INSTITUTIONAL DISTANCE AND FOREIGN IPO PERFORMANCE: THE MODERATING EFFECTS OF GOVERNANCE AND ORGANIZATIONAL CAPABILITIES

by

ROBERT GREGORY BELL

Presented to the Faculty of the Graduate School of

The University of Texas at Arlington in Partial Fulfillment

of the Requirements

for the Degree of

DOCTOR OF PHILOSOPHY

THE UNIVERSITY OF TEXAS AT ARLINGTON

May 2008

ACKNOWLEDGEMENTS

I could not have completed this dissertation without the help and support of a number of people. First I would like to thank God for making this possible. He has a way of making the seemingly impossible very possible, and for making dreams come true in ways we would never have imagined. In addition, I would like to thank my wife, Teresa. Without her kindness and support, I would not have seriously entertained the notion of returning to graduate school. She is incredibly supportive, always willing to listen and offer advice, and she is my best friend. Thank you for everything you have done to help me fulfill my dream.

Secondly, I would like to thank Dr. Abdul Rasheed. His encouragement, thoughtful advice, positive attitude and kind demeanor helped instill a great deal of confidence in my ability to grow as a researcher. Great teachers have that innate ability to help students peel aware the layers of the most difficult issues, and to make learning stimulating, challenging, and rewarding. I sincerely appreciate Dr. Rasheed's willingness to teach, and mentor me throughout my time at UTA. Most importantly though, I thank him for demonstrating to me that the pursuit of knowledge is a continual process to be savored and enjoyed.

I would also like to thank a number of family members. My parents, Bob and Sandra Bell, have been incredibly supportive of my return to school. Also, I would like to thank other family members; Amy Bell, Joe, Cindy and Jacob Franklin, Jack and Pat

Nunn, and Scott, Kashana, Jeremy, Caleb and McKenzie Roberts. Thank you for instilling confidence in me and in my ability to excel in this field. I love you all very much.

Finally, I would like to personally thank a number of friends, fellow classmates and collaborating researchers who helped provide support to me during the Ph.D. program: Matt Gilley, Joey McIntosh, Mark Barfield, Justin Davis, Curt Moore, Tyge Payne, Jeff McGee, Igor Filatotchev, Katie Shumate, Sheryl Lynn Roberts, Ross O'Brien and Hussam Al-Shammari.

Academic research and teaching can be at times incredibly gratifying, often very time consuming, nerve-racking and difficult. Perhaps the process of learning is best surmised by Ernest Hemingway who wrote "There are some things which cannot be learned quickly, and time, which is all we have, must be paid heavily for their acquiring".

April 14, 2008

ABSTRACT

INSTITUTIONAL DISTANCE AND FOREIGN IPO PERFORMANCE:

THE MODERATING EFFECTS OF GOVERNANCE

AND ORGANIZATIONAL CAPABILITIES

ROBERT GREGORY BELL, PhD.

The University of Texas at Arlington, 2008

Supervising Professor: Abdul A. Rasheed

To date scholars have examined a wide range of factors which impact the ability of firms to raise optimum levels of equity capital in their domestic markets. However, little attention has been paid to the growing number of new listings of foreign firms in Western markets. When firms attempt to raise capital in foreign markets through an IPO, firm characteristics alone fail to provide a complete explanation for the success or failure of a new issue. This study investigates how the institutional profile and legal framework of a country can interact with certain firm-level governance and organizational capabilities to enable foreign firms to attain success in western markets at IPO.

Much of the problems associated with studies of foreign firms attempting to raise capital on major exchanges stems from the fact that a significant portion of the firms sampled in prior studies are already publicly held in their home market. The inclusion of listed firms in previous studies has masked the benefits certain firm characteristics bring to organizations at their initial public offering. In contrast to earlier research, this dissertation focuses on the population of foreign private issuers that are not listed on any exchange prior to issuing equity shares on the NYSE or NASDAQ.

The study focused upon a hand-collected sample of 284 initial public offers of firms in 40 foreign countries between 1996 and 2006. Results show that country-of-origin, corporate governance and capability signals are not mutually independent. However they do interact with one another to impact the performance of foreign IPOs. Specifically, this study found that investor protection levels within a country-of-origin positively interact with board independence and top manager affiliations to enhance the success of foreign IPOs. As a result, the IPO firm is involved in a complex process of evaluating the costs and benefits of various signaling mechanisms in search of an optimal combination that minimizes both information asymmetry and costs of signaling (Titman and Trueman, 1986).

Interestingly, this study also found that the regulatory distance of foreign IPO from the US positively interacts with board independence to adversely impact performance. This finding challenges the assumptions made earlier in this dissertation regarding the positive effect increased board independence should have upon the performance of foreign IPOs who originate from distant regulative institutional

environments, and prompts a closer analysis of both the regulatory environment surrounding these foreign IPO firms and possible limitations with extant agency theory research.

Post hoc analysis identified that the presence of international VC, rather than U.S. VC, is an important signal to external investors. However, post hoc results also reveal that host country regulatory changes can impact the salience of third party endorsements of foreign IPOs. In addition to the right support, foreign non High Tech private firms contemplating a new foreign issue should note that regulatory uncertainty and normative traditions in their country-of-origin are important signals to external investors. Finally, this study revealed that internally generated governance and capability related signals do not help enable foreign IPO firms in non High Tech industries overcome negative country-of-origin signals. On the other hand, governance and capability related signals are more salient among investors evaluating investments in High-Tech related foreign IPOs.

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS

LIST OF TABLES

CHAPTER 1

INTRODUCTION

1.1 Why Study Foreign Firms at IPO?

Recently, the growth in international capital market integration has led an increasing number of firms to make their first equity offers outside their country of origin (Chemmanur and Fulghieri, 2006). To date, scholars have broadened our understanding of why foreign executives choose to issue equity shares on U.S. exchanges. However, the country and organizational factors which impact the success of organizations in foreign capital markets at IPO has been an area largely neglected to date by international business, strategy, and entrepreneurship scholars. Accordingly, this dissertation examines the salience of investor protection and institutional development levels to the success of firms attempting to secure capital resources in external capital markets. In addition, this dissertation explores the value certain firm specific signals have to potential stakeholders evaluating investments in firms originating from distant countries.

A growing number of studies of financial markets suggest that investors tend to neglect the fundamental principles of portfolio diversification by choosing to hold and trade stocks of firms that share the investor's language and cultural background (Sarkissian and Schill, 2004; Coval and Moskowitz, 1999, 2001; Huberman, 2001;

Grinblatt and Keloharju, 2001). In other words, these studies imply that investors are reluctant to hold securities of firms that they are not familiar with and tend to prefer securities of firms simply because the firm originates from countries in close cultural proximity to their home market. However, to better understand the market's reaction to foreign new equity issues we can refer to multinational theorists who for many years have argued that foreign firms face disadvantages in host countries, compared to domestic firms (Hymer, 1960, 1976; Zaheer, 1995). Liability of foreignness is defined with respect to spatial costs (i.e. distance-related costs), unfamiliarity costs, host country government costs, and home country government costs (Zaheer, 1995). Since it was first suggested, the literature on liability of foreignness has grown steadily (e.g., Eden and Miller, 2004; Nachum, 2003; Mezias, 2002; Miller and Parkhe, 2002; Kostova and Zaheer, 1999; Zaheer and Mosakowski, 1997). This dissertation begins with an examination of how the liability of foreignness literature can be extended to include the difficulties foreign firms face in their attempts to acquire capital market resources in external markets.

Understanding what resources enable firms to overcome liability of foreignness costs is important to academics and corporate executives alike. The institutional perspective emphasizes that isomorphism can reduce liability of foreignness and improve performance (Rosenzweig and Singh, 1991; Zaheer, 1995). Entrepreneurship scholars have identified a number of internal attributes which assist firms in their efforts to reduce investor uncertainties regarding new issues and in garnering their support. By signaling certain governance attributes in addition to organizational capabilities, firms

from institutionally distant countries can overcome the liability of foreignness pressures they face in foreign capital markets.

Research has explored the effects corporate governance has on corporate investment, cost of funds and company growth (Becht, Bolton, and R¨oell, 2003). Recently, Aggarwal, Erel, Stulz, and Williamson, (2006) suggest that governance involves the interaction of both country-level and firm-level mechanisms. These authors point out that country-level governance mechanisms include not only the country's laws and the institutions that enforce the laws, but also the country's culture and norms, as well as various formal and informal monitors of corporations. From this perspective, this dissertation will investigate how firm-level governance mechanisms, specifically, the value outsiders place upon insider ownership, founders, and independent directors could interact with a country's regulatory environment to impact the success firms of at IPO.

In addition to governance signals, this dissertation examines the role U.S. venture capitalists, alliance partners, and top manager affiliations have in the success of foreign new issues. The endorsement of U.S. venture capitalists (VCs) may be especially helpful to a foreign new issue. Prestigious and established organizations are often trusted by external resource holders to be able to discern quality under conditions of uncertainty and certify the initiatives of lesser known firms (Stuart, 1998). Because of their knowledge and experience in guiding firms through the new issue process, U.S. venture firms may be able to better prepare and position foreign issuers to achieve the levels of post-IPO growth and performance U.S. investors expect. In addition, scholars

also point to alliance memberships and top manager affiliations which may provide cues to investors regarding the ability of otherwise unfamiliar firms to compete for resources and grow successfully. The accompanying Figure 1.1 conceptually illustrates all of the factors under investigation in this dissertation.

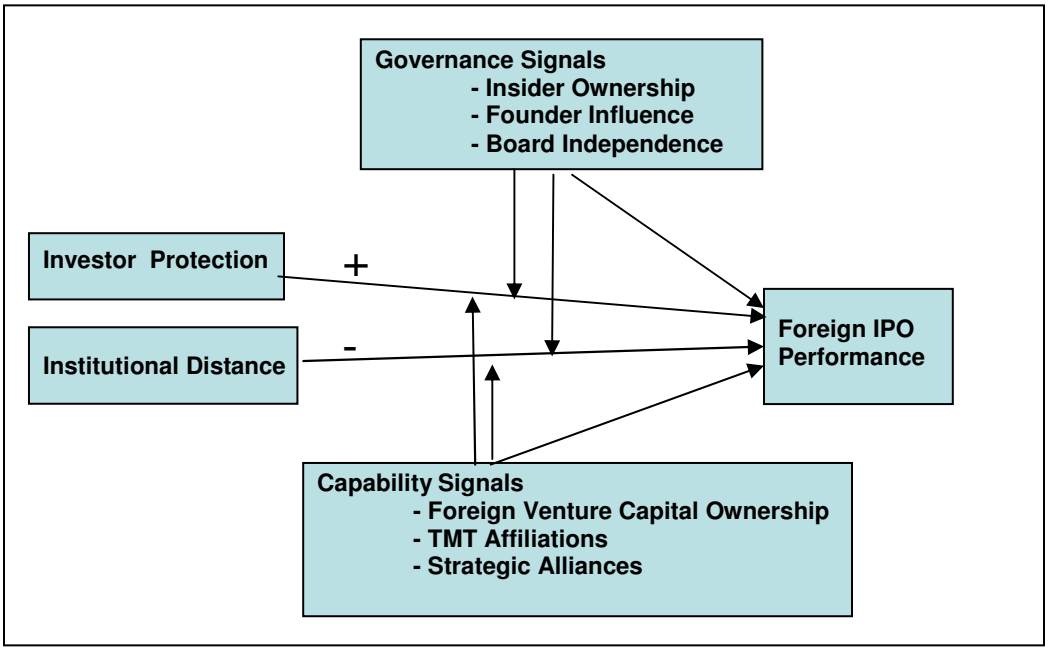

Figure 1.1: Conceptual Model

This study makes a number of research contributions. Up to this point, while most studies investigating the costs associated with the liabilities of foreignness have been conducted within product markets, this research represents the first investigation of how these costs may become evident within a capital market context. Also, this dissertation expands a new area of interest with researchers focused on the legal aspects of entrepreneurship (Cornelius, Landstrom, and Persson, 2006). In addition to examining the legal protection afforded to those who invest in foreign firms, this

dissertation examines the extent to which a host country's institutional profile may impact the success of new issues of foreign firms. By doing so, this study will reveal how liability of foreignness costs can be manifested in capital markets and lay the foundation upon which we can explore how firms can strategically overcome these costs.

The direct issue of foreign firms on U.S. exchanges has emerged as a new stream of research (Ejara, Ghosh, and Nunn, 1999; Kadiyala and Subrahmanyam, 2002). Nevertheless, within strategy and entrepreneurship, much of what we know to date about the success of firms at IPO has been gleaned from samples of firms located in the U.S. While scholars have examined a number of these internal factors on domestic firms at IPO, this dissertation addresses their direct and interactive effects with country-level factors in an international sample. By analyzing country level factors along with firm governance and capabilities this dissertation will enhance our understanding of the issues the market deems important to overseas firms hoping to maximize the proceeds of their first issues on U.S. stock exchanges.

1.2 Overview of Remaining Chapters

To better understand the relationships and terms referenced throughout this dissertation I begin the next chapter with an overview of the procedures foreign firms must follow when attempting to list equity shares on U.S. exchanges. Subsequently, this study will review the ways in which scholars and executives have evaluated the success of private firms who choose to list equity shares on U.S. exchanges. Chapter 2

continues by describing the reasons why foreign executives choose to offer equity shares of foreign firms on U.S. exchanges. Many authors point to the benefits that cross-border diversification can bring to equity portfolios (Grubel, 1968; Levy and Sarnat, 1970; Solnik, 1974; Grauer and Hakansson, 1987; Eldor, Pines, and Schwartz, 1988; DeSantis and Gerard, 1997). However, Chapter 2 explores a host of extraorganizational factors which may pose additional risks to investors considering investment in firms originating from distant countries. Chapter 2 continues by reviewing previous studies that suggest investors prefer to concentrate relatively large percentages of their wealth in domestic equities. Chapter 2 concludes with an assessment of the ways in which signaling theory has been incorporated by scholars in previous IPO studies.

Chapter 3 explores country and organizational factors which may impact the success of foreign firms at IPO. The chapter begins by reviewing how the strength of a country's legal system may impact the willingness of investors to invest in firms from certain markets. This study then investigates how institutional differences may impede the success of organizations in capital markets. After developing testable hypotheses related to country level influences, this dissertation shifts towards exploring the direct and interactive effects of internal firm governance and capabilities upon the ability of firms to attain capital at IPO.

Chapter 4 outlines the methodology for testing the proposed models and hypotheses. The study population is composed of firms making their first public equity offering on either the NYSE or NASDAQ stock exchanges. Operationalizations and

measures of each of the constructs used in the empirical models and hypotheses are also discussed. Chapter 4 concludes by detailing the statistical techniques and tools which I intend to utilize in testing the hypothesized relationships outlined in chapter 3.

Chapter 5 provides descriptive details of the sample of foreign IPOs used in this study. In addition, regression results of each hypothesized relationships are revealed in this chapter. Chapter 5 concludes with a review of post-hoc analysis conducted on the sample of foreign IPOs.

Chapter 6 provides a discussion of the major findings of this dissertation and also details theoretical explanations for the findings made during post-hoc analysis. A review of study limitations and future research avenues which may stem from this research are also discussed.

CHAPTER 2

LITERATURE REVIEW

2.1 Capital Market Integration

According to Thomson Financial, in 2006, foreign companies accounted for 23.4% of IPO proceeds on the New York Stock Exchange (NYSE) as well as the National Association of Securities Dealers Automated Quotations system (NASDAQ) raising over $38.3bil. Having a successful IPO is critical to the success of international firms. Indeed, many firms would not have grown to international status without having gone public (Prasad, Vozikis, Bruton and Merikas, 1995). However, to date there has been very little attention paid to the study of foreign IPOs and the factors which impact the benefits of international listings (Davenport, Dolan, Hayashi, and Yuki, 2000; Chemmanur and Fulghieri, 2006).

In recent years initial public offers (IPOs) have received increasing attention among scholars in most business disciplines ranging from strategy (Carpenter, Pollock and Leary, 2003; Higgins and Gulati 2003; Certo, Covin, Daily, and Dalton, 2001) entreprepeneurship (Mudambi and Treichel, 2005; Dimov and Shepherd, 2005; Florin 2005; Deeds, Decarolis, and Coombs 1997) and finance (Brau and Fawcett, 2006; Lin, Lee, and Liu, 2007; Jain and Kini, 2000) as well as practitioners within many countries. Much of the interest can be attributed to the substantial amount of money which firms

raise at the time of their first equity offer. Additionally, the IPO represents a pivotal event in the history of firms in that it allows firms access to equity capital that can in turn enhance the survival chances of the organization (Deeds et al. 1997). By undertaking an IPO, firms can accelerate their growth, launch new products, enter new markets, and attract employees (Blowers et al. 1999). Prior to beginning a discussion of the issues surrounding successful foreign listings, it is worthwhile to detail the steps associated with a foreign initial public offering as well as the manner in which foreign stocks can be issued in the United States. Afterwards, this study uncovers why foreign private firms choose to make their initial public offers in the U.S. over stock exchanges in closer geographic proximity. The ensuing section outlines the ways in which researchers have evaluated IPO performance. Chapter 2 ends with a review of the manner in which previous studies have examined country and societal differences have been evaluated and a review of the ways in which researchers have incorporated signaling theory in previous IPO studies.

2.2 The Foreign IPO Process

Initially, when both U.S. and non-U.S. firms make a public equity offering they must comply with the Securities Act of 1933, also known as the "Act of Full Disclosure". In doing so the firm must file a "Registration Statement". The firm's "filing date" is the day in which the firm's investment bank files the registration statement with the SEC. A detailed account of the business, as well as background information on the officers and directors of the firm can be found within the registration statement. In addition to this, the document will disclose the percentage of shares

insiders (top executives and board members) own prior to the offering as well as what these executives will hold after the firm has made its stock available to the public. Finally, the registration statement provides detailed financial statements as well as discloses how the firm intends to use the proceeds of the equity offer.

