistically prove the relationship between the variables. Darmandi and Gunawan (2012) find underpricing to decrease with board size in a sample of Indonesian domestic IPOs. Darmandi and Gunawan's results are in line with Filatotchev and Bishop's (2002), although reversed, as they find that board size increases the probability of a successful IPO with high significance.

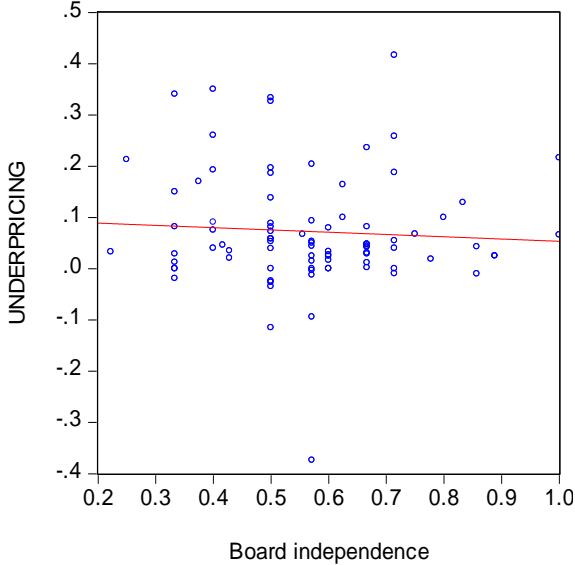
For the final sample, the average board size of just above six members is well below the ten members that Lipton and Lorsch (1992) suggest decreases the effectiveness of the board. With six members being well beneath ten, evidence of smaller boards being more effective, could provide guidance as to why board size do not impact on foreign IPO underpricing (Yermack & Shivdasani 1996; Eisenberg et al., 1998). The inconclusiveness of the results for hypothesis 1, showing no clear relationship in either direction, indicates that board size, at least for this specific sample, does not impact on foreign IPO underpricing. In other words, no signaling effects of board size are found.

7.4.2 Board independence and foreign IPO underpricing

H2: Higher proportions of independent board members are negatively associated with foreign IPO underpricing

The second hypothesis anticipates that a higher share of independent board members reduces foreign IPO underpricing. Figure 6 shows that the relationship between board independence and underpricing is slightly negative. However, the relationship between the variables cannot be statistically proven, since it is associated with a very high p-value, leaving the results inconclusive. The high p-value rules out any possibilities of inferring conclusive casualties, and leads to a situation where the null hypothesis of a non-existent relationship cannot be rejected. The seemingly random relationship between the variables is displayed below in figure 8, showing the observations for the variables board independence and underpricing plotted against one another. An ocular investigation suggests inconclusiveness, indicated also by the estimated regression line plotted in the diagram travelling almost horizontally with a slight negative incline. The results generate indication of a non-existent relationship between having higher board independence and underpricing in a foreign IPO context.

Figure 8. The observation distribution for foreign IPO underpricing and the variable for board independence (ratio of independent to non-independent directors).



The results of this study differentiate from the results of Darmandi and Gunawan (2012) who significantly conclude that the underpricing of domestic Indonesian IPOs increases with board independence. A positive relationship as such runs counter to well-rooted theories behind board independency suggesting that outside, or independent, directors are more prone to align with the interests of shareholders, and to be less biased towards management (Dalton et al., 1998). On the contrary, the insignificant negative relationship that is indicated by the results in this thesis is consistent, although in a reversed manner, with Certo et al. (2001) where a positive (but insignificant) relationship between insiders on the board and domestic IPO underpricing is found. The indication of a negative relationship is also in line with findings presented by Filatotchev and Bishop (2002) showing a negative impact on underpricing from having more than one third non-executive directors on the board.

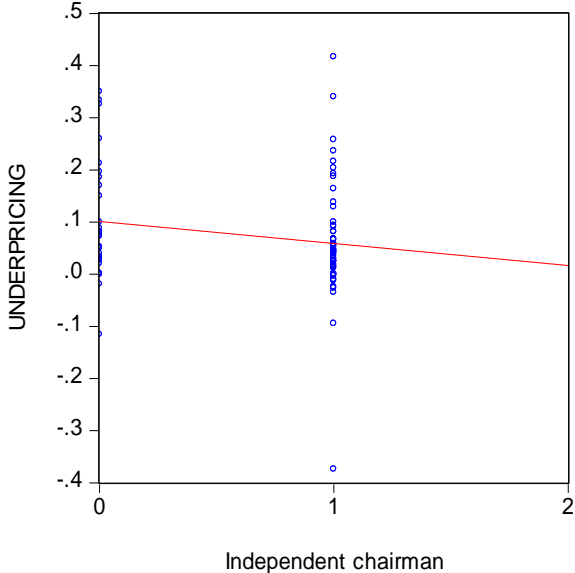
The statistical insignificance of the relationship between board independence and foreign IPO underpricing prevents any conclusions to be drawn. Hypothesis 2 is therefore rejected and the results show that for this sample of foreign IPOs including a higher share of independent board members does not impact the level of IPO underpricing.

7.4.3 Independent chairman and foreign IPO underpricing

H3: Having an independent chairman is negatively associated with foreign IPO underpricing

As stated previously in this thesis, hypothesis 3 anticipates a negative relationship between having an independent chairman at the head of the board of directors and foreign IPO underpricing. The regression output shown in figure 6 statistically confirms a negative relationship, showing a p-value under the 10 percent level (p-value of 0.08). The relationship is thus significant below the 5 percent level, remembering that the results in the regression output display two-sided probabilities. The coefficient indicates that firms with an independent chairman are on average 5.3 percent less underpriced than firms with a non-independent chairman. The observations for the dichotomous variable in relation to underpricing are plotted in a scatter diagram, visualised below in figure 9. The diagram shows a clearly negatively inclining fitted regression line. The results from the overall regression indicate that firms with an independent chairman on average leave roughly 1.7 million GBP less on the table when going public (5.3 percent of average proceeds in the sample which was 31.8 million GBP), relative to the firms with a non-independent chairman.

Figure 9. The observation distribution for foreign IPO underpricing and the dummy variable for independent chairman.



To the authors' knowledge, relatively few scholars have empirically tested the effects of having an independent chairman on IPO underpricing, or on other firm performance measures for that matter. With the difference in operationalizations in mind, Filatotchev and Bishop

(2002) find a negative, but insignificant, relationship between having a non-executive chairman and underpricing. The negative direction is thus consistent with the results presented in this thesis. An independent chairman aligning with the interests of the initial shareholders of the firm should be concerned with underpricing as a failure of original shareholder wealth retention (Certo et al., 2001). In that case, the effectiveness of assigning an independent chairman can be supported, showing a statistically significant negative relationship. This is in corroboration with Hart (1995) that states the purpose of the UK corporate governance code and shows that an independent chairman better fulfils his or her purpose of taking effective decisions on behalf of the existing shareholders. The results can give empirical weight to arguments that an independent chairman better aligns with the interests of shareholders (Coles & Hertsley, 2000), thereby naturally seeking to reduce IPO underpricing. Furthermore, IPO firms are in special need of the external links and expertise potentially offered by an independent director (Certo et al., 2001). To foreign IPO firms, who arguably are in special need of professional guidance when entering into a new market and regulative environment, having an independent chairman can prove to be of increased importance. The negative relationship found in this thesis can provide justification to the importance of resource dependence views in a foreign IPO context (Dalton et al., 1998), when outside or independent directors' contributions can help bridge information asymmetry problems towards the investment bank and the host market investors. There is therefore support for possible signaling properties of an independent chairman. This suggests that adverse selection costs from information asymmetry problems paid by the initial shareholders, veiled as IPO underpricing, can be reduced by the assignment of an independent chairman.

