

ABSTRACT

This dissertation is an endeavour to provide a more fine-grained understanding of the role of governance mechanisms in initial public offerings (IPOs). The conceptual framework that binds the studies in this thesis lie within the boundaries of external (macro) governance mechanisms on the one hand and internal (micro) governance structures on the other. Utilizing IPO samples from across nations in the first two studies and focusing on a single country in the third study, the thesis aims to address two broad issues: (a) the influence of the formal and the informal institutions at the macro-level and (b) the influence of internal corporate governance attributes at the micro-level on the different aspects of the IPO phenomenon. To bring out the nuances associated with the multifaceted nature of these relationships, different theoretical lenses are employed from different streams of relevant literature.

The core of the thesis is in Chapters 3, 4, and 5. In Chapter 3, the linkages among different institutional and external governance measures (macro-level issues) across countries and their impact on the IPO firms' valuation and accounting performance measures (micro-level issues) are established. The results suggest an interesting dichotomy, where better institutional and external governance indices have (a) a statistically significant positive relationship with the IPO firms' valuation measures because investors value IPO firms positively in countries with better governance indicators due to higher investor confidence and better investment opportunities but (b) a statistically significant negative relationship with their accounting performance measures as IPO firms face a decline in their operating performance in the initial years following the IPO due to increased agency costs (as the firms transition from private to public ownership), higher governance costs, and higher costs of extracting private benefits in countries with better governance indicators. This evidence is provided with the aid of a large dataset consisting of 34,196 IPO firm-year observations from 46 countries during the period 2003 to 2011.

Using national culture as a variable for informal institutions, Chapter 4 examines its impact on IPO activity levels. Using a broad dataset of 6,302 IPOs from the period 2003 to 2007 from 46 countries, this study employs Hofstede's national cultural indices to discern the influences of cultures on IPO activity levels. The results show that countries with high power distance, collectivism, and long-term orientation are significantly and positively associated with higher levels of the domestic IPO activity. Furthermore, using the profile deviation approach, the domestic IPO activity levels are found to be lower when the differences between the data and the ideal profile (where national culture indices are considered together as a composite cultural index) are higher.

The findings in Chapters 3 and 4 bring out the importance of external governance mechanisms in the form of both the formal as well as the informal institutional attributes. While these chapters have a multi-country focus, Chapter 5 is grounded in the Indian context in an attempt to examine the micro-level issues concerning the influences of internal governance mechanisms on the likelihood of deviations in the utilization of IPO proceeds. The findings in this study are based on hand-picked data comprising 585 IPO firm-year observations from the period 2007 to 2013. The results indicate that the internal governance mechanisms of institutional holdings, retained ownership and proportion of independent directors on the Board are statistically significant and negatively associated, while CEO duality, family-managed firms, Board size, and having a member of the founding family as the Executive Chair of the Board are statistically and positively associated with the probability of deviations in the utilization of IPO funds.

Cumulatively, this dissertation is a detailed analysis of the twin influences of macro external governance (formal and informal institutions) and internal governance structures on the IPO phenomenon.