After the firm's investment bank files the registration statement, the SEC requires the firm observe a "cooling off" period. During this period, the SEC will investigate the organization to ensure full disclosure has been met. After the SEC has approved a new issue, the SEC sets an "effective date" for the offer. During the cooling off period, the firm's investment bank will often issue a "preliminary prospectus" in order to begin generating interest for the offer with the investing public. While the final offer price and the effective date of the new issue are not contained in the preliminary prospectus, much of the details about the firm and the intended uses of the proceeds from the offer are available. The prospectus is often used as a selling document and provided to targeted investors (Daily et al. 2003). During the cooling off period the investment bank can receive "indications of interest" from those interested in the issue. This helps the investment bank set the final price in which to offer the securities. The final prospectus, which includes the final offer price, is often made available around the effective date.

As with domestic IPOs, the investment banks of foreign IPOs often form syndicates. Syndicates are underwriters temporarily bonded together to share in the risk of underwriting the IPO and aid in the selling of the foreign issue (www.ipohome.com). After the SEC approves the new issue, an Agreement Among Underwriters (AAU) is

established by the lead underwriter in the syndicate to contractually link the issuer to every syndicate member.

Once the stock is made available on the effective date, the underwriters of the new issue receive compensation from the stock offering. While the public pays the offering price for the stock, the compensation the IPO firm issuing the securities receives is based upon the negotiated fee all syndicate managers receive for issuing securities. For their role in leading the process, the managing underwriter receives a "manager's fee" which simply refers to a fixed amount of each share sold. As compensation for the expenses incurred during the offer, each member of the underwriting syndicate will often retain a portion of the offer.

For many years, U.S. regulations have allowed non-U.S. firms to offer their securities on U.S. exchanges. The shares of foreign firms can be made available in a number of ways. While overseas issuers can directly list their new issues on the NYSE and NASDAQ, more frequently foreign firms choose to issue American Depository Receipts (ADRs). These negotiable certificates are created when the company deposits some of the company's shares with a U.S. depository bank. In turn, the depository bank will hold these American Depository Shares (ADSs) and issue ADRs to the investing public. These ADRs simply represent some multiple of one issued share. ADRs are priced and dividends paid in U.S. dollars to help encourage their sale and facilitate their trade in the secondary market.

ADRs can be in two forms; "sponsored" or "unsponsored". An unsponsored ADR trades in the over-the-counter (OTC) market. While several foreign firms choose

to make the first issue in this form, most ADRs in the United States are one of three "sponsored" varieties. A "Level 1" ADR means that the firm's shares are traded on the OTC (like unsponsored ADRs), however the firm cannot offer any new issue of securities to the public. Similarly "Level 2" ADRs securities are exchange listed on either the NASDAQ or NYSE. However, like "Level 1" ADRs, they are prevented from raising equity capital through a new issue. Finally, "Level 3" ADRs are exchange listed on either the NASDAQ or NYSE and allow the firm to make a public offering in the United States. All foreign firms are required to file a Form 20-F within six months of fiscal year-end. To summarize, there are three types of ADRs available to foreign firms, yet only "Level 3" ADRs enable firms to raise equity capital in the U.S. Accordingly, this dissertation will focus only upon those firms who have either listed their shares directly on a U.S. exchange or who have listed through a Level 3 ADR program with a depository bank. These two listing alternatives represent the only ways in which foreign firms can raise equity capital in the U.S.

In addition to the SEC registration requirements, foreign firms seeking to list their securities must also comply with the requirements of the NYSE and NASDAQ exchanges. Initially, foreign firms seeking to list on the NYSE must submit to an eligibility review. While this review takes approximately two weeks, it does provide the issuer with an official position of its listing status, as well as conditions the firm must meet in order to qualify its securities for listing. If the firm's financial statements are based on accounting principles that differ from the U.S. generally accepted accounting principles (GAAP), the NYSE requires that they disclose the differences and reconcile

those items to what they would be had GAAP principles been applied. Further, these reconciliations must be clearly indicated on the IPO Prospectus.

In total, the SEC, NYSE and NASDAQ review periods can last many weeks and even months. Yet despite the arduous listing and registration requirements of the SEC as well the NYSE and NASDAQ exchanges, many foreign companies seek foreign listings of their stock despite the costs. In the next section I outline the range of rationales that scholars and practitioners alike have pointed to in order to explain why executive of firms based in other economies have chosen to issue equity in the U.S. capital market.

2.3 The U.S. Listing Decision

Scholars who have examined firms that trade on overseas exchanges point to a variety of reasons why those firms choose to seek equity financing in the U.S. Saudagaran (1988) as well as Biddle and Saudagaran (1991), among others (e.g., Mittoo, 1994; Howe and Kelm, 1987), suggest that overseas listings are expected to convey financial benefits, but also marketing and public relations benefits, political benefits, and employee relations benefits. Moreover, a U.S. listing can aid firms through enhancing operations or sales in the U.S., enhancing analyst coverage, and by providing firms with larger amounts of capital in order to pursue growth and acquisition strategies (Shearer, 2001; Ritter and Welch, 2002). As Figure 2.1 indicates, since 1991 there have been a large number of foreign firms choosing to make their first equity issues in the U.S. By listing in a foreign market, firms can obtain access to more liquid markets, more easily attract debt capital at lower costs and better terms, and tap into wider

investor base (Claessens, Klingebiel, and Schmukler, 2003). The equity capital raised on the stock market is usually cheaper than private money (Pagano, Panetta, and Zingales, 1998) and publicly traded shares are a useful currency in making acquisitions and helping a company to grow.

It was believed that the recent Sarbanes-Oxley Act of 2002 (SOX), which introduced strict new regulations in the wake of the Enron and WorldCom scandals, would present such insurmountable obstacles to share sales in the US that many foreign firms contemplating a public issue would shun U.S. exchanges in favor of London or Hong Kong.

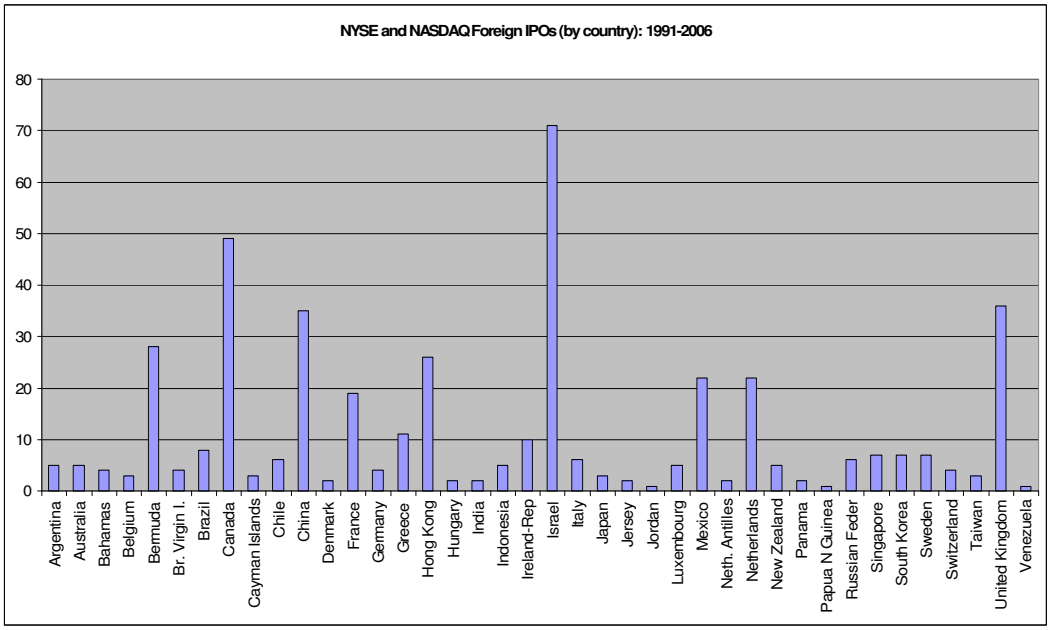

Figure 2.1: NYSE and NASDAQ Foreign IPOs (by country): 1991-2006. (source: Thompson Financial SDC Platinum Database)

In fact, a number of finance scholars suggested that a substantial percentage of foreign firms already listed on U.S. exchanges would delist if it were easy to do so

(Witmer, 2006; Berger, Li, and Wong, 2005; Hostak, Lys, and Yang, 2006; Li, 2006; Marosi and Massoud, 2006; Smith, 2006; Woo, 2006; Zingales, 2006; Piotroski and Srinivasan, 2007; Chaplinsky and Ramchand, 2007; Litvak, 2006; 2007). However, as Karolyi (Financial Times 5-11-2007) recently observed "Firms are very opportunistic and strategic in the way they pursue their capital-raising activity. They are very sensitive and respond to market conditions….I don't think that there has been any dramatic shift in that behavior in the aftermath of SOX."

As Figure 2.2 suggests, the steady rise in foreign IPOs since 2001 suggests that while passage of Sarbanes-Oxley legislation may have initially turned away some foreign firms due to compliance costs, it has not diminished the overall enthusiasm foreign firms have for the U.S. capital market. Indeed, lawyers representing Chinese firms planning 2007 listings indicate there is growing sentiment in the legal and investment community that Sarbanes-Oxley is not an insurmountable obstacle to share sales in the US. Alex Lloyd, a partner at Clifford Chance in Hong Kong suggests that "concerns about SarbOx have now been priced in."

A number of publicly held foreign firms have chosen to cross-list their stock and make their shares available on both their domestic and U.S. exchanges (ex. a London firm could be listed on the London Stock Exchange (LSE) as well as the NYSE). Yet, increasingly in recent years, many overseas firms choose to make their first issuance of equity on either the NYSE or the NASDAQ exchanges. In fact, 2007 is on pace to add the most foreign listings on U.S. exchanges since 1997, when over 80 overseas firms completed IPOs in U.S. markets (Thomson Financial). Listing a company on multiple

stock exchanges brings a host of benefits to public firms (for example: greater access to capital, a more dispersed shareholder base, greater visibility). However, the sheer number of public firms cross listing on U.S. exchanges has hampered efforts to directly examine foreign entrepreneurial firms making their initial offerings in the U.S.

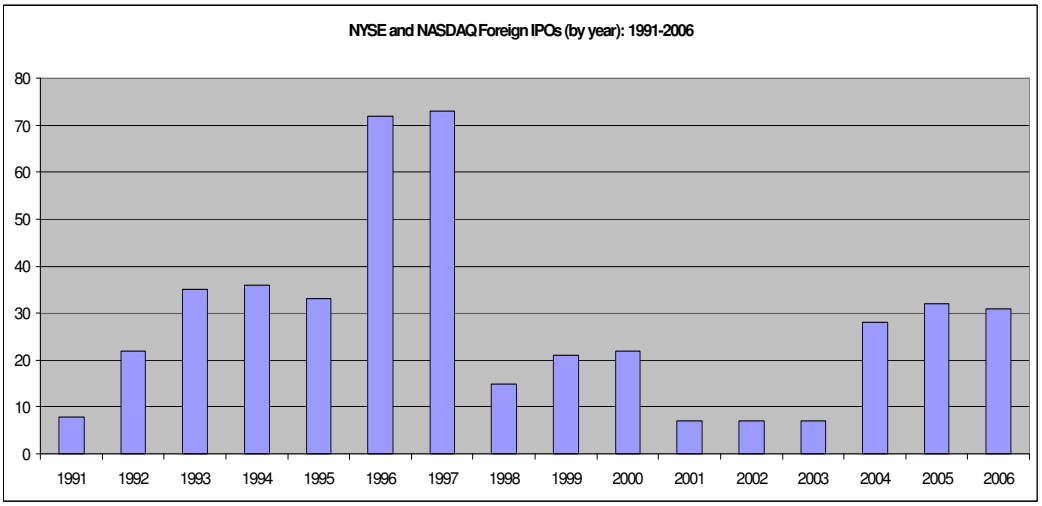

Figure 2.2: NYSE and NASDAQ Foreign IPOs (by year): 1991-2006. (source: Thompson Financial SDC Platinum Database)

Indeed, as Bruner, Chaplinsky, and Ramchand (2006) suggest, much of the problems associated with studies of foreign firms attempting to raise capital on major exchanges stems from the fact that a significant portion of the firms included in most studies are already listed in their home market.

2.4 Review of IPO Performance Measures

A significant problem in assessing the value of common stock at the time of an IPO is the lack of market scrutiny reflected in a firm's trading history. Additionally, accounting related variables such as return on equity and return on assets are not useful in light of the lack of a public equity sales record and previous earnings. Despite this

dilemma, scholars have formulated a range of short and longer-term market based success and failure measures since interest in IPOs began to grow in the 1980s. This section, and accompanying Table 2.1 present a review of the manner in which authors have assessed IPO performance and documents the ways in which IPO failure have been evaluated.

Table 2.1: IPO Performance Measures in Management Literature

Market-Based Performance Variables	**IPO Performance Variable Operationalization(s)**	**Studies**
Underpricing	[(First Day Closing Price - Offer Price) / Offer Price]	Filatotchev, Chahine, & Bruton (2006); Francis, Hasan, & Zhou (2005); Dalbor & Sullivan (2005); Pollock (2004); Jackson & Hambrick (2003); Pollock & Rindova (2003); Daily, Certo, Dalton, & Roengpitya (2003); Certo, Covin, Daily, & Dalton (2001); Certo, Daily, & Dalton (2001);
Price Premium	[(Offer Price - Book Value Per Shares After Offering) / Offer Price]	Lester, Certo, Dalton, Dalton, & Cannella (2006); Certo, Daily, Cannela, & Dalton (2003); Nelson (2003); Rasheed, Datta, & Chinta (1997); Welbourne & Andrews (1996)
IPO Success	Based upon the standardized mean of: 1 Net proceeds; 2. pre-money market valuation; 3. 90-day market valuation . 4. 180-day market valuation	Gulati Higgins (2003)
Dedicated Institutional Investors	Based upon the Bushee (1998) coding system: "Dedicated institutional investors" have low portfolio turnover and low diversification strategies	Higgins & Gulati (2006)
Sharpe's measure	[(One Year Returns - Risk Free Rate) / Standard Deviation in the Stock Price Over One Year Period]	Arthurs & Busenitz (2006)
Speed to IPO	Number of days from founding to IPO	Shepherd & Zacharakis (2001)
Market Valuation	(First Day Closing Price X Total Number of Shares Outstanding)	Sanders & Boivie (2004)
Offer Price Spread	The difference between the high and low values in the range of offer prices established by the investment bankers.	Daily, Certo, & Dalton (2005)
Total IPO proceeds	Total Proceeds = (IPO Proceeds - Underwriter Fees)	Coombs & Gilley; (2007); Deeds, Mang, & Frandsen (2004); Deeds, Decarolis, & Coombs (1996)
Tobin's Q	(First Day Closing Price / Book Value)	Andrews & Welbourne (2000); Welbourne & Andrews (1996)

2.4.1 Underpricing

Underpricing for a new issue is defined as the percentage difference between the initial price of the stock (offer price) and the price of the stock at the end of the first day of trading. All IPO firms face considerable pressures to underprice their stock, and most IPOs experience some degree of underpricing on their first day of trading. An underpriced issue represents "money left on the table" (Loughran and Ritter, 2002) in that the issuing firm fails to fully capture the value investors place in a new issue as represented by the difference between the offer price, which is set below the first day closing price. The underpricing of IPOs is a well documented phenomenon in the United States (Ibbotson, Sindelar, and Ritter, 1994; Ritter, 1987; Ibbotson, 1975). In their review, Loughran and Ritter (2004) suggest that when IPO volumes began to increase in the 1980s, underpricing averaged 7.4 percent, doubled (14.77 percent) in the 1990s, and averaged 65 percent in 1999–2000.

Underpricing of new issues has been widely documented to occur in other countries as well. Ritter (2003, 1997) reports the extent of under-pricing in both industrialized and emerging market countries (see Table 2.2), ranging from the initial returns of 388% for China; 80% for Malaysia; and 78%% for Korea; to lows of 15.9% for Hong Kong and 7.70% for Denmark. The average initial returns of Asian IPOs are significantly higher than the average initial returns of U.S. IPOs. These results are similar to those found in earlier studies performed on underpricing among firms in foreign countries. A comparative study by Jenkinson (1990) examines the performance of IPOs in Japan as well as IPOs in the U.S. and the U.K., and concludes that IPOs in

these countries are systematically priced at a discount relative to their subsequent trading price. In the U.S. the discount is around 10% while in the U.K., it is around 7%. For the period 1978–1983 Dawson (1987) reports the market-adjusted average initial returns for 21 IPOs in Hong Kong (13.8%), 39 IPOs in Singapore (39.4%), and 21 IPOs in Malaysia (166.6%). In a comprehensive survey of the companies going public in 25 countries Loughran, et al. (1994) reported initial returns ranging from 78.1% for Korea to 17.6% for Hong Kong.

Certainly, company executives wishing to maximize the value of their IPO will attempt to minimize underpricing as much as possible. However, recognizing the multiple competing interests involved in the pricing of new issues helps to understand the manner in which IPO offer prices are set (Daily, Certo, Dalton, and Roengpitya, 2003). Some authors see underpricing as a mechanism underwriters use to insure they sell all of their available shares in order to allow themselves the ability to retain the full selling commission (Gordon and Jin, 1993). Others suggest that executives may be willing to accept and even encourage underpricing as a way to insure the firm against the possibility of legal liability stemming from investors claiming that registration statement contained misleading information (Tinic, 1988; Hughes and Thakor 1992; Drake and Vetsuypens, 1993). Prasad, Vozikis, and Ariff (2006) provide a comprehensive listing of explanations for underpricing ranging from providing investors a favor in return for purchasing shares of the new issue (Baron and Holmstrom 1980; Logue, 1973) to simply attributing underpricing to information asymmetry. This asymmetry can be seen between the underwriter and the issuer in cases where

underwriters utilize their superior market knowledge to underprice issues and ingratiate themselves with buy-side clients (Baron and Holmstrom, 1980; and Baron 1982).