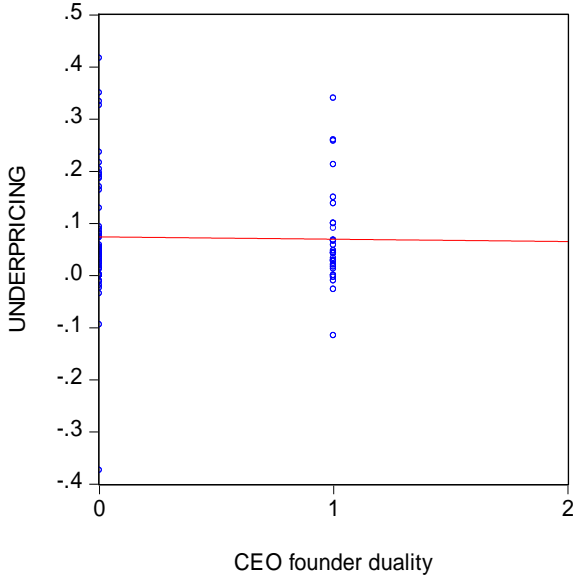
7.4.4 CEO/founder duality and foreign IPO underpricing

H4: CEO/founder duality is positively associated with foreign IPO underpricing

In terms of the fourth and final hypothesis, the relationship between CEO/founder duality and IPO underpricing is investigated. As evident from figure 6, the relationship is negative but without being statistically significant. The coefficient gives indication of a negative relationship, but the p-value above 10 percent renders the results statistically inconclusive and relationships will have to be inferred with caution. Figure 6 shows two-sided probabilities, meaning that the p-value for a one-sided interpretation approaches the 10 percent level. The negative relationship moves opposite to what is suggested by hypothesis 4. When interpreting the value of the coefficient, it indicates that the underpricing is, on average, 2.8 percent lower

when duality exists in the firm. An interpretation of this is that founder-led firms in our sample leave on average less “money on the table” and are more successful in retaining initial shareholder wealth compared with firms not managed by the founder. The observations for the two variables CEO/founder duality and underpricing are plotted in figure 10, showing an estimated regression line. The relationship is slightly negative, consistent with the overall regression results.

Figure 10. The observation distribution for foreign IPO underpricing and the dummy variable for CEO/founder duality.



The findings for CEO/founder duality among foreign IPOs are not consistent with the results of Certo et al. (2001), who find a positive relationship between the duality and underpricing for domestic IPOs in the US. The negative relationship found in this thesis might however strengthen arguments discussed in section 4.4.4, saying that the CEO/founder duality is better received within the UK corporate governance regulatory system, as opposed to the US (Moore et al., 2012). The institutional environment in the UK, partly introduced in section 3, is arguably more appreciative of personal qualities and individual skills than of adequate professional expertise (Moore et al., 2012). The strict enforcements of SOA in the US, requiring adherence to complex regulations for a foreign firm at the time of the foreign IPO, and afterwards, renders justification to the results of Certo et al. (2001), where firms led by non-founder CEOs are less underpriced. Compelling evidence has been presented on the tendencies of founders of IPO firms in the UK to remain as CEO or chairman, suggesting common acceptance of the practise (Filatotchev, Wright & Arberk, 2006). CEO/founder

duality might be related with higher uncertainty in a US IPO context, compared to the UK. If underwriters are less concerned about a founder in the role of CEO, then underpricing because of risk-averse tendencies should play a less important role (Tinic, 1988). If a negative association would have been determined statistically, it would have confirmed the previous discussion on founder and entrepreneur acceptance in a UK context, suggesting that underwriters in the UK are more prone to value founder led IPO firms closer to the real value. A general acceptance would however also incorporate outside investors, happily investing in founder led IPOs, logically pushing the stock price up during the first day of trading (Certo et al., 2001). The effect of this might however be cancelled out by founder positive underwriting investment banks pricing the IPO correctly, leaving less room for first day investors to adjust the share price upwards. The insignificant negative direction of the relationship, combined with the previous discussion on special features of the UK corporate governance environment, spurs interesting possibilities for further research. A discussion will hence follow in section 8.2.

Lastly, remembering the statistical insignificance, the negative effect of having a founder as CEO on IPO underpricing suggests consistency with theories arguing that the founder holds special incentives, enabling effective decision-making (Jayaraman et al., 2000).

7.5 Control variable analysis

The analysis now turns to the control variables included in the regression model. No hypotheses are formed around these variables. An analysis of the results of the control variables is of interest and completes a comprehensive picture of the regression results. The results for the control variables are interpreted individually below.

The relationship between the experience of the CEO and underpricing is slightly positive, suggesting that having a CEO with more experience in the firm is associated with more severe underpricing. This can be interpreted as rather counter intuitive, and opposite to findings by Certo et al (2001), showing a negative relationship between the CEOs experience (measured as age of the CEO) and underpricing. The positive relationship found here is not significant in the main regression model. In the robustness model, however, the relationship is significant on the 10 percent level.

Regarding connection to the host market (“UK connection”), this control variable shows a positive association with higher IPO underpricing. The variable is insignificant in the main regression model, making potential inferences misleading. The positive relationship is, however, statistically significant in the robustness model.

Firm age and firm size are significant on the 5 and 10 percent level respectively. These results are consistent with Certo et al. (2001), also showing that the relationship between firm age and underpricing is negative whilst the relationship between firm size and underpricing is slightly positive.

Concerning the high-tech industry dummy variable, the association with foreign IPO underpricing is positive. The direction is consistent with rationale behind the control variable, and with findings of Certo et al. (2001). The results do however differ from Moore et al (2010), as they find a negative relationship between coming from a high-tech industry and the level of foreign IPO underpricing. Despite the indicated direction of the relationship, the high-tech variable is insignificant and the results regarding the variable are therefore inconclusive.

The regression output shows that higher IPO proceeds are associated with lower levels of foreign IPO underpricing, confirming the notion that larger offerings are perceived as less risky, and therefore render lower uncertainty and subsequently lower levels of underpricing (Daily et al., 2003).

8. Conclusion

This conclusive section is divided into a discussion part and a further research part. The first part is a concluding discussion, summarising the empirical findings of this thesis and discussing the implications. This section is based on the authors' own perspectives.

8.1 Concluding discussion

The purpose of this thesis is to investigate the effect of internal corporate governance arrangements on the underpricing of foreign IPOs. Four characteristics are investigated: board size, board independence, chairman independence and CEO/founder duality. This study emphasises the need to make distinctions within foreign equity listing research, challenging consensus-like arguments that foreign IPOs are best studied as a part of cross-listing literature, or even just within traditional domestic IPO research. Our standpoint leads to the emergence of foreign IPOs as a separate research field, pointing out deciding differences compared to cross-listings and domestic IPOs. We highlight a gap of corporate governance studies directed at the “soft” law legal environment that characterises UK capital markets. We set out to initiate a field of research identifying effective firm-level corporate governance arrangements and empirically test them for significance as means of bridging high information asymmetries when crossing borders at the time of an IPO.

Our findings provide contributions to IPO signaling literature by investigating the signaling properties of four firm-level corporate governance characteristics. This thesis provides an empirical analysis of board characteristics in the context of foreign IPOs. We highlight important firm implications of underpricing, showing that high returns during the first day of trading can be seen as a transfer of wealth from the firm to first-day investors (Filatotchev & Bishop, 2002). In relation to this, we show that the amount of wealth transferred to first-day investors, or left unretained by pre-issue owners, can be directly associated with the status of the chairman of the foreign IPO firm. A firm with an independent chairman is shown to be associated with significantly higher wealth-retention at the time of a foreign IPO. This sheds light on potentially important signaling properties of an independent chairman. Furthermore, our results indicate that independently chaired boards align more effectively with shareholder interests, considering that pre-issue owners should be concerned with large amounts of money left on the table (Loughran & Ritter, 2002). This suggests an effective mitigation of the

adverse selection costs that IPO underpricing means to original shareholders. High information asymmetries towards underwriters and outside investors in foreign IPOs are bridged by the inclusion of a chairman with independently developed interests.

The fact that we do not find any statistical association between board size and foreign IPO underpricing, along with the inconclusive findings for board independence and foreign IPO underpricing, possibly suggests that foreign IPO specific theory is needed to exactly capture present conflicts. Reasons for this could possibly be found by looking at the properties of the IPO as an event. Some scholars have touched on it, arguing that classical agency conflicts take on other forms when applied to IPOs (see Certo et al., 2001). A higher proportion of independent board members is usually motivated by the reduction of agency costs of free cash flow appearing if managers are not controlled. This argument could lose strength for IPOs, since as we have shown, foreign IPOs appear from the need to raise cash and fund growth opportunities. The results add knowledge by indicating irrelevance of well-established theoretical perspectives in the context of foreign IPOs.

Looking at the association between CEO/founder duality and foreign IPO underpricing, the relationship cannot be statistically determined. Interestingly, the positive relationship moves opposite to what we anticipated, as well as the opposite direction to results found in previous studies in an US context (see Certo et al., 2001). The results indicate that founder-led firms are relatively well received by investors, as well as underwriters, within the UK corporate governance system. This is in line with evidence and theory presented by Moore et al. (2012). The indications of a positive relationship shed light on possibly important research extensions of this thesis.

Apart from important theoretical contributions, this thesis offers important practical recommendations. For instance, the results are potentially useful to firm representatives of threshold firms that are transforming into publicly owned on a foreign exchange. Usefulness is arguably accentuated for transformations taking place within the comply-or-explain system that characterises UK corporate governance regulations. There exists substantial wiggle room for public firms to be creative in the board room. Some scholars argue that some aspects of corporate governance should not be left up to market participants (Bebchuck, 2002). In the light of this, practical guidance may be of even further importance. The self-regulatory and normative emphasis in the UK (Moore et al., 2012) enables for more elaborate strategic

decision-making when it comes to corporate governance arrangements. Our results offer direct indications of causalities, or non-causalities for that matter, that can be useful to practitioners who are up against multifaceted equity listing decisions.

8.2 Further research

During the course of completing this thesis, several areas for possible extensions of our study as well as important fields for further research have come to the authors' attention.

Future research should focus on further developing signaling theory applications on foreign IPO performance. Market participants are prone to benefit from a comprehensive framework of effective corporate governance related signals. This thesis tests corporate governance related signals linked with board structure and firm management.

This study touches on important information asymmetries and agency costs in a foreign IPO context. Further research should aim to classify exactly what conflicts impact IPO underpricing. It is argued that popular agency theory explanations for overinvestment problems and free cash flow problems are not applicable to studies on IPOs, where money is raised often for the sole purpose of satisfying high investment needs (Certo et al., 2001). In order to develop effective IPO specific signals, a framework for what conflicts are most salient in foreign IPOs is needed.

Being one of the first studies of firm-level corporate governance effects on foreign IPO performance, this study has several limitations that could ignite future research fields. First, our study does not aim to explain any higher share of foreign IPO underpricing variations. The R-squared of our regression model is modest, suggesting a weak collective explanatory power of the independent variables. This calls for more extensive studies where a bigger part of foreign IPO underpricing is explained. Second, this study is focused on short-term performance, and the implications of initial IPO underpricing. Some motives for longitudinal studies do arise, like in Bell et al. (2012), where firm-level corporate governance effects on measures of post-IPO performance are included. It could be of importance to study variations of corporate governance arrangements over time, along with the effects on long-term post-IPO performance. Third, the focus of this study is exclusively the UK capital markets. One could imagine the importance of giving attention to other capital markets as hosts of foreign

IPOs. While the UK capital markets are suitable for this type of study, we do see large movements of foreign IPOs even in Asia. The Singapore and Hong Kong stock exchanges hosts large quantities of foreign IPOs and shows important features of becoming official hubs for mostly Asian firms seeking benefits of internationalising the cost of capital (PWC, 2012). Furthermore, this study disregards delistings and withdrawals from trading. Further research should dig deeper into explaining delisting tendencies, investigating factors that lead to unsuccessful foreign listings.

The indicative positive relationship between CEO/founder duality and foreign IPO underpricing found in this thesis highlights potentially important comparative extensions. The positive association in relation to findings in the US (Certo et al., 2001) pinpoints important diverging tendencies within two common law legal systems (the US and UK). Moore et al. (2012) claim that CEO/founder duality is priced higher in the UK than in the US. An extension of Moore et al. (2012), and of this study, could possibly focus on how corporate governance arrangements are received differently in the UK, compared to the US. To our knowledge, except for Jonathan (2013), few scholars have dug deep into the Sarbanes-Oxley act's direct impact on how firm-level corporate governance arrangements impact firm performance differently within common law legal traditions.

As previously mentioned, having an independent chairman is negatively associated with foreign IPO underpricing. To our knowledge, the effect of an independent chairman on IPO performance is unexplored and calls for even further exploration. For example, it could be of interest to investigate effects on domestic UK IPOs, as well as both domestic and foreign IPOs in the US. Due to the regulatory acceptance of CEO/chairman duality in the US, the difference between independent and non-independent chairman interests could potentially be greater. The incentives of a CEO in the position as the chairman could cause even more severe agency conflicts between management and shareholders, making it an interesting topic for further research.