Table 2.2: Review of International IPO Studies (source: Ritter (1997) Initial Public Offerings, *Warren Gorham & Lamont Handbook of Modern Finance*)

International IPO Studies				
Country	**Author(s)**	**Sample Size**	**Time Period**	**Average Initial Return**
Australia	Lee, Taylor & Walter	266	1976-89	11.90%
Austria	Aussenegg	67	1964-96	6.50%
Belgium	Rogiers, Manigart & Ooghe	28	1984-90	10.10%
Brazil	Aggarwal, Leal & Hernandez	62	1979-90	78.50%
Canada	Jog & Srivastava	258	1971-92	5.40%
Chile	Aggarwal, Leal & Hernandez	19	1982-90	16.30%
China	Datar and Mao	226	1990-96	388.00%
Denmark	Bisgard	32	1989-97	7.70%
Finland	Keloharju	85	1984-92	9.60%
France	Husson & Jacquillat; Leleux & Muzyka; Paliard & Belletante	187	1983-92	4.20%
Germany	Ljungqvist	170	1978-92	10.90%
Greece	Kazantzis and Levis	79	1987-91	48.50%
Hong Kong	McGuinness; Zhao and Wu	334	1980-96	15.90%
India	Krishnamurti and Kumar	98	1992-93	35.30%
Israel	Kandel, Sarig & Wohl	28	1993-94	4.50%
Italy	Cherubini & Ratti	75	1985-91	27.10%
Japan	Fukuda; Dawson & Hiraki; Hebner & Hiraki; Pettway & Kaneko;Hamao, Packer, & Ritter	975	1970-96	24.00%
Korea	Dhatt, Kim & Lim	347	1980-90	78.10%
Malaysia	Isa	132	1980-91	80.30%
Mexico	Aggarwal, Leal & Hernandez	37	1987-90	33.00%
Netherlands	Wessels; Eijgenhuijsen & Buijs	72	1982-91	7.20%
New Zealand	Vos & Cheung	149	1979-91	28.80%
Norway	Emilsen, Pedersen & Saettern	68	1984-96	12.50%
Portugal	Alpalhao	62	1986-87	54.40%
Singapore	Lee, Taylor & Walter	128	1973-92	31.40%
Spain	Rahnema, Fernandez & Martinez	71	1985-90	35.00%
Sweden	Rydqvist	251	1980-94	34.10%
Switzerland	Kunz & Aggarwal	42	1983-89	35.80%
Taiwan	Chen	168	1971-90	45.00%
Thailand	Wethyavivorn & Koo-smith	32	1988-89	58.10%
Turkey	Kiymaz	138	1990-95	13.60%
United Kingdom	Dimson; Levis	2,133	1959-90	12.00%
United States	Ibbotson, Sindelar & Ritter	13,308	1960-96	15.80%

Table 2.3 Selected Management Studies of IPO Underpricing

Author (Year)	Independent Variable(s)	Dependent Variable	Controls	Sample	Major Findings
Dalbor & Sullivan (2005)	Underwriter quality VC backing	Underpricing	Offer size Age Listing location	59 Restaurant IPOs 1990-1996	Choice of underwriter and the issuing company's subsequent financial performance significantly affect the level of underpricing and aftermarket performance.
Francis Hasan Zhou (2005)	Tech (IPO) Dummy R&D Intensity Analyst Coverage Insider Ownership Retention (post-IPO)	Underpricing	Total Assets Underwriter reputation VC backing	IPOs between 1992-2000	Post-IPO insider-ownership is higher for technology firms. Post-IPO insider-ownership is higher if the firm involves higher R&D intensity around IPO. Analyst coverage is higher for technology firms. Underpricing is higher for technology firms. Analyst coverage and underpricing relationship is stronger when insiders retain high post-IPO ownership
Daily, Certo, Dalton, & Roengpitya (2003)	Retained Equity Underwriter Prestige Auditor reputation Number of Risk Factors Firm size Firm age Number of uses Venture captial equity Offer price IPO gross proceeds	Underpricing	N/A	Meta-Analysis of IPO studies in Management	Meta-Analysis results indicates moderation in the relationship between underpricing and retained equity, underwriter prestige, auditor reputation, firm size, risk factors, venture capital ownership, offer price and IPO gross proceeds.
Certo, Daily, & Dalton (2001)	Board independence Board leadership	Underpricing	Size Age Investment Banker Reputation Officer and Director Retained Equity Number of risk factors VC backing Profitability	748 IPOs 1990-1998; 53 industries at 2 digit SIC	Board size and board leadership are negatively associated with IPO underpricing.

Table 2.3 - continued

Author (Year)	Independent Variable	Dependent Variable	Controls	Sample	Major Findings
Certo, Covin, Daily, & Dalton (2001)	CEO-Founder status Investment banker market share Proportion of insiders on the board Firm size Firm age CEO retained equity percentage Number of risk factors Additional directorships held by board insiders CEO age Industry	Underpricing	CEO-Founder status Investment banker market share Proportion of insiders on the board Firm size Firm age CEO retained equity percentage Number of risk factors Additional directorships held by board insiders CEO age Industry	IPOs from 1990-1998 aged: 10yrs or less n=368 45 industries at the 2 digit SIC.	CEOs tend to retain less wealth for their initial, pre-issue shareholders than do nonfounder CEOs. The impact of founder management on wealth retention among the IPO firms' initial shareholders is more positive when the investment banker has a small share of the IPO market. The impact of founder management on wealth retention among the IPO firms' initial shareholders is more positive when the board has a high proportion of insiders.

Information asymmetry can also exist between company insiders and potential investors. Beatty and Ritter (1986) argue that investor uncertainty about the IPO firm biases offering prices lower than the unknown future market price. Finally, asymmetry can occur between informed and uninformed investors (Rock, 1986). Table 2.3 summarizes a number of studies in fields of strategy and entrepreneurship that have utilized underpricing to evaluate the performance of new issues.

Underpricing may serve to promote the firm (Welch, 1992) and bring attention to the stock on the opening day (Demers and Lewellen, 2003). Boehmer and Fishe

(2004) demonstrate that underpricing increases the after-issue trading volume of the stock. Others show that underpricing broadens the ownership base after the IPO (Booth and Chua, 1996), can serve to entrench management (Brennan and Franks, 1997), and allows for the creation of a blockholder that can increase monitoring (Stoughton and Zechner, 1998). Alternatively, underpricing may facilitate questionable ethical practices such as spinning - the enriching of executives of prospective investment bank clients (Maynard, 2002) and flipping - the practice of buying IPOs at the offering price and then immediately reselling them once trading has begun, usually for a substantial profit by favored investors (Aggarwal, 2003; Fisher, 2002; and Krigman et al. 1999).

Despite the richness the underpricing performance measure has provided to scholars investigating IPOs it is not without its shortcomings. In the following section, we discuss alternative short-run success measures researchers have employed to gauge IPO success and how they compare to the underpricing measure. An IPO represents a strategic decision that requires a firm engage in the often lengthy transition from private to publicly held firm (Zahra and Filatotchev, 2004). Measures that assess IPO success beyond a one-day (opening day) appraisal of a firm's resource gathering ability appear to be gaining support among scholars. We conclude the next section with a review of longer-term operationalizations of IPO performance including new issue survival and delisting.

2.4.2 Alternative Short Run Performance Measures

Tables 2.1 and 2.4 demonstrate that researchers in the fields of strategy and entrepreneurship have successfully used a host of alternative measures to account for

the short-term success of initial offerings. Scholars have measured IPO success in terms of the premium investors pay for the firm's shares over and above the firm's pre-IPO book value (Lester et. al. 2006; Certo et al. 2003; Rasheed, Datta, and Chinta, 1997; Welboume and Andrews, 1996). This measure is calculated as *percent price premium = (stock price - book value)/stock price*, where the stock price equals the stock price at the close of the first day of trading, and the book value equals the firm's book value prior to the offer. Researchers suggest that the percent price premium variable is more reflective of the market's reception of a new issue because the measure takes into account the value of a firm's intangible assets which other operationalizations of IPO performance, such as underpricing, tend to neglect (Nelson 2003).

Other short term measures include proposals that the value of a new issue would simply equal the amount of capital from the offering that is transferred to the firm and its owners, less fees (Deeds, Mang & Frandsen, 2004; Deeds, DeCarolis, and Combs; 1997). While this operationalization does describe the success a firm may have at IPO, it fails to take into account the number of shares a firm may be offering to the general public. Alternatively, Welbourne and Andrews (1996) suggest that the success of an initial public offer could be seen with the Tobin's Q calculation. In the case of an IPO, a high Tobin's Q ratio (*1st day closing price/book value*) would suggest a high value among investors (Davis, 1991; Davis and Stout, 1992). Others consider the firm's market capitalization at the time of the IPO by multiplying the total number of outstanding shares by the closing price at the end of the first trading day (Megginson and Weiss, 1991; Stuart et al., 1999).

Table 2.4 Selected IPO studies in Strategy and Entrepreneurship.

Author (Year)	Independent Variable(s)	Dependent Variable	Controls	Sample	Major Findings
Certo, Daily, Cannela, and Dalton (2003)	CEO stock option compensation	Price Premium	Risk factors Age ROA Firm Size CEO Salary Investment Banker Market Share Auditor size Venture capital Industry RandD intensity	193 IPOs 1996-1997	CEO stock options are positively associated with investor valuations
Lester Certo Dalton Dalton Cannella (2006)	TMT Prestige. Environmental Factors.	Price Premium	Executive Ownership, Firm Age Risk Factors Duatlity TMT Size. Firm Size Investment Banker Market Share Auditor Reputation Return on Assets Venture Captial Backed	1996 and 1997. 209 firms,	TMT Prestige will be positively associated with IPO performance
Welbourne & Andrews (1996)	Human resource value Organization based rewards	Price Premium Tobin's Q Survival	Size Performance Industry Geographic areas risk	136 non financial IPO companies in 1988	Investors react negatively if firms use compensation to link pay to organizational performance. This pertains to Price Premium and Tobins Q dependent variables

Table 2.4 - continued

Author (Year)	Independent Variable(s)	Dependent Variable	Controls	Sample	Major Findings
Nelson (2003)	Founder CEO	Percentage of board insiders Duality Corporate investor board member Percent corporate equity Percent CEO equity Percent founder equity Percent public equity released	Total assets age industry	157 IPOs from 1991	At IPO, founder CEOs more likely to higher percentage of inside board members than nonfounder CEOs. Founder CEOs are also more likely to retain higher ownership levels than nonfounder CEOs. Founder CEOs sell smaller equity share at IPO than nonfounders. Firms with founder CEOs receive higher price premiums than nonfounders.
Andrews & Welbourne (2000)	CEO Financial background	HR Value Tobins Q	Age Size Performance Industry Geographic areas risk	136 non financial IPO companies in 1988	CEOs trained with financial orientation have lower levels of HR value
Rasheed Datta Chinta (1997)	underwriter reputation leverage reduction in stock by management Number of uses of proceeds	Price Premium		1984-89 n=57	Price Premium at IPO is negatively associated with debt ratio. Negative relationship between stock reduction by existing management and Price Premium
Sanders & Boivie (2004)	(TMT) stock-based incentives Outside director stock ownership Blockholder ownership Institutional ownership VC Ownership VC equity sold Board Structure	IPO market valuation	firm size sales growth, net income firm age, firm age, industry Hot market	Internet IPOs. 1993-1999 n=184	Intensity of stock based incentives for executives and outside directors are positively associated with market valuation. Blockholder and Institutional ownership is positively associated with market valuation. VC equity ownership pre-IPO is positively associated with market valuation. VC equity sold at IPO is negatively associated with market valuation

Table 2.4 – continued

Author (Year)	Independent Variable(s)	Dependent Variable	Controls	Sample	Major Findings
Gulati Higgins (2003)	Equity market uncertainty VC partnerships Underwriter prestige Strategic alliances	IPO success: based upon proceeds, as well as 90 and 180-day market valuation	age size private financing location	single industry (n = 281). U.S. biotech firms that were founded between 1961 and 1994.	Endorsement by a prestigious VC are beneficial to the success of a young company's IPO when the equity markets are cold. Endorsement by a prestigious underwriter are beneficial when equity markets are hot.
Shepherd & Zacharakis (2001)	geography industry group macro-economic trend	speed to IPO		NVCA database of VC deals from 1984-1999; n=906 portfolio companies that have gone public	Geographic location impacts speed to IPO. IPO market activity impacts speed to IPO
Deeds Decarolis & Coombs (1996)	Hot Market Dummy. Location Total Products. Research and Development Expenditures. Citation Data.	Total IPO proceeds	% of equity offered total asset value of the firm	92 Biotech IPOs	Issuing an IPO during a hot market is positively related to IPO performance. The concentration of biotechnology firms in a firms geographical area is positively related to IPO performance. New product development is positively related to IPO performance. The number of patent citations is □ositively related to IPO performance
Daily Certo Dalton (2005)	Founder CEO CEO retained equity Board composition Board size Board prestige Venture capital equity Firm size Firm age	offer price spread.	High-Tech Industry	1996 1997 235 firms. 37 industries, as defined using 2-digit SIC codes.	No support for any hypothesis

Table 2.4 - continued

Author (Year)	Independent Variable(s)	Dependent Variable	Controls	Sample	Major Findings
Higgins & Gulati (2006)	TMT upstream affiliations TMT horizontal affiliations TMT downstream affiliations Diversity of TMT employment affiliations CSO's background CFO's background CEO's background Underwriter prestige	Dedicated institutional investors	Industry uncertainty Product state Number of patents Firm Size Firm Age Private Fanancing Location Number of alliances Prominence of Venture Capital Firms Average Prior TMT management level TMT average age TMT tenure TMT functional heterogeneity	299 Biotech IPOs between 1979-1996	TMT downstream affiliations, TMT diversity, TMT diversity of employment affiliations are positively related to number of dedicated institutional investors. Underwriter prestige is postively associated with the number and quality of institutional investors

Recently, strategy scholars have introduced two new measures to evaluate IPO performance. Gulati and Higgins (2003) suggest combining four separate measures of performance; the net IPO proceeds (simply the total amount the firm receives as a result of the IPO), the value of the firm prior to IPO, and the 90 and 180 day market valuations of the firm after the offering to quantify new issue success. In a separate study, rather than measure IPO success with an assessment of the dollar value investors place upon a new issues, Higgins and Gulati (2006) proposed a more refined definition of IPO success that incorporates the number and type of buyers a firm attracts with their

new issue. These authors suggest that successful IPOs are those who attract 'dedicated' institutional investors because of their ability to effectively monitor and channel the behavior of firm managers towards long-term firm growth.

2.4.3 Long Run Performance Measures

One area that has gained increasing attention among scholars is the long term underperformance of IPOs. Contrary to the initial positive returns of IPOs, mixed results are found in their long-run performance. Although numerous previous studies show positive long run returns for investors (Boardman and Laurin 2000; Dewenter and Malatesta, 2001; Levis, 1993;), several researchers document insignificant or negative long-run performance in various countries (see Ritter 1991; Aggarwal, Leal, and Hernandez 1993; Keloharju 1993; Paudyal, Saadouni, and Briston 1998). For example, in Hong Kong between 1980–1990, McGuinness (1993) describes a significant negative market-adjusted return of −18.26% between the close of the first day of trading and the 500th day of listing of Hong Kong IPOs. Similar results were found among firms that went public in Australia between 1976 and 1989 (Lee et al., 1996), and among German IPOs (Ljungqvist, 1997).

To begin addressing the long-term performance aspects of IPOs, scholars have introduced alternative measures to examine the success of IPOs over extended periods of time. Pollock, Gulati, and Sadler (2002) suggested that IPO performance could be assessed by tracking the number of analysts following the firm and the number of strategic alliances the firm entered into six months after going public. One year after going public, Arthurs and Busenitz (2006) advocated utilizing the Sharpe's measure (*1-*

year risk-adjusted stock price returns controlling for market effects) as a mechanism to gauge the market's perception of how well management is dealing with the previously identified risk factors. In the year following an IPO, scholars suggest using the market valuation of the firm's outstanding shares (*1yr share price x the number of outstanding shares*) (Kotha, Rajgopal, and Rindova, 2001; Sanders and Boivie, 2004). Others have advocated utilizing the firm's sales and the organization's return on assets (Eisenhardt and Schoonhoven, 1990; Jain and Kini, 1994; Mikkelson, Partch and Shah, 1997), in addition to the firm's level of internationalization (Carpenter, Pollock, and Leary, 2003), to gauge success. Longer term operationalizations include the firm's two year post-IPO market capitalization (Jackson and Hambrick, 2002) and industry-match-adjusted ROA, market-to-book, listing survivorship, and abnormal stock returns (Moeller, Schlingeman, and Stulz, 2004; Gompers, Ishii and Metrick, 2003; Field and Karpoff, 2002)

2.4.4 Failure

While the short and long term performance of new issues has garnered the lion's share of attention among scholars, recent efforts have begun to more fully investigate the circumstances that lead to the delisting and bankruptcy of IPOs. The NYSE, NASDAQ and AMEX exchanges set out a number of criteria for delisting a listed stock. Firms on the NYSE must maintain no less than 400 shareholders; maintain a minimum market capitalization of 15 million dollars; and a minimum share price of at least one dollar to maintain their listing status. In addition, exchanges consider delisting a firm if the company's operating assets have been substantially reduced in size, regardless of

the reasons for the reduction. Finally, both the NYSE and NASDAQ consider delisting a firm if the company files for bankruptcy or announces its intention to file. Following the guidelines set by the exchanges themselves, most scholars define "IPO failure" as simply delisting from an exchange due to the firm's inability to maintain the minimum shareholder number, size, or stock price requirements for continued listing on an exchange (Hensler et al., 1997; Fischer and Pollock, 2004). Others suggest "IPO failure" equates to whether a new issue filed for bankruptcy (Wysocki, 2007; Demers and Joos, 2007).