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10. Appendix

10.1 The final Sample

A list of all 86 foreign IPOs included in the final sample, sorted after date of IPO. Further information includes country of origin and industry belonging.

SOLAR INTEGRATED TECHNOLOGIES INC	5/12/2004	USA	Electronic & Electrical Equipment
NOORWOOD IMMUNOLOGY	6/30/2004	Australia	Pharmaceuticals & Biotechnology
FRONTIER MINING	9/2/2004	USA	Mining
BDI MINING CORP	9/30/2004	Canada	Mining
FALKLAND OIL & GAS	10/14/2004	Falkland Islands	Oil & Gas
GAMING VC HLDGS S.A.	12/21/2004	Luxemburg	Leisure & Hotels
121MEDIA INC	12/23/2004	USA	Media & Entertainment
FRONTERA RESOURCES CORP	3/14/2005	USA	Oil & Gas
GLADSTONE PACIFIC NICKEL	3/17/2005	Australia	Mining
LEADCOM INTEGRATED SOLUTIONS	4/7/2005	Israel	Information Technology Hardware
METAL-TECH	5/13/2005	Israel	Chemicals
POLYFUEL INC	7/5/2005	USA	Electronic & Electrical Equipment
URALS ENERGY PUBLIC CO	8/9/2005	Cyprus	Oil & Gas
F,T,S,-FORMULA TELECOM SOLUTIONS	8/18/2005	Israel	Software & Computer Services
KARELIAN DIAMOND RESOURCES	9/1/2005	Republic of Ireland	Mining
SQS SOFTWARE QUALITY SYSTEMS AG	9/20/2005	Germany	Software & Computer Services
GLOBAL BRANDS SA	9/29/2005	Luxemburg	Leisure & Hotels
INTERNATIONAL FERRO METALS	9/30/2005	USA	Steel & Other Metals
ACTA SPA	10/4/2005	Italy	Electronic & Electrical Equipment
SEEING MACHINES	12/1/2005	Australia	Information Technology Hardware
AMIAD FILTRATION SYSTEMS	12/5/2005	Israel	Engineering & Machinery
ORPAK SYSTEMS	12/8/2005	Israel	Electronic & Electrical Equipment
UNIVISION ENGINEERING	12/16/2005	Hong Kong	Electronic & Electrical Equipment
XCOUNTER AB	2/1/2006	Sweden	Health Care Equipment & Services
GOLD FROST	3/9/2006	Israel	Food Producers
PLANET GROUP INC	3/20/2006	USA	General Financial
AQUA BOUNTY TECHNOLOGIES INC	3/20/2006	USA	Pharmaceuticals & Biotechnology
SANDVINE CORP	3/21/2006	Canada	Technology Hardware & Equipment
FINDERS RESOURCES	3/22/2006	Australia	Mining
GOLDENPORT HLDGS INC	4/5/2006	Greece	Shipping
ENTELOS INC	4/12/2006	USA	Pharmaceuticals & Biotechnology
CAP-XX	4/20/2006	Australia	Electronic & Electrical Equipment
BURST MEDIA CORP	4/21/2006	USA	Media
BATEMAN LITWIN N,V,	5/23/2006	Netherlands	Oil Equipment, Services & Distribution
POWERFILM INC	5/31/2006	USA	Constriction & Materials
OCZ TECHNOLOGY GROUP INC	6/21/2006	USA	Technology Hardware & Equipment
PROTONEX TECHNOLOGY CORP	7/3/2006	USA	Electronic & Electrical Equipment
COLT TELECOM GROUP S.A.	7/3/2006	Luxemburg	Fixed Line Telecommunications

TINCI HOLDINGS	7/31/2006	Hong Kong	Industrial Engineering
JUMPTV INC	8/10/2006	Canada	Media
PLATMIN LIMITED	8/10/2006	Canada	Mining
SPAZIO INVESTMENT NV	10/18/2006	Netherlands	Real Estate
DATATEC	10/20/2006	South Africa	Software & Computer Services
LED INTL HLDGS LTD	10/23/2006	Hong Kong	Electronic & Electrical Equipment
ZAMA0 PLC	10/31/2006	Republic of Ireland	Mobile Telecommunication
SOMERO ENTERPRISES INC	11/1/2006	USA	Industrial Engineering
SIMIGON LTD	11/2/2006	Israel	Software & Computer Services
CATALYTIC SOLUTIONS INC	11/22/2006	USA	Automobiles & Parts
HELESI PLC	11/23/2006	Cyprus	Support Services
POLYMER LOGISTICS NV	12/13/2006	Netherlands	General Industrials
MIRLAND DEVELOPMENT CORP PLC	12/18/2006	Cyprus	Real Estate
PETMIN LTD	12/20/2006	South Africa	Mining
APPLIED INTELLECTUAL CAPITAL	1/26/2007	USA	Electronic & Electrical Equipment
REDKNEE SOLUTIONS INC	2/23/2007	Canada	Software & Computer Services
VYCON INC	3/9/2007	USA	Electronic & Electrical Equipment
DRAGONWAVE INC	4/19/2007	Canada	Technology Hardware & Equipment
POWERFLUTE OYJ	5/11/2007	Finland	Forestry & Paper
VECTRIX CORP	5/24/2007	USA	Automobiles & Parts
TYRATECH INC	6/1/2007	USA	Chemicals
TALVIVAARA MINING CO LTD	6/1/2007	Finland	Industrial Metals
BURANI DESIGNER HLDG NV	6/20/2007	Netherlands	General Retailers
AOI MEDICAL INC	6/22/2007	USA	Health Care Equipment & Services
MAPLE ENERGY PLC	7/13/2007	Republic of Ireland	Oil & Gas Producers
CONNEMARA MINING PLC	7/31/2007	Republic of Ireland	Mining
AISI REALTY PUBLIC LTD	8/1/2007	Cyprus	Real Estate
CRYO-SAVE GROUP NV	11/6/2007	Netherlands	Health Care Equipment & Services
MEDGENICS INC	12/4/2007	USA	Pharmaceuticals & Biotechnology
NEW BRITAIN PALM OIL LTD	12/17/2007	Papua New Guinea	Food Producers
KDD GROUP NV	12/19/2007	Netherlands	Equity Investment Instruments
NATSUN HLDGS LTD	12/24/2007	Hong Kong	Personal Goods
ARMOR DESIGNS INC	12/31/2007	USA	Software & Computer Services
LIFELINE SCIENTIFIC INC	1/7/2008	USA	Health Care Equipment & Services
TGE MARINE AG	5/15/2008	Germany	Industrial Engineering
MORTICE LTD	5/15/2008	Singapore	Support Services
RESACA EXPLOITATION INC	7/17/2008	USA	Oil & Gas Producers
ASIAN PLANTATIONS LTD	11/30/2009	Singapore	Food Producers
ARGOS RESOURCES LTD	7/29/2010	Falkland Islands	Oil & Gas Producers
HALOSOURCE INC	10/18/2010	USA	Chemicals
PHOTON KATHAAS PRODUCTIONS LTD	11/4/2010	Singapore	Media
JUBILANT ENERGY N,V,	11/24/2010	Netherlands	Oil & Gas Producers
PROPHOTONIX LTD	12/23/2010	USA	Electronic & Electrical Equipment
SPECTRA SYSTEMS CORP	7/25/2011	USA	Support Services
MYCELX TECHNOLOGIES CORP	8/4/2011	USA	Oil Equipment, Services & Distribution
ESCHER GROUP HLDGS PLC	8/8/2011	Republic of Ireland	Software & Computer Services

MONEYSWAP PLC	8/31/2011	Gibraltar	General Financial
BILFINGER BERGER GLOBAL INFRA			
SICAV	12/21/2011	Luxemburg	Equity Investment Instruments

10.2 Observations not included

Beneath are two lists. The first contains all the observations where the IPO prospectus, and thus relevant IPO specific information, is not located. The second list contains all the observations where an IPO prospectus is found, but the IPO does not match the criteria for a foreign IPO. The two lists, together with the 86 sample firms, make up the 300 firms that are identified as the first (initial) sample of IPOs by foreign firms on the London stock exchange within the specified time frame.

10.2.1 Missing IPO prospectus

A list in alphabetical order of the 136 observations excluded because IPO prospectuses are not located.

A&D PHARMA HLDGS NV	10/24/2006	Prospectus not found
ADAMIND	2/21/2005	Prospectus not found
ADULIS RESOURCES INC	12/2/2004	Prospectus not found
ADWALKER	8/2/2005	Prospectus not found
AGCERT INTERNATIONAL	6/8/2005	Prospectus not found
AIM RESOURCES	3/21/2005	Prospectus not found
AIR CHINA	12/15/2004	Prospectus not found
AMTEK AUTO	11/25/2004	Prospectus not found
ASSOCIATED CEMENT CO	3/19/2004	Prospectus not found
BANCO DE ORO UNIVERSAL BANK	1/26/2006	Prospectus not found
BANK MUSCAT	10/5/2005	Prospectus not found
BATEMAN ENGINEERING N.V.	10/21/2005	Prospectus not found
BEXIMCO PHARMACEUTICALS	10/21/2005	Prospectus not found
BODISEN BIOTECH INC	2/6/2006	Prospectus not found
BOUNDARY CAPITAL PLC	5/15/2007	Prospectus not found
C&C GROUP	5/19/2004	Prospectus not found
CALEDONIA MINING CORP	6/27/2005	Prospectus not found
CALYX GROUP	3/17/2005	Prospectus not found
CARADOR	4/12/2006	Prospectus not found
CARDIOMAG IMAGING INC	12/14/2005	Prospectus not found
CARPATHIAN RESOURCES	3/31/2005	Prospectus not found
CASPIAN ENERGY INC	9/21/2004	Prospectus not found
CERAMIC FUEL CELLS	3/2/2006	Prospectus not found
CHINA MEDSTAR LTD	11/30/2006	Prospectus not found
CLEARSTREAM TECHNOLOGIES GROUP	11/12/2004	Prospectus not found

CNG TRAVEL GROUP	5/7/2004	Prospectus not found
COMMERCIAL BANK OF QATAR(THE)	7/3/2008	Prospectus not found
CONSOLIDATED COMMUNICATIONS CORP	9/30/2005	Prospectus not found
CROSS SHORE ACQUISITION CORP	4/28/2006	Prospectus not found
CYBERSCAN TECHNOLOGY INC	7/12/2005	Prospectus not found
DAISHIN SECURITIES CO	11/2/2007	Prospectus not found
DIC ENTERTAINMENT HLDGS INC	10/14/2005	Prospectus not found
DIRECT WONEN N.V.	5/1/2007	Prospectus not found
DORI MEDIA GROUP	3/24/2005	Prospectus not found
DROMANA ESTATE	1/12/2005	Prospectus not found
ECOSECURITIES GROUP	12/19/2005	Prospectus not found
ELCOM INTERNATIONAL	4/16/2004	Prospectus not found
ELECTROSTEEL CASTINGS	10/6/2005	Prospectus not found
ELITEL TELECOM SPA	2/20/2006	Prospectus not found
ELIXIR PETROLEUM LIMITED	5/16/2005	Prospectus not found
ELKEDRA DIAMONDS	9/3/2004	Prospectus not found
ENDACE	6/15/2005	Prospectus not found
ENOVA SYSTEMS INC	7/26/2005	Prospectus not found
EUROGOLD	7/20/2004	Prospectus not found
EVRAZ GROUP SA	6/8/2005	Prospectus not found
EXCAPSA SOFTWARE INC	2/16/2006	Prospectus not found
FALKLAND GOLD & MINERALS	12/9/2004	Prospectus not found
FARGLORY LAND DEVELOPMENT CO LTD	1/20/2011	Prospectus not found
FEDERAL BANK	1/31/2006	Prospectus not found
FIREONE GROUP	6/2/2005	Prospectus not found
FIRST COMMUNICATIONS INC	7/2/2007	Prospectus not found
FRUTAROM INDUSTRIES	2/8/2005	Prospectus not found
GATEKEEPER SYSTEMS INC	12/6/2004	Prospectus not found
GILAT SATCOM	8/9/2005	Prospectus not found
GLOBEOP FINANCIAL SERVICES SA	7/30/2007	Prospectus not found
GREAT WESTERN MINING CORP PLC	8/18/2011	Prospectus not found
GREYSTAR RESOURCES	8/4/2004	Prospectus not found
GROVE ENERGY	12/2/2004	Prospectus not found
HALYK SAVINGS BANK OF KAZAKHSTN JSC	12/20/2006	Prospectus not found
HANATOUR SERVICE INC	11/10/2006	Prospectus not found
HANSEN TRANSMISSIONS INTL NV	12/11/2007	Prospectus not found
HARD ASSETS INC	7/14/2004	Prospectus not found
HIPCRICKET INC	11/27/2007	Prospectus not found
IFR CAPITAL PLC	11/15/2006	Prospectus not found
INA-INDUSTRIJA NAFTE DD	12/1/2006	Prospectus not found
INTERNATIONAL MARKETING & SALES GRP	12/6/2005	Prospectus not found
INTERNATIONAL METAL ENTERPRISES INC	10/3/2005	Prospectus not found
INVESTCORP BANK B.S.C	12/8/2006	Prospectus not found
INVU INC	1/6/2004	Prospectus not found
IT & E LIMITED	12/12/2006	Prospectus not found
ITHACA ENERGY INC	6/6/2006	Prospectus not found