Several papers study the delisting risk of IPOs, and suggest that internal and external factors to a firm related to the quality of IPOs help predict delisting risk. In an examination of U.S. IPOs between 1986-1988, Schultz (1993) suggested that the probability of delisting is inversely related to the offer size, the age of the firm, and the prestige of the underwriter. In addition, the initial return did not predict the likelihood that a firm would survive two or three years after going public (Schultz, 1993). Hensler, et al. (1997) (Figure 2.5) found that the survival time for IPOs increases with offer size, age of the firm at the offering, the initial return, IPO activity level in the market, and the percentage of insider ownership, while the survival time decreases upon increasing the number of risk characteristics. Fama and French (2004) found that IPOs with higher profitability tend to have lower delisting rates.

Table 2.5 IPO Failure Studies

Study	Sample	Findings
Demers and Joos (2007)	1980-2000; n = 3973	Failure models differ between non-tech versus high tech IPOs. Differences driven by accounting-based proxies for firms' investments in intangible assets, operating performance, and financial leverage.
Yang & Sheu (2006)	1992-2000; n = 560	Survival time is positively affected by the officer-to-insider holding ratio.
Li, Zhang, & Zhou (2005)	1991-1999: n=1729	Firms with earnings management in the IPO year are more likely to delist, and are likely to delist sooner.
Boubakri, Kooli, & L'Her (2005)	1995-1999; n = 431	IPO survival related to IPO size, underpricing level and VC presence.
Fischer & Pollock (2004)	1992; n = 218	Retained ownership of Founder-CEOs decreased the likelihood of failure. VC ownership concentration decrease failure likelihood.
Foster-Johnson, Lewis, & Seward (2001)	1988-1995; n = 1955	Investor over optimism related to long-run underperformance, influencing IPO survival chances
Wilbon (2002)	1992; n = 95	High tech IPO survival dependent upon intellectual property rights, executive experience, R&D expense.
Jain & Kini (2000)	1977-1990; n = 877	IPOs with VC backing were more likely to survive than non-VC backed firms.
Jain & Kini (1999)	1977-1990; n = 877	IPO survival influenced by industry growth, firm size, managerial ownership, pre-IPO performance.
Hensler, Rutherford, & Springer (1997)	1976-1992; n = 741	Market Capitalization, size, age, and inside ownership increases IPO survival time. IPO survival time varies by industry.
Welbourne & Andrews (1996)	1988; n=136	Human resource value and organization-based rewards positively related to survival.

The extent to which IPO firms valued human resources and used compensation schemes based on organizational performance is positively associated with IPO firm survival (Welbourne and Andrews, 1996). IPOs underwritten by prestigious investment banks perform significantly better in the long run (Michaely and Shaw, 1994). In addition, Chadha (2003) finds that underwriter reputation is significantly negatively related to the likelihood of delisting shortly after going public. Also, involvement of venture capitalists improves the survival profile of IPO firms, while managerial ownership retention and offer size are not significant at all (Jain and Kini, 2000).

Demers and Joos (2007) found that underwriter reputation, IPO offer price, firm age, leverage, SGandA expenses, and total sales are statistically significant within-sample predictors of IPO failure for both non-technology and technology firms. Recently, Fischer and Pollock (2004) found that a founder who retained ownership in the firm post-listing helped protect a firm from failure.

2.5 Issues Associated with Foreign Securities

One possible determinant of whether or not companies can enjoy a successful IPO on a foreign stock exchange could lie in certain country related factors. Issues surrounding a firm's country-of-origin may work to enhance investor uncertainties regarding the safety and security of their investments. The value which the market historically places upon firms has been viewed simply as an estimate of future cash flows. Kim and Ritter (1999) point out that traditional finance theory has assumed that historical accounting measures, cash flow, book value, earnings and revenue can all be incorporated to help predict the value of a firm at IPO. Yet these authors found that only 5% of the variance in IPO values can be attributed to traditional accounting measures (Kim and Ritter, 1999). Adding to the complexity, many foreign firms have short operating history which can impede the market's ability to assess their future value (Wat, 1983). In light of their findings, Kim and Ritter (1999) suggest that underwriters, lawyers and investors each utilize different information in order to assess a firm's earning potential. Indeed, potential investors may have to look to other cues beyond historical performance measures to adequately judge the merits of foreign firms

attempting to make first time equity issues. One possible determinant of whether or not companies can enjoy a successful listing on foreign stock exchanges could lie in certain country specific variables.

Many authors have pointed to the benefits that cross-border diversification can bring to equity portfolios (Grubel, 1968; Levy and Sarnat, 1970; Solnik, 1974; Grauer and Hakansson, 1987; Eldor, Pines, and Schwartz, 1988; DeSantis and Gerard 1997; among others). Despite the benefits, research has also shown that investors do not always exploit such international diversification opportunities. Instead, investors tend to allocate a relatively large fraction of their wealth to domestic equities, a phenomenon commonly called the "home bias" (Obstfeld and Rogoff, 2000; Tesar and Werner, 1995). Scholars point to the special risk investments in foreign securities can entail, including their vulnerability to foreign market volatility and changes in exchange rates, as well as their susceptibility to foreign political, economic, and social events—all of which may be more pronounced in emerging markets.

In addition, there exists a wide range of investment barriers which serve to discourage foreign investment in firms that originate from a number of countries. Some countries effectively require investors to be present to vote at meetings (Italy, Belgium and Sweden) and restrict foreign investors' ability to vote when shares are held in the name of a nominee (Finland, Norway, the Netherlands, and Germany). Foreign investors wishing to invest in South Korean companies must apply for approval before investing. After investment thresholds are attained in Korea (as well as other foreign countries), a foreign investor must file threshold holding reports with designated

governmental authorities (Jackson and Stone, 2006). While prohibited in most markets, in some foreign countries insider trading is permitted, although a number of countries (including Brazil, Mexico, New Zealand, and Singapore) adopted laws and regulations in the past five years to combat insider trading and other manipulative conduct (Jackson and Stone 2006). Finally, voting proxies for foreign securities may involve greater effort and corresponding cost due to the variety of regulatory schemes and corporate practices in foreign countries.

In order to better understand why country related factors impact the amount of capital firms raise in foreign markets, the next section begins by addressing how country differences have been addressed by scholars in a range of business disciplines. The following section ends with a review of recent efforts supporting the salience of a country's legal protection and institutional development levels to the success of firms, foreign and domestic, attempting to secure resources and compete in overseas markets.

2.6 Assessing National Differences

There is a general consensus among authors that when firms decide to acquire resources in foreign markets, they must adjust their practices to a foreign national culture and be prepared for challenges, such as differences in language, lifestyles, cultural standards, consumer preferences, and purchasing power (Albaum and Tse 2001; Lu and Beamish 2001; Peñaloza and Gilly 1999). This section reviews the importance of cultural differences to not only international business research, but to research questions in other disciplines as well. I end this section by revealing how investor

protection levels and institutional differences between countries may impede firm performance.

2.6.1 Cultural Distance

Hofstede (1980) was the first to develop a framework to help understand national differences. Scholars have frequently used Hofstede's measures to classify countries in order to make cross-national comparisons (Shane, 1992; Kogut and Singh, 1988; Barkema, Bell, and Pennings; 1996). Hofstede operationalized national culture factors into four different dimensions, power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. To arrive at a measure of cultural distance among countries, Kogut and Singh (1988) combined Hofstede's dimensions into an aggregate measure of cultural distance among countries. Sousa and Bradley (2004) suggest that within international business literature few concepts continue to garner the attention of scholars more than cultural distance and psychic distance.

2.6.1.1. International Business

Research often uses the terms "cultural distance" and "psychic distance" interchangeably (Eriksson, Majkgard, and Sharma 2000; Fletcher and Bohn 1998; Peng, Hill, and Wang 2000; Trabold 2002). Psychic distance and/or the cultural distance concepts have been frequently used as a means to understand market differences (Clark and Pugh 2001; Eriksson, Majkgard, and Sharma 2000; Evans and Mavondo 2002; Grosse and Trevino 1996). The concepts have been applied to a broad range of research areas including foreign direct investment, firm performance (Benito and Gripsrud,

1992; Evans and Mavondo, 2002; Grosse and Trevino 1996), international joint ventures, and the strength of network ties (Manev and Stevenson, 2001; Park and Ungson, 1997; Pothukuchi et al. 2002).

To date, cultural distance has also received considerable attention in a wide range of academic disciplines (Barkema, Bell, and Pennings 1996; Kogut and Singh 1988; Pothukuchi et al. 2002; Shenkar 2001). Many studies have utilized the Kogut and Singh (1988) formula or derived an adapted version as a measure of cultural distance (Agarwal 1994; Brouthers and Brouthers 2001; Grosse and Trevino 1996; Manev and Stevenson 2001; Morosini, Shane, and Singh 1998). Shenkar (2001) observed that the cultural distance construct (Hofstede, 1980; Kogut and Signh, 1988) has been applied to multiple research questions from innovation and transformation to foreign expansion and the ease of transferring technology across borders (Gomez-Mejia and Palich, 1997), as well as from affiliate performance to expatriate adjustment (Black and Mendenhall, 1991).

2.6.1.2. Finance

Within finance, country differences have often been explored in relation to investor behavior. For some time finance scholars have acknowledged that investors tend to shun foreign stocks in their portfolios (French and Poterba 1991, Cooper and Kaplanis, 1994, Tesar and Werner 1995; Grinblatt and Keloharju, 2001). Researchers describe the “home bias” occurring when investor behavior fails to conform to established asset-pricing models. Some have hypothesized that the home bias

phenomena may be due to restrictions on international capital flows or the nontradability of some goods across international boundaries (Stulz, 1981).

However, more recently, there has been increasing attention in finance literature in examining the extent to which cultural differences influence investor holdings. Through logic similar to that supporting the cultural distance construct, Grinblatt and Keloharju (2001) examined the holdings, purchases, and sales of Finnish stocks of investors in Finland. They found that investors preferred to hold and trade stocks headquartered in nearby locations to those in more distant locations. In addition, investors preferred to hold and trade stocks that shared their native Finnish language in addition to those firms whose CEO was of similar cultural origin. However, it is interesting to note that the basis for home bias is not known, nor whether there are differences in home bias behavior across investors (Grinblatt and Keloharju, 2001).

2.6.1.3. Accounting

Within accounting, the predominant stream of distance related research tends to focus mainly on the theoretical frameworks of the impact of culture on accounting practices. Culture is often considered a powerful environmental factor affecting the accounting system of a country (Belkaoui and Picur, 1991; Violet, 1983). Firms vary widely in their disclosure practices across countries, and researchers have investigated associations between corporate characteristics and disclosures for more than 40 years (Ahmed and Courtis, 1999). Bushman and Smith (2001) point out that financial reporting and disclosure are important components of a corporate governance system

because it allows investors and other outside parties to monitor firm performance and contractual commitments.

For many years accounting scholars have examined the role that national culture plays in shaping managers' internal and external financial reporting choices and how users of financial statements react to this information (e.g., Gray, 1988). Salter and Niswander (1995) tested a theoretical model developed by Gray (1988), which linked accounting values and systems with Hofstede's (1980) cultural constructs. Unfortunately, Gray's model was insufficient in explaining professional structures or regulatory structures from a cultural base.

More recent efforts in accounting have supported Ho and Wong's (2001, p. 100) argument that "the impact of culture on corporate disclosure has yet to be fully assessed." Indeed, Jaggi and Low (2000) demonstrated that cultural values do not predict disclosure levels once legal origin is considered. In response, Hope (2003) observed that the current state of cultural research in accounting is attempting to understand whether the correlation between culture and disclosure exists because culture directly affects disclosure practices or because culture is associated with other country-level factors that influence disclosures.

2.6.1.4. Marketing

Country differences have been examined by marketing scholars as "country of origin effects" due to their ability in influencing purchasing behavior and intrinsic qualities such as taste and extrinsic cues such as brand name. Schooler (1965) and Reierson (1966) first reported country of origin effects on the evaluation of products

and on the estimate of foreign product quality. Products from less-developed countries are generally considered to be of lower quality than products of developed countries (Verlegh and Steenkamp, 1999). Some research suggests that country of origin has more influence on consumer behavior for goods that are high-risk, expensive, and durable. Verlegh and Steenkamp (1999) find in a meta-analysis that included over 40 studies of effects of country of origin, that ". . . the country-of origin effect can be classified as a substantial factor in product evaluations" (p. 538)

Rather than using the cultural distance construct, marketing scholars have attempted to explain country of origin influences upon consumer product evaluations through a variety of theories. Papadopoulos and Heslop (2002) argued that consumers form their opinions about products from foreign countries along seven dimensions which related to a nation's level of advancement, feelings about a country's people, desire for closer links with a country, quality, price, the level of market penetration of a country's products, and prior satisfaction with a country's products. Bilkey and Nes (1982) summarized the empirical findings of 25 country of origin studies and pointed out a number of methodological limitations, including single-cue, use of verbal/intangible reference, and general validity and reliability problems. Yet, despite these negative aspects, they conclude that "country of origin does influence buyer perceptions of the products involved" (p. 94).

Moving further away from a cultural explanation for consumer preferences, Verlegh and Steenkamp (1999) argue that country-of-origin effects stem from one of three interrelated mechanisms: cognitive (origin is a cue for product quality), affective

(origin has symbolic and emotional value), and normative (origin is preferred because of social and personal norms). The significance of country of origin effect can be so important in shaping consumer perception that it can overshadow additional information about the product (Cai, Cude, and Swagler; 2004). Beyond consumer products, understanding country of origin affects along multiple dimensions may provide scholars with a much richer lens to evaluate the market's receptivity to foreign firms within capital markets.

2.6.2. Alternative Measures of Country Differences

Despite the cultural distance construct's widespread usage, the results of research utilizing the cultural distance construct has been mixed not only within international business (e.g., Benito and Gripsrud 1992; Evans, Treadgold, and Mavondo 2000; O'Grady and Lane 1996), but in other fields as well (Hope, 2003). In light of the mixed results, it is not surprising that the cultural distance measure has become subject to increasing criticism in recent years (e.g., Schwartz, 1994; Steenkamp, 2001). Shenkar (2001) argues that the cultural distance construct is built upon a foundation flawed by hidden assumptions and questionable methodological properties which in combination serve to challenge the validity of the construct itself. For example, on the issue of foreign entry mode, cultural distance "has been linked to wholly owned modes, joint venture, or nothing" (Brouthers and Brouthers 2001). In light of conflicting findings it can be argued cultural distance is ineffective at comparing countries simply because one culture can transcend national borders (Schneider, 1988). Indeed, Xu, et al. (2004) suggest that it is possible that utilizing cultural distance as a proxy for country

differences has led to an over-simplification of the complexities of national environments and overlooks other societal institutions.

One of the most significant challenges faced by those contemplating the merits of investment in, or partnering with foreign firms comes from the inherent uncertainty in assessing host country risks. Host country risk reflects uncertainty about the continuation of current economic and political conditions and government policies that are deemed to be critical to the survival and profitability of a firm's operations in that country (Agarwal and Ramaswami 1992). It can be said that one of the fundamental drawbacks of the cultural distance construct is that it attempts to capture characteristics about a culture while simultaneously estimating the distance between cultures. In other words, it can be argued that the construct inadequately accounts for the uncertainty associated with foreign investments. Certainly, differences between countries are difficult to measure. However, research which assesses the legal protection investors enjoy as well as the institutional profile of host countries may provide a more salient lens through which studies can assess the extraorganizational environment surrounding firms as well as serve as a barometer of the market's reception of foreign firms seeking capital in foreign markets.

2.6.2.1. Investor Protection

A firm's legal environment holds a preeminent place in corporate governance. In order for external investors to provide financing, legal protection must be accessible. The important functions of a legal system include holding managers accountable to shareholders, ensuring shareholder voting privilege, preventing self-dealing by

managers, and protecting creditors. For countries found lacking in these elements, majority shareholders have the ability to divert resources from the corporation in an attempt to avoid sharing with minority investors. Demirgue-Kunt and Maksmimovic (1998) found greater respect for the law leads to greater use of external finance for firms. These authors also show that the existence of a well-functioning stock market leads to greater external finance of firms.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) constructed indices of investor rights and related the quality of investor protection to different legal systems. They differentiated legal systems according to those descending from the English common law tradition, or the Roman civil law tradition. They further classified the civil law countries as originating from the Scandinavians, Germans, or the French. The English common law tradition is shaped by the decisions of judges ruling on specific issues. The Roman civil law, which shaped the French and German traditions, utilize "statutes and comprehensive codes as a primary means of ordering legal material" (La Porta et al., 1998: 1118).

La Porta, et al. (1998) suggested that shareholders are better protected when certain standards are ensured by corporate law, including (1) proxy by mail, (2) non-blocking of shares before the shareholders' meeting, (3) cumulative voting or proportional representation for designating members of the board of directors, (4) oppressed minority protection, (5) preemptive right to new issues, and (6) a relatively low percentage of shareholders required to call an extraordinary meeting. La Porta, et al. (1998, 1999) found that while common-law countries tended to grant the best legal

protection to investors, French civil law countries grant the weakest protection. Others have also endeavored to examine the support that a country's legal environment provides organizations seeking additional resources. Demirgue-Kunt and Maksimovic (1998) utilize the International Company Risk Guide's Law and Order indicators to measure a country's legal system rather than the measures identified by La Porta, et al. (1998, 1999). They showed that countries with good legal systems not only offer greater protection of long-term external financing, but are also able to grow faster.

Roe (2003) criticized identifying Common Law as providing a high level of protection for shareholders' rights by suggesting that much of the protection offered to shareholders in the United States has resulted from legislation which was necessary because Common Law courts had conspicuously failed to protect shareholder rights. Yet despite this criticism, Anglo-Saxon legal systems do appear to provide stronger protection for property rights (Coffee, 2001).