KI-BI MOBILE TECHNOLOGIES	5/5/2005	Prospectus not found
KUMHO TIRE CO INC	2/16/2005	Prospectus not found
LECICO EGYPT S.A.E.	11/24/2004	Prospectus not found
LLOYD ELECTRIC & ENGINEERING	10/13/2005	Prospectus not found
LOTTE SHOPPING CO	2/8/2006	Prospectus not found
LUCKY CEMENT LTD	5/14/2008	Prospectus not found
MACQUARIE KOREA INFRASTRUCTURE FUND	3/14/2006	Prospectus not found
MARCH NETWORKS CORP	4/27/2005	Prospectus not found
MAXJET AIRWAYS INC	6/14/2007	Prospectus not found
MONTO MINERALS LTD	5/25/2006	Prospectus not found
NANETTE REAL ESTATE GROUP NV	6/27/2006	Prospectus not found
NAPO PHARMACEUTICALS INC	7/31/2006	Prospectus not found
NAUTILUS MINERALS INC	2/2/2007	Prospectus not found
NEW MEDIA LOTTERY SERVICES	3/17/2006	Prospectus not found
NEWCOURT GROUP	11/10/2005	Prospectus not found
NOIDA TOLL BRIDGE CO	3/21/2006	Prospectus not found
NORKOM GROUP PLC	6/26/2006	Prospectus not found
NORMAN 95 SPA	7/28/2004	Prospectus not found
NOVERA ENERGY	6/10/2005	Prospectus not found
OGK 2	10/4/2007	Prospectus not found
OIL & GAS DEVELOPMENT CO	12/6/2006	Prospectus not found
ORCA INTERACTIVE	10/13/2004	Prospectus not found
PALM HILLS DEVELOPMENTS SAE	5/8/2008	Prospectus not found
PEACH HLDGS INC	3/30/2006	Prospectus not found
PHIBRO ANIMAL HEALTH CORP	4/4/2008	Prospectus not found
PHOSPHAGENICS	7/29/2004	Prospectus not found
PLANTIC TECHNOLOGIES LTD	5/23/2007	Prospectus not found
PLAZA CENTERS NV	11/1/2006	Prospectus not found
PRINCIPLE CAPITAL HLDGS S.A.	11/3/2004	Prospectus not found
PYATEROCHKA HLDG N.V.	5/11/2005	Prospectus not found
QUEENCO LEISURE INTERNATIONAL LTD	7/9/2007	Prospectus not found
QUESTAIR TECHNOLOGIES INC	12/21/2004	Prospectus not found
REDLINE COMMUNICATIONS INC	12/6/2006	Prospectus not found
REI AGRO	11/18/2005	Prospectus not found
ROS AGRO PLC	4/13/2011	Prospectus not found
SANATANA DIAMONDS INC	7/28/2005	Prospectus not found
SCOTGOLD RESOURCES LTD	2/24/2010	Prospectus not found
SISTEMA JSFC	2/14/2005	Prospectus not found
SITESERV PLC	11/15/2006	Prospectus not found
SITRONICS JSC	2/13/2007	Prospectus not found
SMART TELECOM	9/10/2004	Prospectus not found
SPACELABS HEALTHCARE INC	10/31/2005	Prospectus not found
SREI INFRASTRUCTURE FINANCE	4/21/2005	Prospectus not found
SYLVANIA RESOURCES LTD	7/21/2006	Prospectus not found
TAEWOONG CO LTD	2/25/2008	Prospectus not found
TATA STEEL	7/27/2009	Prospectus not found

TELECOM EGYPT	12/14/2005	Prospectus not found
TELEUNIT SPA	5/26/2004	Prospectus not found
TVC HLDGS PLC	7/11/2007	Prospectus not found
UNITED BANK LTD	6/29/2007	Prospectus not found
UTEK CORP	4/11/2005	Prospectus not found
UTI BANK	3/22/2005	Prospectus not found
VERSATILE SYSTEMS INC	4/16/2007	Prospectus not found
VIGILANT TECHNOLOGY	12/20/2005	Prospectus not found
VIMIO	9/2/2005	Prospectus not found
VISONIC	4/15/2004	Prospectus not found
VISUAL DEFENCE INC	5/6/2005	Prospectus not found
WASABI ENERGY	12/3/2010	Prospectus not found
WESTERN CANADIAN COAL CORP	10/7/2004	Prospectus not found
WORLDSREADS GROUP PLC	8/1/2007	Prospectus not found
XL TECHGROUP INC	10/12/2004	Prospectus not found
ZAMBEEF PRODUCTS	6/23/2011	Prospectus not found
ZEEHAN ZINC LTD	3/6/2007	Prospectus not found
2 WAY TRAFFIC N.V.	4/7/2006	Prospectus not found
888 HLDGS	10/4/2005	Prospectus not found

10.2.2 Sample criteria not met

A list in alphabetical order of the 78 observations excluded because they do not match the strict sample criteria for foreign IPOs. IPO prospectuses are located successfully for these observations.

ACRON JSC (GDR)	8/12/2008	Prospectus found. Sample criteria not met.
AER LINGUS GROUP PLC	10/2/2006	Prospectus found. Sample criteria not met.
AFI DEVELOPMENT PLC	5/11/2007	Prospectus found. Sample criteria not met.
AGI THERAPEUTICS	2/27/2006	Prospectus found. Sample criteria not met.
ALLIANCE BANK JSC	7/23/2007	Prospectus found. Sample criteria not met.
ALUMINIUM BAHRAIN BSC*	11/30/2010	Prospectus found. Sample criteria not met.
AMTEL VREDESTSTEIN NV	11/18/2005	Prospectus found. Sample criteria not met.
AVANGARDCO INVESTMENTS PUBLIC LTD	5/6/2010	Prospectus found. Sample criteria not met.
BANK OF GEORGIA JSC	11/29/2006	Prospectus found. Sample criteria not met.
CAZA OIL & GAS INC	12/12/2007	Prospectus found. Sample criteria not met.
CHELIABINSK ELEKTROLIT ZINK PLANT	11/13/2006	Prospectus found. Sample criteria not met.
CHEKIZOVO GROUP(OJSC)	5/15/2006	Prospectus found. Sample criteria not met.
CHINA REAL ESTATE OPPORTUNITIES SA	12/22/2005	Prospectus found. Sample criteria not met.
COMSTAR UNITED TELESYSTEM	2/13/2006	Prospectus found. Sample criteria not met.
DEPA LTD	4/23/2008	Prospectus found. Sample criteria not met.
DHX MEDIA	5/19/2006	Prospectus found. Sample criteria not met.
DIAMOND BANK*	12/18/2007	Prospectus found. Sample criteria not met.
EASTERN MEDITERRANEAN RESOURCES	5/9/2005	Prospectus found. Sample criteria not met.
EFES BREWERIES INTERNATIONAL NV	10/21/2004	Prospectus found. Sample criteria not met.

ENGEL EAST EUROPE N.V.	12/15/2005	Prospectus found. Sample criteria not met.
FERRUM CRESCENT LTD	12/15/2010	Prospectus found. Sample criteria not met.
GENESIS WORLWIDE INC CDA	7/3/2007	Prospectus found. Sample criteria not met.
GIPPSLAND	3/9/2004	Prospectus found. Sample criteria not met.
GITANJALI GEMS LIMITED*	12/17/2007	Prospectus found. Sample criteria not met.
GLOBAL INVESTMENT HOUSE	5/21/2008	Prospectus found. Sample criteria not met.
GLOBAL PORTS INVESTMENTS PLC *	6/29/2011	Prospectus found. Sample criteria not met.
GLOBALTRANS INVESTMENT PLC	5/8/2008	Prospectus found. Sample criteria not met.
GREAT EASTERN ENERGY CORP	12/13/2005	Prospectus found. Sample criteria not met.
GRUPO CLARIN SA	10/25/2007	Prospectus found. Sample criteria not met.
GUARANTY TRUST BANK	7/26/2007	Prospectus found. Sample criteria not met.
GULF FINANCE HOUSE	7/4/2007	Prospectus found. Sample criteria not met.
HAGL JSC	3/23/2011	Prospectus found. Sample criteria not met.
HMS HYDRAULIC MACH & SYS GRP PLC*	2/14/2011	Prospectus found. Sample criteria not met.
HRVATSKE TELEKOMUNIKACIJE D D	10/5/2007	Prospectus found. Sample criteria not met.
INNOLUX DISPLAY CORPORATION*	11/7/2007	Prospectus found. Sample criteria not met.
INVESTCOM LLC	10/11/2005	Prospectus found. Sample criteria not met.
INVISTA EUROPEAN REAL ESTATE TRUST	12/20/2006	Prospectus found. Sample criteria not met.
JUMPIT ASA	7/11/2005	Prospectus found. Sample criteria not met.
KAZMUNAIGAS PRODUCTION	EXPLORATION	10/5/2006
LSR GROUP OJSC*	11/16/2007	Prospectus found. Sample criteria not met.
MAGNIT OJSC	4/22/2008	Prospectus found. Sample criteria not met.
MAGNITOGORSK IRON & STEEL WORKS	4/30/2007	Prospectus found. Sample criteria not met.
MAIL.RU GROUP LTD	11/11/2010	Prospectus found. Sample criteria not met.
MCB BANK LTD	10/18/2006	Prospectus found. Sample criteria not met.
METMINCO LIMITED	4/1/2010	Prospectus found. Sample criteria not met.
MHP SA *	5/15/2008	Prospectus found. Sample criteria not met.
MTI WIRELESS EDGE	3/16/2006	Prospectus found. Sample criteria not met.
NEW WORLD RESOURCES NV	5/9/2008	Prospectus found. Sample criteria not met.
NOMOS BANK OJSC	4/27/2011	Prospectus found. Sample criteria not met.
NORTHWEST BIOTHERAPEUTICS INC	6/22/2007	Prospectus found. Sample criteria not met.
NOVATEK OAO	7/27/2005	Prospectus found. Sample criteria not met.
NOVOLIPETSK IRON AND STEEL CORP	12/15/2005	Prospectus found. Sample criteria not met.
NOVOROSSIYSK COMMERCIAL SEA PORT*	11/8/2007	Prospectus found. Sample criteria not met.
O'KEY GROUP SA	11/5/2010	Prospectus found. Sample criteria not met.
OAO SEVERSTAL	11/14/2006	Prospectus found. Sample criteria not met.
OAO TMK	11/3/2006	Prospectus found. Sample criteria not met.
ORIGIN ENTERPRISES PLC	6/5/2007	Prospectus found. Sample criteria not met.
ORMONDE MINING	4/19/2005	Prospectus found. Sample criteria not met.
PARTYGAMING	6/30/2005	Prospectus found. Sample criteria not met.
PETRONEFT RESOURCES	9/27/2006	Prospectus found. Sample criteria not met.
PHARMSTANDARD OJSC	5/11/2007	Prospectus found. Sample criteria not met.
PHOSAGRO OJSC *	7/18/2011	Prospectus found. Sample criteria not met.
PIK GROUP OJSC	6/6/2007	Prospectus found. Sample criteria not met.
POLYMETAL OJSC	2/12/2007	Prospectus found. Sample criteria not met.
ROLTA INDIA	4/18/2006	Prospectus found. Sample criteria not met.

ROSNEFT OJSC	7/19/2006	Prospectus found. Sample criteria not met.
SHALKIYAZINC NV	12/14/2006	Prospectus found. Sample criteria not met.
SISTEMA-HALS JSC	11/8/2006	Prospectus found. Sample criteria not met.
SMURFIT KAPPA PLC	3/20/2007	Prospectus found. Sample criteria not met.
TIANSHAN GOLDFIELDS	6/14/2006	Prospectus found. Sample criteria not met.
TITANIUM ASSET MANAGEMENT CORP	6/21/2007	Prospectus found. Sample criteria not met.
TRANSCONTAINER OJSC	11/12/2010	Prospectus found. Sample criteria not met.
URALKALI JSC	10/19/2007	Prospectus found. Sample criteria not met.
VICEROY ACQUISITION CORP	7/12/2006	Prospectus found. Sample criteria not met.
VIMETCO NV	8/2/2007	Prospectus found. Sample criteria not met.
VTB BANK(JSC)	5/17/2007	Prospectus found. Sample criteria not met.
XXI CENTURY INVESTMENTS	12/16/2005	Prospectus found. Sample criteria not met.
ZENTIVA NV	6/28/2004	Prospectus found. Sample criteria not met.

10.3 Descriptive statistics

Descriptive statistics for all the variables included in the regression analysis.

Descriptive statistics	UNDERPRICING	BOARD_SIZE	BOARD_INDEPENDENT	CHAIRMAN_FOUND	CEO_EXPERIENCE	UK_CONNECTION	FIRM_AGE	FIRM_SIZE	HIGH_TECH	IPO_PROCEEDS
Mean	0.072694	6.325581	0.568259	0.674419	5.127907	0.825581	11.91860	125.3019	0.325581	31.84628
Median	0.045077	6.000000	0.571429	1.000000	4.000000	1.000000	8.000000	3.626068	0.000000	12.29000
Maximum	0.416667	12.00000	1.000000	1.000000	23.00000	1.000000	121.0000	6943.200	1.000000	304.4300
Minimum	-0.374000	3.000000	0.222222	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.500000
Std. Dev.	0.111924	1.738436	0.161503	0.471340	5.010099	0.381695	15.39382	770.6294	0.471340	51.54409
Skewness	0.316711	0.599412	0.353241	-0.744438	1.253589	-1.715984	4.613667	8.289554	0.744438	3.127025
Kurtosis	6.199220	4.528863	3.085806	1.554187	4.444610	3.944601	31.34347	73.10782	1.554187	13.86887
Jarque-Bera	38.11317	13.52566	1.814888	15.43386	30.00266	45.40325	3183.777	18597.41	15.43386	563.4628
Probability	0.000000	0.001156	0.403554	0.000445	0.000000	0.000000	0.000000	0.000000	0.000445	0.000000
Sum	6.251677	544.0000	48.87024	58.00000	441.0000	71.00000	1025.000	10775.96	28.00000	2738.780
Sum Sq. Dev.	1.064796	256.8837	2.217072	18.88372	2133.593	12.38372	20142.43	50478916	18.88372	225827.4

10.4 Correlation table

A correlation table displaying correlations between all the variables included in the regression analysis.