2.6.2.2. Institutional Distance

When examining the extent firms vary across countries, an integrative framework that extends beyond cultural and legal differences may provide a richer description and understanding of the way in which countries can influence organizational success. For many years institutional theory has provided scholars with a theoretical framework to explain how organizations can gain legitimacy within their environments. Scholars define organizational legitimacy as the general acceptance of an organization by its environment (Dimaggio and Powell, 1983; Dowling and Pfeffer, 1975; Hannan and Freeman, 1989). According to institutional theory, organizations

receive their legitimate status when the firm's environment perceives that the organization's means and ends adhere to the values, expectations, and the social norms of the environment that the organization is entering (Dowling and Pfeffer, 1975). A growing number of management scholars have examined how institutional environments affect new firm decisions (Ensley and Hmieleski, 2005) and how firms who have attained legitimate status tend to succeed more frequently in the market.

Hymer (1976) first suggested that firms should possess proprietary advantages that will compensate for the natural disadvantages of operating in a foreign environment. Since then a significant amount of research has focused on identifying organizational factors that compensate for the "liability of foreignness" (Buckley and Casson, 1976, 1998; Dunning, 1977; Hennart, 1982; Zaheer, 1995; Caves, 1996; Dunbar and Kotha, 2000). Oliver (1991) advised that a host country's institutional environment will influence the strategies of foreign firms. More recently, Dobrev and Caroll, (2003) argued that institutionalization may increase the complexity firms experience in foreign markets thus hampering their chances to realize their strategies.

Scott (1995, p. 33) defines institutions as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior." Grounded in the work of organizational theorists (DiMaggio and Powell, 1983, and Scott, 1995), Kostova (1997) introduced the concept of a three dimensional *country institutional profile* to explain how a country's government policies, widely shared social knowledge, and value systems affect domestic business activity. Institutional distance is defined as the degree of separation or extent to which institutions differ

between countries. To date, scholars have investigated institutional distance as it relates to the ability of firms to establish legitimacy in a host country (Kostova and Zaheer. 1999) as well as the ability of parent firms to transfer organizational practices to foreign subsidiaries in a host a country (Kostova, 1999). Generally speaking, institutional distance can affect the communication, and ability of foreign firms to maintain their legitimacy. Scholars suggest that substantial institutional differences promote more difficulty for foreign firms attempting to achieve legitimacy in a host country (Kostova and Zaheer, 1999; Xu et al., 2004).

The *regulatory dimension* consists of the rules and laws that provide support for new businesses, reduce the risks for individuals starting a new company, and facilitate entrepreneurs' efforts to acquire resources. Eden and Miller (2004) describe the regulatory pillar as the “may” and “may not” behaviors firms must adhere to. A country’s regulatory dimension can provide support for firms, including governmental regulations that structure competition within industries (Barnett and Carroll, 1995) and from government policies that favor and provide incentives for entrepreneurs (Rondinelli and Kasarda, 1992). For example, the U.S. government provides advice and assistance for those starting new businesses and offers grants for new technology development in small enterprises. The regulatory dimension can be the easiest for firms to be aware of and abide by due to frequent codification of rules. Kostova and Roth (2002) suggest that host country regulations create coercive isomorphic pressures that firms must conform to and abide by in order to maintain legitimacy. Regulative distance

describes the differences in the general legal environments between home and host countries (Xu et al. 2004)

The *normative dimension* consists of "social norms, values, beliefs and assumptions about human nature and human behavior that are socially shared and carried by individuals" (Kostova, 1997, p.180). In other words, a country's normative pillar prescribes "should or should not" behaviors of businesses (Eden and Miller, 2004. p.201). International entrepreneurship researchers have argued that a country's culture, values, beliefs, and norms affect the entrepreneurial orientation of its residents (Busenitz and Lau, 1996; Knight, 1997). Kostova and Zaheer, (1999) characterize the normative dimension as including tacit and deeply held structural beliefs in a society and consequently measure the degree to which a country's residents admire entrepreneurial activity and value creative and innovative thinking. Xu, et al. (2004) suggest that normative distance describes the differences in the social norms of home and host countries.

The third dimension, the *cognitive institutional pillar* reflects the "schemas, frames and inferential sets, which people use when selecting and interpreting information…it reflects the cognitive structures and social knowledge shared by the people in a given country" (Kostova, 1997, p. 180). Cognitive institutions reflect culturally prevailing attitudes (Scott, 1995), and affect "the way people notice, characterize, and interpret stimuli from the environment" (Kostova, 1999, p. 314) and can impact the success of organizations attempting to achieve success in foreign

markets. While important in certain contexts, firm strategy is more contingent on regulative and normative distances over that of cognitive distance (Xu et al. 2004).

Ghemawat (2001) suggests cultural, administrative and economic dimensions of international markets are the source of differences for firms from different countries to the extent they can influence the strategic positioning of firms. Certainly, cultural differences should continue to play an important role in international business studies. However, a richer and more integrative representation that incorporates the important role a country's regulatory environment and local institutions play will certainly aid in our understanding of firms attempting to secure resources within a foreign market.

2.7 Signaling Theory in IPO Research

The subject of IPO performance has garnered considerable interest by researchers and practitioners alike. However, since IPO research began in the early 1980s, attempts to fully understand and explain IPO valuations have remained elusive. One the most significant challenges investors face when evaluating a new issue is the lack of publicly available information about the firm as well as reliable estimates of the firm's future prospects for growth. Since many firms at IPO have little operating history, investors cannot rely upon an extensive track record of earnings, cash flows or sales to judge a firm's health and potential for growth. Firms in knowledge intense industries can pose even greater challenges since the investing public may not be fully aware of a firm's collection of intangible assets.

The fundamental problem many point to in their attempts to dissect the IPO valuation puzzle stems from the fact the executives and other insiders in an IPO firm will typically know more about the shape of their firm than will outsiders (Anderson, Beard, and Born, 1995; Keasey and Short, 1997; Lawless, Ferris, and Bacon, 1998). To combat their lack of information about a new issue, many researchers have looked at a wide assortment of organizational and environmental attributes that serve as indicators of the strength of an organization at IPO and lessen the likelihood managers would need to reduce the offer price in order to attract investors (e.g., Beatty, 1989; Carter and Manaster, 1990).

Signaling theory describes the methods decision makers use in situations of information asymmetry (Spence, 1973) and is consistent with the notion that insiders of IPO hold more information than outsiders. Two central criteria of signaling theory are: (1) signals be known in advance and be observable, and (2) they must also be costly or difficult to imitate (Spence, 1973; Ross, 1977, Certo, Covin, Daily and Dalton 2001). Most of the research utilizing signaling theory as a mechanism to better understand IPO valuations tends to fall within three research streams: the signals associated with the price of the new issue, the signals outsiders glean from information that is publicly available from the prospectus, and signals derived from third party certifications.

2.7.1. IPO Pricing Signals

There are many explanations behind underpriced IPOs (Certo, Covin, Daily and Dalton 2001). Beatty and Ritter (1986) proposed underpricing can simply be attributed to the relative uncertainty surrounding young firms' floatation of new issues. In one of

the first theoretical rationales for underpricing behavior, Rock's "winners' curse" (1986) suggests there are two types of investors in the IPO process. Informed investors know the quality of a new issue and tend to purchase only those that are underpriced. On the other hand, uninformed investors often do not possess the capacity to differentiate between high and lesser quality issues, thereby tending to purchase the remaining underpriced issues as well as a disproportionate percentage of overpriced issues. According to Rock (1986), underpricing is vital in order to induce uninformed investors to take part in an offering.

Various authors (Welch, 1989; Allen and Faulhaber, 1989; Grinblatt and Hwang, 1989) suggest that higher quality firms would strategically underprice their initial offer so that subsequent offers (seasoned equity offers; aka SEOs) could be offered at higher prices. Others suggest that high quality firms would choose to underprice to encourage investors to generate information about the firm. Chemmanur (1993) proposed that a high quality firm achieves prices closer to the firm's true value in a secondary offering by leveraging investor generated information with the firm's first public offer. Unfortunately, some have demonstrated that firms are often unable to fully recover the cost of an underpriced IPO with higher seasoned offering proceeds (Spiess and Pettway, 1997). Yet, an underpriced IPO does produce positive publicity for a firm, helps attract customers and generates trading volume (Boehmer and Fishe, 2004), and can increase firm value (Hakenes and Nevries, 2000). These benefits can be especially realized during hot issue markets (Ljungqvist et al. 2002).

Other explanations for underpricing include Lowry and Shu (1998), who suggest that underpricing can be attributed to litigation risk. These authors determined that those organizations encountering significant legal exposure would choose to underprice as a means to insure against the possibility of future litigation. Alternatively, insiders may strategically underprice as a means to increase their personal wealth (Aggarwal et al. 2002).

2.7.2. Governance Signals

One of the challenges organizations face in their attempts to garner investor support for a new issue is informing investors of the true value of the firm. One of the principal mechanisms a company can signal to the market the value of their new issue is with the prospectus. As mentioned earlier in this dissertation, the prospectus (in addition to the registration statement) is one of the key documents the SEC and exchanges require of all firms undertaking an IPO (Deeds, Decarolis, and Coombs, 1997; Welbourne and Andrews, 1996). In light of the degree of information available about the history of the firm and its management, much of the empirical research to date on the signals associated with new issues has been gleaned from the firm's prospectus.

In one of the first signaling models, Leland and Pyle (1977) suggested that shares retained by an organization's initial shareholders could provide outsiders with a credible signal of less principal-agent conflict and positive signal of expected future cash flows. Despite the lack of support for the Leland and Pyle (1977) IPO signaling model, it has served as the conceptual basis for a host of ensuing work by finance, strategy, and entrepreneurship scholars investigating the effects of insider holdings on

IPO performance. Downes and Heinkel (1982) performed an empirical test of the Leland and Pyle model and found that "firms in which entrepreneurs retain high fractional ownership do indeed have higher values" (p.9). Since this initial study, a number of additional studies have supported the important role that retained ownership has in the performance of U.S. and Canadian IPOs. Strategy scholars have demonstrated the importance of CEO equity to the initial pricing performance of IPOs (Certo, Daily, Cannella, and Dalton, 2003; Francis, et al. 2005). Others extend this logic to include not only the post IPO stock holdings of company executives, but also of outside directors (Sanders and Boivie, 2004). Francis (et al. 2005) suggest the relationship between insider ownership levels and performance would be higher for high tech firms going public. Both blockholders (those with greater than 5% ownership) and institutional owners have also been demonstrated to be viable signals of credibility which uninformed investors may refer to when evaluating their support of a new issue (Sanders and Boivie 2004)

Other areas of the company prospectus can offer insight to investors regarding the growth prospects of a firm and how it may fare in the future. Scholars suggest that investors tend to view new issues whose CEO is also the organizations founder positively simply because these executives possess not only structural authority, but also, they convey symbolic value by their continued commitment and personal tie to the organization (Certo, Covin, Daily, and Dalton, 2001; Nelson, 2003). When compared to nonfounder CEO firms, founder-led firms amass a higher premium of stock price over

book value at IPO (Nelson, 2003). Founder-led CEOs that maintain ownership in their firms post IPO also have a reduced likelihood of failure (Fischer and Pollock, 2004).

There are a variety of additional internal organizational characteristics which may provide investors an indication of the firm's future prospects. A firm's size (Ibbotson, Sindelar, and Ritter,1988) and age (Megginson and Weiss, 1991; Mikkelson, Partch, and Shah, 1997; Ritter, 1991) may provide general proxies about the viability of a firm. Larger and more seasoned firms generally have the advantage of experience and a larger pool of resources from which they may pull from in order to initiate and sustain their strategic initiatives. Prior empirical work examining earnings management behavior in the new issues market has generally focused on the notion that managers opportunistically overstate earnings to issue stocks at artificially inflated prices (Teoh, Welch, and Wong, 1998). Ross (1977) contended that firms retain debt in an effort to signal quality. Others argue that firms attempt to signal quality by issuing dividends (Bhattacharrya, 1979).

Within every prospectus firms must disclose all of the risks which could impact the short and long-term operating health of the firm. However, the SEC does not prescribe a limit to the number, or the degree of specificity to the risks firms must divulge to investors. Researchers often sum the number of risk factors listed in a firm's prospectus to provide an overall level of firm risk at the time of the IPO (Beatty and Zajac 1994; Welbourne and Andrews 1996; Certo et al. 2001;) under the assumption that while all risk factors are not equal, more risk factors should generally indicate a higher risk position.

How a firm plans to utilize the proceeds from the public offer may also provide potential investors with some indication of the outlook of unfamiliar firms. As noted by Beatty and Ritter (1986, p. 218): "The SEC . . . requires more speculative issues to provide relatively detailed enumerations of the uses of proceeds, while not requiring more established issuers to be very explicit." Unfortunately, providing investors with a wide range of uses from the IPO proceeds only serves to increase the uncertainty among investors as to how the firm will ultimately direct and utilize the funds (Beatty and Ritter, 1986; Rasheed, Datta, and Chinta, 1997; Daily, Certo, Dalton, and Roengpitya, 2003).

2.7.3. Capability Signals

Prestigious and established organizations are frequently trusted by external resource holders to be able to discern quality under conditions of uncertainty and certify the initiatives of lesser known firms (Stuart, 1998). In the case of new ventures, endorsements by influential third parties such as underwriters, accounting firms, and venture capitalists are important in light of their knowledge about a firm's current condition and its growth prospects. Additionally, researchers point to members of an organization's hierarchy which may provide cues to investors regarding the ability of the firm to succeed in securing resources and manage the firm in uncertain environments. In this section we discuss the role third party certifications, alliance partnerships and top managers have played in previous IPO studies.

Endorsements are particularly important to those firms preparing for an IPO in light of the degree of uncertainty surrounding the firm (Gulati and Higgins, 2003).

Securing the endorsements of prominent financial partners is considered important because these entities frequently have detailed knowledge about a firm's present financial position, as well as a good estimate of what the future viability of the new firm happens to be. There are a range of essential criteria for third-party certification to be considered a credible signal by potential investors. Among them, researchers suggest the certifying party must have reputation capital at stake and it must be costly for the issuing firm to contract the services of the certifying party (Booth and Smith, 1986; Megginson and Weiss, 1991; Hansen and Torregrosa, 1992). Developing ties with prominent partners can signal quality to key external resource holders and lead to performance benefits for those firms engaged in the IPO process. Therefore, forming a relationship with a high-status partner can be a signal of endorsement for the unfamiliar firm and thus act as a source of legitimacy (Baum and Oliver, 1991; Podolny, 1994).

Much of IPO research includes a discussion on the role of the underwriter in setting the offer price and certifying and monitoring the IPO (Booth and Smith, 1986; Carter and Manaster, 1990; Hansen and Torregrosa, 1992; Carter, Dark and Singh, 1998; Jain and Kini, 1999; Loughran and Ritter, 2004). Booth and Smith (1986) developed a model for the role of the underwriter's reputation capital in certifying risky issues or guaranteeing product quality. Carter and Manaster (1990) argue that the prestigious underwriters are associated with IPOs that have lower initial returns. In addition, prestigious underwriters may choose to market the IPOs of low risk in order to protect their reputation (Carter and Manaster, 1990). Many previous studies of IPOs have demonstrated that firms who have secured the services of prestigious underwriters

tend to have successful IPOs (Carter and Manaster, 1990; Stuart, Hoang, and Hybels, 1999; Gulati and Higgins, 2003; Higgins and Gulati, 2006).

Titman and Trueman (1986) used the reputation of the issuer's auditing firm as a signal of quality to investors. The authors suggested that the market's perceptions of certain auditors that certify new issues are known for higher quality standards, especially those from the Big Five accountancy firms (i.e. Price Waterhouse Coopers, Arthur Andersen, KPMG, Ernst and Young, and Deloitte Touche Tohmatsu). In this model, issuers wanting to convey positive financial information to potential investors would be willing to pay for the services of a prestigious auditor so that the IPO would be publicized and circulated to a wide range of investors, ultimately affecting IPO proceeds in a positive direction. Alternatively, new issues with less favorable information would not find it worthwhile to pay the cost of a high quality auditor, since the auditor's revealed information would be less favorable, and negatively affect the proceeds of the new issue. Other researchers have also demonstrated the quality of the auditor chosen greatly affects the price of an IPO (Balvers, McDonald, and Miller, 1988; Beatty, 1989).

Scholars have also examined the importance of venture capital (VC) backing (Barry, Muscarella, Peavy, and Vetsuypens, 1990; Gompers and Lerner, 1997; Megginson and Weiss, 1991) to the pricing of new issues. Venture capitalists aid in developing strategy, as well as help young and inexperienced firms develop a host of contacts with suppliers, customers and the financial community (Fried and Hisrich, 1995; Macmillan, Kulow and Khoylian, 1988; Cyr, Johnson, and Welbourne, 2000).

Venture capitalists sometimes retain the right to appoint and remove key company executives as well as provide the firm needed capital and direct the firm to potential customers and partners (Gompers and Lerner, 1999). The signal of venture capitalist backing can be especially salient when they hold equity in IPO firms (Sanders and Boivie, 2004) and in periods of cold markets (Gulati and Higgins, 2003). A number of studies have demonstrated that VC-backed IPOs have lower initial returns and lower levels of long-run underpricing. (Barry et al, 1990; Megginson and Weiss, 1991; Gompers, 1996; Carter et al, 1998; Lee and Wahal, 2004; Loughran and Ritter, 2004). Barry et al. (1990) and Megginson and Weiss (1991) found that VC-backed firms underprice to a lower degree than non VC-backed IPOs. In testing the long-run performance of VC-backed IPOs, Brav and Gompers (1997) find that VC-backed firms significantly outperform non VC-backed firms.

Researchers also suggest that top managers may indicate to investors the ability of the firm to succeed in securing resources and managing the firm in uncertain environments. Cohen and Dean (2005) advise that industry experience, prior top management team experience, age, and educational attainment of top managers can help firms attain legitimate status among unfamiliar investors. Others also point to the educational levels of top managers as viable credentials that investors reference as a means to ease their uncertainties (Lester, Certo, Dalton, Dalton, and Cannella; 2006). A firm's ability to attract prominent third party endorsements, attract quality institutional investors, and ultimately the performance of firms at IPO can hinge upon the employment affiliations of top managers as well as the match between top management

backgrounds and the roles these executives serve in the firm (Higgins and Gulati, 2003; Higgins and Gulati, 2006).

Alliances represent voluntary agreements which enable the transference or sharing of products, services, or expertise between partnering firms (Gulati, 1998). Alliance memberships can be important to firms in terms of their ongoing success and survival (Gulati, 1995). Previous alliance related studies demonstrate that partnering firms can minimize transaction costs, increase market share, share risks and achieve better access to key resources such as capital and information (Kogut, 1988; Mowery, Oxley, and Silverman, 1996; Gulati, Nohria, and Zaheer, 2000). In addition, strategic alliances may provide opportunities for the sharing of capital, technology, or firm-specific assets (Gulati, 1999). Authors have utilized a range of measures to assess the importance of alliances to young firms. Deeds and Hill (1996) evaluated the effects of alliance memberships upon the rate of new product development. Others have demonstrated the importance of alliance memberships to sales growth (Stuart, 1998) patent development (Shan, Walker, and Kogut, 1994) and new venture survival (Baum, 1996). In addition, alliance memberships have been shown to improve valuation at the time of an initial offering, (Stuart, Hoang, and Hybels, 1999; Gulati and Higgins, 2003) as well as improve the chances a firm will receive additional rounds of financing (Folta and O'Brien, 2004).

In conclusion, researchers have found that investors often refer to country-level as well as firm-level factors when evaluating organizations that they are unfamiliar with. In the next chapter I build a series of hypotheses that extend prior literature

relating to the influence of country-levels factors to the success of organizations in foreign capital markets. In addition, I hypothesize whether certain internal governance mechanisms and endorsement relationships enable foreign companies to achieve enhanced levels of performance at IPO on U.S. stock exchanges.

CHAPTER 3

HYPOTHESES DEVELOPMENT

3.1 Legal Protection

A number of studies have found that the legal protection afforded to outside investors has a significant bearing on the size, value, and liquidity of a nation's capital markets. Presumably, La Porta et. al. (1998, 1999) observed that financing activity is significantly reduced in countries with poor investor protection systems. Likewise, Lins, Strickland and Zenner (2004) as well as Reese and Weisbach (2002) show that weaker shareholder protection in a domestic market may be one reason why a number of foreign firms have chosen to list their equity shares in the U.S. Indeed, as Coffee (2002) suggests, foreign firms who engage in the process of listing on U.S. stock exchanges commit themselves to respect minority investor rights and to provide fuller disclosure. Because of the uncertainty surrounding a foreign IPO, the strength of a country's legal environment may have a significant bearing on the success of foreign firms at IPO.

Investing in new issues is an inherently risky proposition. Investors face a great deal of uncertainty in their attempts to valuate new issues. In order to investigate new issues, investors often will frequently try to obtain a composite picture of a firm by referring to a host of internal and external issues (e.g. past sales, earnings projections, industry competitiveness) which may potentially impact the success of the firm as a

publicly held entity. Investors in the U.S. IPO market are often the most knowledgeable traders and remain in the IPO market because of their records of success in spotting private firms that have the proper management and the organizational capabilities to prosper long after their first shares are sold. IPO investors are certainly aware that not all new issues will go on to achieve Fortune 500 status shortly after going public. However, these investors know that in the event that IPO managers of domestic firms do act in ways that reduce the rights of minority shareholders, recourse is available through the U.S. courts system.

While there does exist a range of barriers to investing in foreign firms, one aspect which could be especially salient to the success of foreign IPOs listing on the NYSE or the NASDAQ is the ability of US investors to sue and enforce a legal judgment to recover all or a sizable portion of their investments. Even if a US investor was successful in bringing a lawsuit against a firm domiciled in a foreign country, enforcement of judgments may be difficult if not impossible to enforce. US courts generally do not have jurisdiction over foreign defendants and foreign courts often do not recognize judgments of US courts for liabilities grounded in US federal securities laws. Therefore, the only remedy available to US investors of foreign firms may be whatever legal remedies are available in the issuer's home country. In some cases, these legal remedies may be very similar to those US investors are accustomed, in which case investors may feel more at ease in backing riskier investments in firms originating from these countries. Alternatively, as is the case of a number of emerging economies, the legal remedies against firms domiciled within these countries that are available to US

investors may be limited to such an extent that US investors may be hesitant to invest in firms which originate from these markets. Therefore, I hypothesize:

H1: There is a positive relationship between investor protection and the performance of firms from that country in foreign IPOs.

3.2 Institutional Distance

In addition to a country's legal system, another prevailing research area among scholars relates to how asymmetric information as well as psychological factors can influence investor portfolio choice (Gehrig 1993, Brennan and Cao, 1997, Kang and Stulz, 1997). Scholars suggest that U.S. investors are at an informational disadvantage when they attempt to valuate foreign companies. To overcome information asymmetries, investors may refer to institutional norms of a firm's country of origin in order to assess the growth potential and assess their participation levels in a foreign new list. Because investors look to country of origin cues, foreign IPO firms cannot simply adhere to their home country standards; they must adhere to both the regulatory and normative standards common to U.S. firms in order to successfully place equity shares with U.S. investors.

North (1990) describes institutions as the "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction" (p.3). Scott breaks down the institutional dimensions within a society as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior" (p.33). Institutional distance defines the difference or similarity

between a home and host country's institutions. Kostova (1997) introduced the concept of a multi-dimensional *country institutional profile* to explain how a country's government policies, widely shared social knowledge, as well as value systems affect domestic business activity. The *regulatory dimension* consists of the rules and laws that provide support for new businesses, reduce the risks for individuals starting a new company, and facilitate entrepreneurs' efforts to acquire resources. The *normative dimension* consists of "social norms, values, beliefs and assumptions about human nature and human behavior that are socially shared and carried by individuals" (Kostova, 1997, p.180).

Some finance and legal scholars imply that the regulatory environment surrounding new U.S. listings as the most important factor impacting investor acceptance levels of foreign firms, especially those originating from distant emerging economies (Coffee, 1999). Coffee (1999, 2002) advises that firms list in foreign countries in order to bond themselves to the U.S. capital market's listing standards. Researchers also suggest that by listing on U.S. exchanges, foreign firms send credible signals to investors that the firm is committed to complete disclosure (based on their obligation to satisfy U. S. generally accepted accounting principles), and will improve its corporate governance, protect the interests of minority shareholders and will adhere to the regulatory scrutiny from the SEC. While the regulatory requirements of foreign new issues are more stringent on the NYSE and NASDAQ than any other exchange in the world, alone these rules are not as difficult to learn and understand as the normative expectations of U.S. investors. Eden and Miller (2004) describe a country's regulatory

institutional dimension as the easiest for foreign firms to observe and adhere to simply because rules and procedures are frequently codified into rules and procedures. Therefore, adhering to U.S. listing standards may provide a necessary, though not sufficient, means to describe why some overseas firms originating from distant economies achieve success at IPO while others do not.

However, if simply adhering to the SEC and exchange mandated listing standards were sufficient signals to investors concerning the future governance and growth prospects of firms, research would not point to the number of additional factors investors look to when evaluating foreign firms. Studies show that investors tend to neglect the fundamental principles of portfolio diversification by choosing to hold and trade stocks of firms that share the investor's language and cultural background (Sarkissian and Schill, 2004; Coval and Moskowitz, 1999, 2001; Huberman 2001; Grinblatt and Keloharju 2001). Coval and Moskowitz (1999) find that, within the United States, mutual fund managers prefer investing in firms headquartered close to their home city. In Finland, Grinblatt and Keloharju (2001) revealed investor preferences for stocks of firms that share the investor's language and cultural background. They found that Finnish investors whose native language is Swedish were more likely to own stocks of companies in Finland that have annual reports in Swedish and Swedish-speaking CEOs than were investors whose native language is Finnish.

Beyond regulatory requirements, we can look to the expectations and standards of U.S. investors to better understand why investors will forego rational investment behavior when evaluating new listings from distant countries. The normative dimension

reflects tacit, deeply held values and beliefs within a society and prescribes the customs and generally held beliefs about how things should or should not occur. Kostova and Zaheer (1999) suggest that normative institutions represent the most difficult dimension for outsiders to learn, understand and react to. In light of its importance, Eden and Miller (2004) suggest normative institutional distance is probably more salient to foreign firms attempting to acquire resources in distant markets.

In the case of foreign IPOs, even when a firm has adhered to SEC and exchange mandated listing requirements it can be argued that investors will resist investing in a new foreign listing when the normative framework of the firm's macroeconomic environment is vastly different from that of the U.S. For many years, scholars have pointed to the special risks surrounding investments in foreign securities, including their vulnerability to foreign market volatility, susceptibility to exchange rate movements, as well as their susceptibility to foreign political, economic, and social events-all of which may be more pronounced in emerging markets. However, economic indicators of firm risk may only partially explain the capital raising difficultly firms from distant countries experience at IPO.

To better explain the opportunity costs associated with liabilities of foreignness in the context of new public issues, one must begin by understanding how internal corporate norms are formed. Certainly, the actions of a firm and its management are frequently shaped and governed by internalized norms. A firm's internalized norms provide the basis for communication and cooperation which enable firms to implement growth strategies. In a sense though, the normative behaviors of organizational actors

represent learned behaviors which the firm has had to develop and adapt to in order to compete in the larger environment. Coffee (2001) suggests these critical internal norms are primarily shaped by principal actors in the governance of organizations who internalize societal norms and act in accordance with them. While this may be helpful to young firms in stable societal contexts, it may be especially problematic to firms in distant and underdeveloped markets for the simple reason that these firms frequently must look to external capital markets to fund growth strategies. "The more that society as a whole is turbulent, chaotic, and divided and the more that it rewards predatory or opportunistic behavior, the more that such experiences may influence behavior within the corporation as well" (Coffee, 2001: p. 2165). For foreign firms at IPO, when investors sense a firm's macroeconomic environment will impede the organization's growth potential, this negative perception may have a cascading effect in the minds of investors when evaluating other aspects of the firm.

Large normative distance may suggest to investors the firm will experience a difficult transition to life as a publicly held firm. Difference in standards and customs can act as a barrier to interaction among people. This may promote different visions for the firm and suggest to investors the firm will be especially susceptible to misunderstandings and disagreements between company executives, board members and shareholders regarding the strategic direction of the firm. On the other hand, shared norms and expectations will help facilitate interaction and greater communication. Indeed, foreign IPO firms may experience a liability of foreignness when attempting to access U.S. capital markets when the normative foundation of their country of origin is

very different from that of the U.S. For "threshold" IPO firms (Zahra and Filatotchev, 2004) originating from countries of great normative distance, these differences could prove especially difficult to overcome. Therefore I hypothesize:

H2: There is a negative relationship between institutional distance and foreign IPO performance.

3.3 Foreign IPO Governance

A recent McKinsey survey of more than 200 institutional investors who hold accounts worldwide revealed that their decision to invest is largely determined by the governance structure of a firm (Coombes and Watson, 2000). As many as 75% of institutional investors indicated that board practices were in many respects at least as important as financial performance (Gillan and Starks, 2003). Further, a majority of respondents indicated that a well governed firm would prompt them to pay a premium over a comparable firm that had lower governance measures. In a separate study, Useem, Bowman, Myatt, and Irvine (1993) pointed out that an independent board that also had a diverse set of skills and experiences was considered important to investors.

Frequently, prior to going public, ownership of firms is concentrated in the hands of the entrepreneurial owners. Due to this, the need for firms to practice good corporate governance is not as vital simply because the firm is not beholden to a group of dispersed outsider investors. However, once a firm goes public, the ownership structure of a firm changes dramatically to the extent that ownership becomes widely dispersed into the hands of a large number of outside investors. Certainly, the listing requirements the SEC places upon firms engaged in the offering process are substantial

(Certo et al. 2001, Welbourne and Cyr, 1999) and may prompt a number of governance changes themselves. However, in keeping with the signaling perspective, some corporate governance decisions made at the time of a foreign IPO may be key to a firm's ability to acquire capital market resources from investors who may be unfamiliar with the firm.

Up to this point, a significant body of literature has explored the effects good corporate governance has on corporate investment, cost of funds and company growth (Becht, Bolton, and R¨oell (2003)). However, as Aggarwal, Erel, Stulz, and Williamson (2006) propose, governance depends upon the interaction of both country-level and firm-level mechanisms. As they point out, country-level governance mechanisms include not only the country's laws and the institutions that enforce the laws, but also the country's culture, norms, and various formal and informal monitors of corporations. In this section I will illustrate a range of internal firm-level governance mechanisms, specifically, the value outsiders place upon insider ownership, founders, independent directors and foreign owners which could interact with a country's governance mechanisms to impact the success of firms at IPO.

3.3.1 Insider Ownership

Investors frequently view a company as a high-quality investment target when managerial ownership tends to be higher (Leland and Pyle, 1977; Mehran, 1995). High insider ownership levels within the ranks of top management may send positive signals to potential investors regarding a foreign firm contemplating an IPO. Agency theory posits that managers have a propensity to pursue their own goals, and that these goals

may not always be aligned with those of owners (Jensen and Meckling, 1976). In the absence of monitoring on the part of shareowners, managers may take steps to enhance their non-salary incomes or increase their on-the-job consumption in other forms. In addition, managers may engage in activities that help realize their needs for power and prestige by making decisions that increase the size and/or diversity of their organizations (Baumol, 1959, Jensen and Meckling, 1976, Williamson, 1964). When key executives maintain significant ownership levels in their firms, investors will be less inclined to foresee agency problems with upper management and therefore anticipate decision making that is aligned with maximizing long term shareholder value and ultimately better performance by the firm.

A number of studies have demonstrated that managerial ownership and performance often have a positive relationship for firms. Some suggest that the higher the management ownership ratios of the company's stock, the better the investment opportunities are (Cho, 1998). Others demonstrate a positive correlation between a company's investment standards and ownership of general management (Fürst and Kang, 1998). It is believed that those firms with higher levels of insider ownership will perform better due to improved decision making via the alignment of interests between managers and owners. The greater the degree of ownership or financial attachment of organizational leaders, the more alignment of management and shareholders interests (Jensen, 1983; Jensen and Meckling, 1976). Scholars have found those firms whose owners retained higher ownership levels at IPO ultimately have higher performance than other issuers (Jain and Kini; 1994). Alternatively, research has also demonstrated

that low management ownership is related to low measures of corporate value (Morck, Shleifer, and Vishny 1988; McConnel and Servaes, 1990).

It is not required by the SEC, nor by the host of third parties (underwriters, venture capitalists, and auditors) who assist a firm at IPO, that top managers retain significant ownership interests in a firm at IPO. However, insider ownership does represent a governance practice U.S. investors are widely familiar with and its importance to investors may be such that they come to expect its adoption among all firms at IPO, both foreign and domestic. Because of this, I hypothesize:

> H3. There is a positive relationship between a firm's level of insider ownership and foreign IPO performance.

For IPOs which originate in markets experiencing low levels of investor protection, as well those whose institutional profiles differ significantly from that of the U.S., maintaining high insider ownership levels post IPO may prove crucial to the amount of funds these firms receive. In light of the information asymmetry normally associated with firms emanating from foreign markets, enhanced insider ownership levels may send a positive signal to potential investors regarding the type of governance practices the firm's leaders are likely to engage in as a public firm. For firms that originate from countries with low levels of investor protection, insider ownership could provide a substantive signal to investors in which they can expect lower agency costs associated with the new issue. For firms originating from countries with very different governance norms and practices, insider ownership may convey a signal to investors that a firm's top managers are willing to adhere to the norms and standards investors

expect at IPO in order to ensure success. In other words, insider ownership should considerably reduce investor apprehension about the future strategic decisions of top managers. As Sanders and Goivie (2004) suggest, markets very often will sort firms based on observable corporate governance characteristics because they are perceived to correlate with desired, but unobservable governance characteristics and actions. Therefore, retained ownership by company executives is a positive signal foreign firms contemplating an initial stock offering employ to help overcome negative attributes associated with their country of origin.

H4: A firm's level of insider ownership moderates the relationship between legal protection and foreign IPO performance. The level of insider ownership enhances the positive relationship between investor protection and performance.

H5: A firm's level of insider ownership moderates the relationship between institutional distance and foreign IPO performance. The level of insider ownership diminishes the negative relationship between institutional distance and foreign IPO performance.

3.3.2. Founder Influence

An IPO represents a milestone in the life of an organization in which a founder may play a unique role in the ongoing success of the firm. In light of the time, energy and cost associated with getting a firm to the IPO stage, a founder CEO may be better equipped to see a firm complete an IPO successfully than a CEO brought in from outside the firm (Nelson, 2003). However the weight and value that outside resource holders place in founder-CEOs may be impacted by issues relating to the firm's country

of origin. Indeed, while founder-CEOs are crucial to leading firms up to the point of an initial listing, these executives may send a detrimental signal to investors contemplating investing in a foreign new issue.

Some authors have found that firm performance is no different when comparing founder versus non-founder led firms. Daily and Dalton (1992) found no significant difference in performance utilizing return on equity and return on assets in financial performance when comparing small founder-managed firms against nonfounder managed firm. However, others have demonstrated measurable performance differences between fast-growing companies that were founder-managed vs. 'professionally' (i.e., non-founder) managed with multiple accounting- and market-based measures differences (Willard et al. 1992).