Variables	1	2	3	4	5	6	7	8	9	10	11
1. UNDERPRICING	1.000000										
2. BOARD_SIZE	-0.027290	1.000000									
3. BOARD_INDEPENDENCE	-0.063949	0.203954	1.000000								
4. INDEPENDENT_CHAIRMAN	-0.177901	0.173963	0.479981	1.000000							
5. CEO_FOUNDER_DUALITY	-0.019036	-0.222581	-0.070510	0.039957	1.000000						
6. CEO_EXPERIENCE	0.044318	0.007319	0.338825	0.062680	0.294691	1.000000					
7. UK_CONNECTION	0.066915	0.334806	0.105888	0.203783	-0.1113636	0.054868	1.000000				
8. FIRM_AGE	-0.114473	0.134206	0.038539	-0.045853	-0.171468	0.237339	0.085654	1.000000			
9. FIRM_SIZE	-0.091486	0.111525	0.035884	0.088085	-0.062004	0.015743	0.071795	0.772091	1.000000		
10. HIGH_TECH	0.026163	0.012688	0.203899	0.165025	0.116239	0.131616	-0.072997	0.008560	-0.054678	1.000000	
11. IPO_PROCEEDS	-0.166517	0.253501	0.065621	0.090446	-0.2225408	0.044241	0.282660	0.439396	-0.286116	1.000000	

10.5 Main regression output

Beneath are the results of the main regression model.

Dependent Variable: UNDERPRICING

Method: Least Squares

Date: 04/27/14 Time: 09:43

Sample: 1 86

Included observations: 86

HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 4.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.111303	0.050262	2.214454	0.0298
BOARD_SIZE	0.000501	0.006140	0.081570	0.9352
BOARD_INDEPENDENCE	-0.013431	0.090422	-0.148540	0.8823
INDEPENDENT_CHAIRMAN	-0.053254	0.030029	-1.773387	0.0802
CEO_FOUNDER_DUALITY	-0.027961	0.026976	-1.036548	0.3033
CEO_EXPERIENCE	0.003129	0.003043	1.028193	0.3072
UK_CONNECTION	0.032776	0.026863	1.220123	0.2262
FIRM_AGE	-0.002346	0.001143	-2.052955	0.0436
FIRM_SIZE	3.36E-05	1.84E-05	1.829072	0.0714
HIGH_TECH	0.009657	0.033344	0.289625	0.7729
IPO_PROCEEDS	-0.000345	0.000205	-1.685473	0.0961
R-squared	0.100143	Mean dependent var		0.072694
Adjusted R-squared	-0.019838	S.D. dependent var		0.111924
S.E. of regression	0.113029	Akaike info criterion		-1.403392
Sum squared resid	0.958165	Schwarz criterion		-1.089464
Log likelihood	71.34585	Hannan-Quinn criter.		-1.277050
F-statistic	0.834656	Durbin-Watson stat		2.078332
Prob(F-statistic)	0.596934	Wald F-statistic		4.191983
Prob(Wald F-statistic)	0.000125			

11. Article

En global ökning av gränsöverskridande börsintroduktioner ställer höga krav på utländska företags styrelser

Allt fler företag väljer utländska marknader för börsintroduktioner. Ämnet är idag högaktuellt, inte minst med anledning av den kinesiska e-handelsjätten Alibabas kommande introduktion på New York-börsen. En introduktion som väntas bli den största i världen på många år. Albertson Witting och Lundberg, två studenter vid Lunds universitet, har precis avslutat en omfattande empirisk studie av styrelsens roll vid gränsöverskridande börsintroduktioner.

Sedan början på 2000-talet har antalet gränsöverskridande börsintroduktioner ökat kraftigt. Enligt en marknadsundersökning av PWC från 2012 så utgjorde gränsöverskridande börsintroduktioner under 2011 nästan 20 % av det totala värdet av alla börsintroduktioner världen över. Finansiell globalisering och en ökad integrering av världens aktiemarknader bidrar till att företag i större utsträckning ser förbi de inhemska aktiemarknaderna. Två studenter vid Lunds universitet hävdar att vissa aspekter av företags styrelser kan ha avgörande effekter på hur utländska företag presterar vid gränsöverskridande börsintroduktioner.

Felaktig prissättning dyr för aktieägarna

Bolag som genomgår omvandlingen från privat ägda till publika, utmärker sig i regel som svåra för branshexperter och privata investerare att värdera.

Avsaknaden av historiska operationella resultat och bristande informationsväxling gentemot banker och investerare, är bidragande orsaker till att nyintroducerade aktier historiskt sett skjuter i höjden under den första dagen på börsen. ”Som utländskt företag på en ny börs måste man skicka effektiva signaler för att förmedla ett korrekt värde på företagets aktier, annars kan företagets aktier säljas till rea-pris”, säger Albertson Witting.



Styrelsens utformning avgörande

De procent som ett företags aktier stiger under första dagen efter introduktion innebär en direkt kostnad för företaget och dess ursprungliga ägare. Albertson Witting och Lundbergs studie visar att nyintroducerade utländska aktier på London-börsen mellan 2004 och 2011 i genomsnitt ökade 7,27 % under första dagen, en ökning som motsvarar kostnader av mångmiljonbelopp för företagens ursprungliga ägare.

”Att nyintroducerade aktier är systematiskt underprissatta förklaras oftast genom asymmetrisk information mellan å ena sidan företaget och investmentbanken och å andra sidan företaget och de utomstående investerarna. Företagets styrelse blir med andra ord väsentlig för att förmedla korrekt information mellan olika välinformerade intressenter”, säger Lundberg.

Specifika styrelse-aspekter påverkar

I Albertson Witting och Lunbergs studie studeras 86 utländska företag som valt att introducera sig på London-börsen mellan 2004 och 2011. Studenterna slår

fast att en oberoende styrelseordförande är vital för att minska underprissättningen av nyintroduktionen.

”Ordförandens oberoende är någonting som värderas av både investerare och investmentbanker då aktieägarnas intressen kommer att prioriteras”, menar Lundberg.

Utöver ordförandens oberoende undersöks hur storleken på styrelsen, styrelsens oberoende och om grundaren och vd:n är samma individ påverkar underprissättningen. Några slutsatser angående dessa faktorer påverkan kan inte dras men duon menar att vidare forskning inom området skulle kunna ge andra resultat. ”Vid en undersökning av ett större



urval skulle andra faktorer påverkan eventuellt kunna säkerställas och på så vis ge företag ytterligare teoretisk och praktisk vägledning vid utformandet av företagets styrelse vid gränsöverskridande börsintroduktioner” avslutar Albertson Witting.

Glenn Glennsson
Veckans Affärer