However, an IPO represents a transition in the life of an organization, and it is at this stage that founder CEOs may be especially important to the performance of foreign entrepreneurial firms. Founder CEOs often make substantial personal investments in helping an organization grow from infancy (Nelson, 2003). From a resource perspective, founders often possess a great deal of knowledge about the firm and its processes (Fisher and Pollock, 2004) to the extent these executives can be considered a source of competitive advantage (Baum, Locke, and Smith, 2001). Founders of entrepreneurial firms very often have a reputational stake in the firm and exert a greater effort than nonfounder CEOs to ensure firm success. Since founding entrepreneurs will frequently financially back their firm, these executive tend to retain a significant portion of their firm's equity. Founder-CEOs, who maintain a significant equity ownership

position, signal to potential investors that their personal fortunes are tied to their firms. At IPO, firms abruptly shift their focus towards maximizing the value of dispersed outside owners. The registration, compliance and underwriting process of foreign IPOs can be difficult especially in firms from distant countries. Founder-CEOs may be especially important to firms attempting to establish depository agreements with major international banks. For those firms attempting to begin Level III American Depository Receipt agreements as well as those directly listing their company's shares on the NYSE or NASDAQ, a founder-CEO may signal that the firm has a longer-term orientation.

However, despite the importance of founders, there are a number of issues associated with an IPO firm's country of origin, which may impact the value investors place in CEO-founder led IPO firms who originate from countries which are institutionally distant or suffer from low levels of investor protection. Founding entrepreneurs face new and different challenges as they attempt to grow their firms. Indeed, success at managing the challenges and complexities at one stage in the life of an organization does not imply future success. Authors suggest two possible reactions founder-CEOs have when confronted with changes to their firm. Fisher and Pollock (2004) suggest that founder-CEOs will be less likely to engage in self-interested behavior due to their vested interest and personal commitment and identification to the firm. Alternatively, a founder-CEO's identification with an organization they nurtured since its inception may make these executives particularly resistant to changes they perceive will diminish their decision making authority. It is conceivable that investors

may perceive that executives leading firms from distant countries with very different legal regimes and institutional structures will be more likely to fall into the latter of these two possible outcomes.

In addition, a founder-CEO's interests may not always align with shareholders. Instances of this can be seen when founder-CEOs partake in excessive perquisite consumption (Jensen and Meckling, 1976) as well as when executives refrain from adopting liberal cash payout or dividend policies. Investors in countries with significant levels of investor protection have a number of recourse options available to them. However, as outlined earlier, investors of firms from countries with low levels of protection have limited remedies which they may seek against foreign firms. Even if investors can achieve a favorable verdict against a foreign firm in a U.S. court, it is very infrequent that a judgment from a U.S. court will be followed in a foreign country. The post-issue conduct of these founder-CEOs, especially those leading firms from countries experiencing low levels of legal protection, may be an area of great uncertainty to investors to the extent that the success a firm experiences at IPO may suffer.

Some scholars suggest that founder-CEOs who take their firm public represent untested management (Wat, 1983) and lack the objectivity of an executive to identify internal as well as external strengths and weaknesses (Drucker, 1974). Up until the point of their initial offers, founder-CEOs of foreign IPOs have grown their organizations by formulating strategies and governing their organizations according to the institutional rules and norms of their country of origin. These leaders may have been

quite successful in understanding the rules and practices of their own country as a private firm. However, when normative standards of an IPO's country of origin differ significantly from the U.S., investors may perceive that founder-CEOs of these firms will experience great difficulty in shifting to the shareholder orientation which western investors demand. Based on these arguments, I propose the following hypotheses relating to the potential moderating impact founder-CEOs have on the relationship between institutional distance and performance of foreign IPOs.

H6: There is a negative relationship between the presence of a founder-CEO and foreign IPO performance

H7: The presence of a founder-CEO moderates the positive relationship between investor protection and foreign IPO performance. Founder-CEOs diminish the positive relationship between investor protection and performance.

H8: The presence of a founder-CEO moderates the negative relationship between institutional distance and foreign IPO performance. Founder-CEOs enhance the negative relationship between institutional distance and foreign IPO performance.

3.3.3. Board Independence

Independent boards that possess a diverse set of skills and experiences are considered important to investors (Useem, Bowman, Myatt, and Irvine; 1993) because it implies the firm will be better governed and capable of attaining higher performance levels (Millestein and MacAvoy, 1998). In light of the weight investors place in well governed firms, foreign IPOs with independent boards may experience considerable success in their new equity offers.

The regulative and normative 'pillars' of institutional theory (Scott, 1995) may help us understand the underlying pressures firms experience when appointing independent directors. There are a number of SEC and exchange mandated changes which foreign firms must make to in order to list stock on U.S. exchanges. In the case of IPOs, the regulative 'pillar' accounts for the SEC rules which create coercive pressures all firms face in order to issue equity shares to the general public. However, while the SEC and U.S. exchanges do compel domestic firms to maintain a majority of independent members on their boards, foreign firms are not obligated to adhere to these governance requirements according to listing standards on either the NYSE or NASDAQ (www.sec.gov).

In the absence of regulatory mandate, the normative 'pillar' may help explain the demands the market places upon institutionally distant countries to adopt board structures similar to publicly held U.S. firms. Institutional theory suggests that organizations seek to behave in ways that will not cause them to be noticed as different and consequently singled out for criticism (Meyer and Rowan, 1977). Institutional investors may view enhanced independence on the firm's board as a positive sign that the firm will break away from the governance model of the firm's home country. Indeed, an independent board may signal a governance structure which western investors have grown accustomed to and may even expect when evaluating unfamiliar firms from distant countries. In addition, increased board independence may suggest to potential investors that the firm is attempting to increase its level of transparency and

monitoring by adhering to a more demanding corporate governance system than the accepted model espoused in its home market.

Gillan and Starks (2003) revealed that board practices were in many respects at least as important as financial performance among the institutional investors they surveyed. In fact, a majority of respondents revealed that a well governed firm would prompt them to pay a premium over a comparable firm that had lower governance measures. When institutionally distant firms attempt to access the U.S. capital market, they experience demands to conform and adhere to the governance norms market participants expect. I propose that when foreign IPOs signal their willingness to adhere to heightened governance standards by increasing the level of independent members on their corporate boards, investors will be more willing to respond with increased demand for the new issue. Indeed, as Coffee (2002) suggests, foreign firms that engage in the process of listing on U.S. stock exchanges commit themselves to respect minority investor rights and to provide fuller disclosure. Thus, we expect a positive relationship between the level of board independence and foreign IPO performance.

H9: There is a positive relationship between the level of board independence and foreign IPO performance.

H10: The level of board independence moderates the positive relationship between investor protection and foreign IPO performance. The level of board independence enhances the positive relationship between investor protection and performance.

H11: The level of board independence moderates the negative relationship between institutional distance and foreign IPO performance. The level of board independence diminishes

the negative relationship between institutional distance and foreign IPO performance.

3.4 Capability Signals

When organizations attempt to acquire resources in foreign markets, they must possess qualities and abilities that will enable them to mitigate liabilities of foreignness. In circumstances in which law is weak and norms differ considerably, credible signals about a foreign firm's intentions become critical. However, the question becomes: which signal will investors consider credible? To diminish the opportunity costs associated with underpriced new issues, foreign firms need to demonstrate to uncertain investors their willingness and abilities to adhere to the market demands of publicly held firms.

In this section we explore the value which investors place in venture capitalists, alliance partners, and top manager affiliations. Established organizations which are considered to be high quality are often trusted by external resource holders to be able to discern quality under conditions of uncertainty (Stuart, 1998). The endorsement of U.S. venture capitalists (VCs) may be especially helpful to a foreign new issue. Because of their knowledge and experience in guiding firms through the new issue process, U.S. venture firms may be able to better prepare and position foreign issuers to achieve the levels of post-IPO growth and performance U.S. investors expect. Likewise, scholars also point to alliance memberships and top manager affiliations which may provide cues to investors regarding the ability of otherwise unfamiliar firms to compete for resources and grow successfully.

3.4.1. U.S. Venture Capital Ownership

A growing body of literature demonstrates that VC firms based in the U.S. play important roles in the firms they choose to back. Scholars have demonstrated that VC firms act as effective monitors (Barry et al. 1990), and take steps to change the management of their portfolio firms (Hellman and Puri, 2002). In addition, VC firms are unique in their ability to work in highly uncertain environments and reduce the cost of information asymmetries (Ang, 2006). This section explores the importance of U.S. VCs to the success of IPOs and discusses how VCs may alleviate concerns investors may harbor regarding the safety of their investments as well as the long term viability of foreign IPOs. Indeed, venture capitalists that are well known in their home market may serve as complements to the inadequate or inefficient monitoring of domestic institutions and help alleviate the liability of foreignness felt by firms in their portfolio (Makela and Maula, 2005).

A considerable body of literature has recognized the role different investor groups have to the governance of firms by monitoring and influencing the strategic decision making of managers (Brickley, Lease, and Smith, 1988; Johnson and Daily, 1996; Monks and Minow, 1995; Schleifer and Vishny, 1986). It is generally argued that in the presence of sufficient equity control to monitor and restrain managements, the incidence of self-interested strategizing by an organization's management will be dampened. Khanna and Palepu (1999) suggest foreign investors serve a valuable monitoring function as emerging markets integrate with the global economy.

Amihud and Lev (1981) demonstrated that organizations tended to be more involved in unrelated acquisitions and had higher levels of diversification when large block shareholders were absent. Similarly a host of additional studies all hold that shareholder groups that retain significant ownership positions help to fend off self-interested behavior on the part of management (Berger and Ofek, 1995; Saunders, Strock, and Travlos, 1990). Most VCs refrain from selling their shares in an IPO offering (Barry et al. 1990). A VC's post-IPO retained equity holdings may aid potential investors in their valuation process by suggesting they will play a substantive ongoing role as an effective monitor to diminish value-destroying attempts by self-interested managers.

In their review, Gompers and Lerner (2001) find that U.S. VCs choose to finance only those firms that pass their comprehensive screening process. Due to their ongoing involvement with their portfolio companies, VCs tend to invest in ventures they believe will be successful. While investor uncertainties may be reduced to a certain extent because of a VC's certification process, investor reservations may be reduced in a more substantive way by the VC firm retaining shares after a firm goes public. By retaining significant equity in portfolio firms, VC firms help to send a substantive signal to investors about their belief in the firm's future prospects.

Due to their knowledge in the complexities of the IPO process as well as their experience in aiding the strategy making activities of newly listed firms, the certifications by U.S. VC firms may serve as symbolic endorsements to investors of foreign securities. The IPO process requires coordination among managers,

underwriters, auditors and VC firms. U.S. VCs often benefit from a wide variety of experiences in facilitating managerial changes in portfolio firms, in addition to possessing information and expertise of the intricacies of helping firms manage the transition into a publicly held entity. VCs help inexperienced firms develop strategies that strike the delicate balance between satisfying profit demands while simultaneously positioning the firm for sustained growth. Due to their sustained contact, U.S. VCs may be able to exert much greater influence than arms-length guidance common in other forms of foreign investment.

Because of their role, investors may view U.S. VC firms as having the requisite "expert power" (French and Raven, 1960) institutionally distant firms need to overcome the "liability of foreignness" they face with potential stakeholders in host markets. IPOs backed by prominent VCs help provide assurance to investors that the issuing firm has been adequately screened, financed, and business model developed which positions the firm for success as a publicly held corporation. While VCs are not only experienced in guiding firms throughout the entire IPO process, they also help fully place the new issue because of their repeated contacts with a host of intermediaries to the IPO process (e.g. underwriters, analysts, institutional investors). Because of their reputational concerns, some scholars note that VCs are less likely to hype or overprice the stocks they are backing (Brav and Gompers, 1997). In addition, it could be argued that investors may view the presence of U.S. VCs as changing an organization's "attitudinal" dimension of growth in a wider array of markets and therefore suggest to investors the intention for

global expansion (Maisonrouge, 1983; Perlmutter, 1969). Indeed, as Khurshed (2000) suggests, endorsement by a VC signals the firm's future value and post-IPO survival.

H12: There is a positive relationship between the presence of U.S. VCs and foreign IPO performance

H13: The presence of U.S. VCs moderates the relationship between institutional distance and foreign IPO performance such that U.S. VCs weaken the negative relationship found between institutional distance and foreign IPO performance.

H14: The presence of U.S. VCs moderates the relationship between legal protection and foreign IPO performance such that U.S. VCs strengthen the positive relationship found between legal protection and foreign IPO performance.

3.4.2. Top Management Team Affiliations

Most of the research on top management teams has centered on the internal value top managers bring to the leadership and strategic decision making of organizations (Hambrick, Cho, and Chen, 1996). Recent studies have begun examining the weight the market places in a new issue's management to provide some indication of a firm's growth and performance potential. However, as Higgins and Gulati (2006) suggest, the extent to which TMT backgrounds help mitigate negative market perceptions based upon extraorganizational factors is yet to be fully explored. Indeed, foreign IPOs suffering from liability of foreignness pressures may benefit from TMT member affiliations with high profile host market firms.

One of the most critical activities of firms competing in new environments is gaining the support of individuals that can ensure the firm's survival (Pfeffer and Salancik, 1978). D'Aveni suggested that education levels, affiliations, and experiences

ascribe different values and abilities to people. In other words "going to the proper schools, having impressive prior work experience and associating with the right people indicate higher status, aggregated prestige and skill" (1990, p. 124). Proponents suggest that the joint work experiences of top managers help organizations increase efficiency and secure new stakeholders (Eisenhardt and Schoonhoven, 1990). Board members, as well as top executives, can directly influence investor perceptions and decisions to provide financial resources to the firm engaging in the IPO process (see Bochner and Priest, 1993). As Lester et al. (2006) points out, the backgrounds of top managers helps to attract the awareness of other prestigious affiliations (Higgins and Gulati, 2003) such as prominent institutional investors.

Research has shown that a manager's prior experience contributes social capital to an organization in terms of interpersonal networks and access to resources. However, what is especially important in the minds of investors considering investments in foreign IPOs is that prior experiences also shape predispositions and tendencies (Burton, Sorensen, and Beckman, 2002; Hambrick and Mason, 1984). Investors may consider new foreign issues led by executives possessing U.S. public company experience as better equipped to guide foreign issues towards sustained post-IPO success for a number of reasons. Executives of U.S. publicly held firms are accustomed to basing strategic decisions upon strong governance practices and accounting controls and procedures which allow for timely information transfer. Also, executives of U.S. public firms know the importance of providing timely and reliable financial information to investors as well as continually working to reduce a firm's litigation exposure. In

addition, foreign firms led by managers with U.S. public firm experience understand that complying with Sarbanes-Oxley legislation takes substantial planning and resources. Executives with prior public company managerial experience possess the requisite skill and expert power a private foreign firm needs to make the transition into a publicly held organization. Management that is accustomed to western style governance and management practices may convey positive market signals that the firm is properly positioned to quickly and properly utilize the proceeds of a new issue and less likely to encounter disagreements with constituent stakeholders. This may be especially important to foreign firms attempting to overcome liability of foreignness pressures built upon extraorganizational factors. Executives experienced in U.S. publicly traded firms are accustomed to formulating long term strategies while simultaneously satisfying the demands and emphasis shortsighted investors place upon quarterly earnings growth. Firms from distant countries led by managers inexperienced in these conflicting pressures may indicate to investors their inability to manage the tension that market demands and expectations place upon public firms. When evaluating a foreign new issue, investors may look beyond a foreign IPO's country of origin and look favorably on those firms led by managers that are experienced serving a company's long term needs as well as Wall Street's short-term performance requirements. Therefore:

H15: There is a positive relationship between executives with prior public company managerial experience and foreign IPO performance.

H16: Executives with prior public company managerial experience diminishes the negative relationship between institutional distance and foreign IPO performance.

H17: Executives with prior public company managerial experience enhances the positive relationship between legal protection and foreign IPO performance.

3.4.3. Strategic Alliances

There has been growing interest in understanding the role alliance partnerships play in the success of organizations. A number of authors have demonstrated that these voluntary agreements help organizations overcome resource and capability deficiencies (Lu and Beamish, 2001) as well as enable firms to achieve success in international markets (Jarillo, 1989; Zacharakis, 1997). However, the signaling value alliance agreements provide to members may be especially important to members originating from distant markets.

Much of alliance research has focused on the performance ramifications of alliance partnerships to established firms (e.g., Mowery, Oxley, and Silverman, 1996). However, recent studies have explored the value alliance agreements convey upon younger entrepreneurial firms (e.g., Baum, Calabrese, and Silverman, 2000; DeCarolis and Deeds, 1999) as well as improving the performance of startups (Shan et al. 1994). Studies show alliance memberships enable inexperienced firms to access the financial and technical capabilities they need to launch products or innovative service offerings. While these abilities can be crucial to the success of inexperienced and fledgling firms,

others have found alliance memberships especially helpful to firms inexperienced in competing in foreign markets.

Some suggest that an alliance itself does not provide assurance that a firm can be successful in distant markets. Finding and securing the right partners can be one of the most importance issues facing a firm considering an alliance (Zacharakis, 1997; Park and Kim, 1997; Baum, Calabrese, and Silverman, 2000). International agreements can produce additional challenges to partnering firms. Cultural differences can heighten otherwise normal partnership issues relating to trust, division of control, and goal conflicts. Yet, despite the heightened levels of cooperation and coordination international partnerships require (Inkpen and Beamish, 1997), research shows that proper alliance partners can help to generate competitive advantages.

Alliances allow member firms access to not only financial resources, but also the social and managerial resources alliance partners can provide (Dyer and Singh, 1998). Access to these social capabilities may be especially invaluable to distant firms attempting to compete in unfamiliar markets. Scholars have shown that alliance partnerships with established firms can reduce liability of newness pressures placed upon inexperienced firms in product markets (Aldrich and Fiol, 1994; Deeds et al.,1997; Zimmerman and Zeitz, 2002). Similarly, alliance agreements with established capital market participants may enable foreign IPOs to overcome liability of foreignness pressures.

From a signaling perspective, these partnership agreements are especially important to foreign IPOs experiencing liability of foreignness pressures. By aligning

themselves with prominent publicly held U.S. partners, foreign IPOs send positive signals to investors regarding their quality and state of preparedness to manage internal differences and tensions between distant stakeholders. Scholars have shown that strategic alliances with prominent firms can help a firm achieve greater access to resources which can contribute to its growth (Baum et al., 2000; Baum and Oliver, 1991; Gulati, 1998). In light of the fact that alliance partners have the ability to thoroughly evaluate a partner's viability (Heide and Stump, 1995), investors may perceive foreign IPOs partnered with prominent U.S. companies as quality investments. Indeed, prominent partners with reputational concerns will be less likely to maintain agreements with private foreign firms if they suspect the firm is of low quality, has poor management, and lacks future viability. Therefore, alliances with prominent U.S. firms will enable foreign IPOs to send substantive market signals regarding their ability to govern and make strategic decisions in accordance with the U.S. capital market's expectations of publicly held firms.

H18: There is a positive relationship between strategic alliances with prominent U.S. partners and foreign IPO performance.

H19: Strategic alliances with prominent U.S. partners diminish the negative relationship between institutional distance and foreign IPO performance.

H20: Strategic alliances with prominent U.S. partners enhance the positive relationship between legal protection and foreign IPO performance

3.5 Summary

This chapter outlined a number of hypothesized relationships which may impact the amount of funds foreign companies receive when listing new equity shares on U.S. stock exchanges. The accompanying model illustrates each of these direct and interaction relationships I have presented. In the following chapter I detail how I gathered and operationalized the variables in each of the hypothesized relationships.

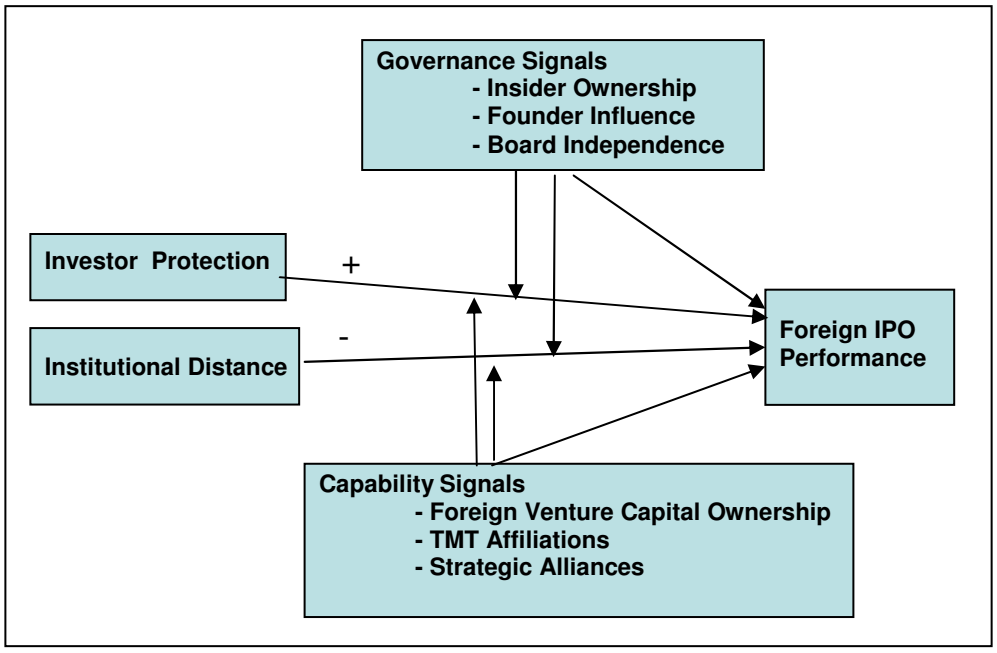

Figure 3.1: Conceptual Model

CHAPTER 4

RESEARCH METHOD

4.1 Sample and Data Collection

Research which examines initial public offerings in foreign markets can be classified in two categories: 1. cross-listings, where public firms listed on one exchange list on another exchange, frequently in a foreign market. 2. foreign listings, where the foreign stock exchange represents the first public listing for a firm. Because of the growth in foreign firms seeking equity capital on U.S. and London stock exchanges, direct foreign initial offerings has emerged as a new stream of research with a small but growing number of studies (Kadiyala and Subrahmanyam, 2002; Ejara, Ghosh, and Nunn, 1999; Bruner, Chaplinsky and Ramchand, 2006). However, studies investigating the cross-listings of public firms on foreign exchanges have received considerably more attention (Karolyi, 2006; Karoyli, 1996; Foerster and Karolyi, 1999; Miller, 1999). Bruner et al. (2006) suggested that much of the problems associated with studies of foreign firms attempting to raise capital on major exchanges stems from the fact that a significant portion of the firms included in most studies are already listed in their home market. Therefore, in contrast to earlier research, our study focuses on foreign issuers that are not listed on any exchange prior to their U.S. initial public offer.

Due to the unique nature of the firms under investigation in this study, selecting those to include in the final analysis portion of this dissertation presents some unique challenges. Initially, I began by utilizing the Security Data Corporation (SDC) New Issues database to identify all foreign firms that made first time firm commitment initial public offerings in the U.S between 1996 and 2006. Once the foreign firms are identified using the SDC database, additional analysis was required in order to correctly classify the final list of firms to be included in our analysis. The SDC platinum database classifies "foreign" firms to be those companies incorporated and whose primary executive offices are located outside of the U.S. Consistent with prior IPO research, firms excluded from the sample include stock listings resulting from mergers or acquisitions, as well as from spin-offs of publicly-listed firms. In addition, units, warrants and rights offerings are excluded from analysis. Following the selection procedures outlined by Bruner, Chaplinsky and Ramchand, (2006), I removed all utility firms from consideration. Finally, I eliminated from consideration firms incorporated in Bermuda, Bahamas and Cayman Islands. While these firms technically conform to the "foreign" status, IPOs from these countries are most often U.S. or London financial services firms who have chosen to incorporate in these countries to reduce their domestic tax burdens.

After identifying the entire population of foreign IPOs made on NYSE and NASDAQ exchanges between 1996 and 2006, I then focused on acquiring each firm's prospectus. Company prospectuses were utilized to identify a number of variables pertinent to this study. I utilized the SEC-EDGAR database, Moody's, Morningstar, and

the investor relations section of each company's website in order to obtain each firm's initial S-1 registration filing, final prospectus, and 20F statement. Prior to 1997, the SEC did not require electronic submission of foreign new issues. Due to this, I requested from the SEC, underwriters, and from foreign issuers directly those prospectuses not available in electronic form. After compiling the prospectus filings I reviewed the histories of each company to verify their initial offering in the U.S. represents their first public issue of stock on any exchange.

4.2 Variables and Measures

As described earlier in this dissertation, an initial public offer represents a pivotal event in the life of a company. Because of the time, expense and number of parties involved in making a company available to the investing public, as well as the ongoing effort associated with maintaining investor interest in a new public firm, researchers have evaluated the performance of IPOs in terms of one-day measures and in terms of survival. Therefore, in keeping with prior research, this dissertation utilized an indicator of IPO performance that has been established in prior strategy and entrepreneurship IPO studies.

4.2.1. Dependent Variable

IPO Success: Recently, Gulati and Higgins (2003) developed an alternative indicator of IPO performance based upon four different financial measures. By incorporating the net proceeds, pre-money market valuation, 90-day market valuation, and 180-day market valuation these authors created one financial indicator of success. I propose utilizing the

Gulati and Higgins (2003) measure in an effort to provide an indicator of foreign IPO performance that extends beyond one-day measures.

4.2.2 Independent Variables

Investor Protection: Investor protection is commonly defined as the protection of outside investors by the enforcement of regulations and laws (La Porta et al. 2000; Shleifer and Wolfenzon 2002; Shleifer and Vishny 1997; La Porta et al. 2000). La Porta et al. (2000) first suggested that investor's rights are protected when they receive dividends on pro-rata terms, are allowed to vote for directors, to participate in shareholders' meeting, to subscribe to new issues of securities on the same terms as the insiders, and to sue directors or the majority for suspected expropriation. Investors who do not have these powers are susceptible to the possibility that insiders can steal a firm's profits. Following Defond and Hung (2003) and Leuz, Nanda, and Wysocki (2003), I measured the strength of a country's law enforcement institutions using the mean score of three law enforcement variables identified by La Porta et al. (1998): 1. the efficiency of a country's judicial system, 2. tradition of law and order within a country 3. extent of government corruption. La Porta's index ranges from 0 to 10, with higher scores representing stronger law enforcement institutions. I utilized these proxies to assess investor protection levels in the countries represented in this study.

Institutional Distance: I captured the regulative and normative distance measures by utilizing the country level indicators Gaur and Lu (2007) recently outlined. These authors obtained 14 country-level indicators found in the annual editions of the *World Competitiveness Yearbook* (www.imd.ch/research/publications/wcy/index.cfm), as well

as a political risk rating indicator found in *Country Risk Ratings: Euromoney* to capture the regulative (rules setting and monitoring) activities in a country as well as normative aspects associated with a country's institutional environments. I referenced the 1996-2006 editions of these publications to

Table 4.1 Country-Level Variables

Factor Analysis Results of Country-Level Variables (Gaur and Lu, 2007)	
Factor 1: Regulatory Institutional Pillar	
1	Fiscal policy (government debt and total foreign debt as a percentage of GDP)
2	Antitrust regulation
3	Political transparency
4	Intellectual property protection
5	Judiciary system efficiency
6	Rarity of market dominance in key industries
7	Fiscal policy (inflation)
Factor 2: Normative Institutional Pillar	
1	Adaptation of political system to today's economic challenges
2	Adaptation of government policies to new economic realities
3	Transparency of government toward its citizens
4	Political risk rating
5	Degree to which bureaucracy hinders economic development

obtain these country-level variables for each country represented in my study. After capturing the regulative and normative dimensions for each country, I then calculated

the Euclidean distance from each home country to the U.S. using the formula developed by Gaur and Lu (2007):

Regulative and Normative Distance Calculation

$$= \sum [(I_F - I_U)^2 / V_I] / N$$

I_F = the institutional indicator (I) for foreign IPO country k.
I_U = the institutional indicator (I) for the U.S.
V_I = the variance of indicator I.
N = the number of indicators for each indicator
(regulatory distance = 7; normative distance = 5).

By utilizing these steps I captured the regulative and normative distances between the U.S. and the country of origin of every foreign IPO under investigation. The larger the values of the regulative and normative distance calculations, the greater the institutional separation between the U.S. and foreign IPO country of origin.

Insider Ownership: Following previous studies (Carpenter, Pollock, and Leary , 2003; Beatty and Zajac, 1994) I operationalized insider ownership as the percentage of the offering company owned by top managers at the time of the IPO. This information wase collected from the offering prospectuses.

Founder Influence: In order to evaluate whether foreign IPO valuations are influenced by whether or not the current CEO is also the firm's founder an indicator variable was utilized to denote this distinction [1 = founder CEO; 0 = nonfounder CEO]. This information was collected from the offering prospectuses.

Board Independence: In this study, board independence was assessed by utilizing the ratio of outside directors to total board size. Following other studies (Carpenter, Pollock and Leary, 2003; Certo, Daily, and Dalton, 2001) in order to capture director

independences, I utilized a board composition measurement that classifies outside (non-management) directors as only those with no prior professional or personal tie to the company or to management. This information was collected from the offering prospectuses.

U.S. Venture Capital Ownership: Research has demonstrated that VC partnerships provide financial resources and expertise which can provide important signals of new venture quality during the IPO process (Megginson and Weiss, 1991). Studies have shown that VC firms help certify the present value of a new issue as well as provide investors a sense of a firm's future value because VCs closely monitor their portfolio firms even after they have gone public (Sahlman 1990, Gorman and Sahlman 1989). In order to evaluate their effects on foreign IPO valuations it is important to point out a distinguishing characteristic of VC firms located outside of the U.S. European venture capitalists often do not have their own funds at risk in support of new ventures. In this setting, venture capitalists take on a role more consistent with employees, and act less like owners of new venture. Because of this, the stock market does not consider European VC firms as a signal of value (Filatotchev, Chahine, and Bruton, 2006). In light of this research, I utilized an indicator variable to denote this distinction [1 = U.S. venture capital backed; 0 = not U.S. venture capital backed]. This information was collected from the offering prospectuses. To identify the presence of a U.S. based VC firm I reviewed the *"Principal Stockholders"* section of each prospectus. To verify the shareholders I have identified are indeed U.S. VC firms I reviewed the *"The Venture*

One Venture Capital Source Book" as well as the internet to confirm the address of the company headquarters.

TMT Affiliations: Investors may refer to TMT credentials in order to reduce uncertainty surrounding a new public issue made by a foreign firm. Previous studies have shown that the background, experience, and ties of TMT members can impact organization performance (Weinzimmer, 1997). Authors have operationalized TMT experience and affiliations in a number of ways, from industry experience, prior TMT experience, previous experience with other TMT members, and prior affiliations with an IPO's customers, suppliers and current business partners. However, in light of their unfamiliarity of foreign companies attempting to access U.S. capital markets, investors may look favorably on those firms with TMT members who have worked in successful organizations which the investor may easily recognize. The Fortune 1000 is based on a number of criteria, including company revenue, profits, market value, and earnings per share. The implied endorsement of having worked at a high status firm may convey legitimacy signals and reduce investor uncertainties about the future of a company. Therefore, TMT affiliations were operationalized as the percentage of TMT members whose previous experience includes working in a Fortune 1000 firm. This information was gathered from the offering prospectuses.

Strategic Alliances: Research has demonstrated that strategic alliances have important implications for a range of organizational outcomes. To assess the importance of alliance memberships to foreign companies at IPO I examined whether the company has alliance agreements with Fortune 1000 firms. The implied endorsement based upon the

current ties to a high status firm conveys legitimacy signals and reduces investor uncertainties about the future of a company. Words such as "alliance" and "partner" in each prospectus will indicate whether the company does have a strategic alliance at the time the company goes public. A value of "1" will mean that the company has a strategic alliance with a U.S. Fortune 1000 firm.

4.3 Control Variables

Foreign firms making initial public offers on U.S. exchanges vary greatly in a number of respects. Following previous research, this dissertation controlled for the effects of firm size, age, and industry as well as a host of other firm related factors which could impact their success at initial offering. This information will be collected from the offering prospectuses.

Size: Firm size was controlled by incorporating the revenues at the time of IPO (Sanders and Boivie, 2004).

Age: Firm age was operationalized by taking the difference in years between the IPO firm's founding date and the date of the IPO (Daily, Certo, and Dalton, 2005).

Industry: Following Daily et al. (2005), I controlled for industry effects using a dichotomous variable indicating whether the IPO operates in a high-tech industry or not. Firms identified as operating in high technology industry sectors were coded as 1, while those in low-technology industry sectors were coded as 0. The SDC Platinum database categorizes all internet related, electronics, and software firms as "high-tech". Examples of "high-tech" firms include the new issues of manufacturers of

semiconductors, internet service providers, software communication and network software developers.

Risk factors: In addition, the SEC requires that companies disclose to investors the risks associated with the firm. Consistent with prior research, this dissertation summed the number of risk factors listed in a foreign firm's prospectus to provide an overall level of foreign IPO firm risk at the time of the IPO (Beatty and Zajac 1994; Welbourne and Andrews 1996; Certo et al. 2001).

Underwriter Prestige: *Underwriter prestige was* measured using the Carter and Manaster (1990) index. The measures are based on analyzing investment banks' positions in the tombstone announcements of IPOs. In order to create the index I looked at the hierarchy of investment banks as presented in the 'tombstone announcements' for IPOs that appear in *Investment Dealer's Digest* or *The Wall Street Journal*. I assigned the highest integer rank (9) to the first-listed underwriter, the second highest integer rank (8) to the next-listed underwriter(s), and so on. Using the second tombstone announcement, I checked to see if any underwriter not listed on the first tombstone was listed above any underwriter that *was* listed on the first one. If this is the case, the new, more highly ranked underwriter was assigned the rank of the superseded underwriter, and the superseded underwriter and all lower-ranked underwriters was shifted one point down on the scale. I continued these steps until all IPOs were exhausted. If more than 10 categories became necessary to preserve the hierarchy on the tombstones, I employed decimal increments. The scale presented in Carter *et al*. (1998) is

incremented in units of 0.125. Scores may assume a value ranging from 0, indicating lowest prestige, to 9, indicating highest prestige

Interationalization: Several studies have examined various facets of equity issuance in the US by foreign firms. Among them, Pagano et al. (2002) found that US exchanges attract high-tech and export-oriented companies. Firms that are diversified in many geographic markets may enhance market awareness of companies and possibly impact investors' response to a foreign new issues. Because of this, I controlled for the geographic scope of foreign new issues with the inclusion of a variable accounting for the percentage of firm assets located in foreign locations. I obtained the information for this variable from company prospectus as well as from WorldScope.

Market Effects: I accounted for the annual percentage change in the S&P 500 in order to control for the effects market fluctuations may have on foreign IPO proceeds.

Board Size: Previous studies indicate that firms with larger boards can be beneficial to experience better performance IPO (Dalton et al. 1999; Certo et al. 2001; Daily, Certo, and Dalton, 2005). Scholars suggest that larger boards provide a firm with a wider array of resources and act to reduce investor uncertainties concerning a new issue. The measurement of *Board Size* is the total number of individuals serving as directors on the board. This information was collected from each firm's prospectus.

TMT size: Research suggests that the size of a company's TMT can affect cognitive differences, social integration, and consensus (Lester, et. al. 2006; Finkelstein and Hambrick, 1996). Similar to the rationale for controlling *Board Size*, investors may look favorably upon distant and otherwise unknown companies with a large TMT. Following

Carpenter, Pollock, and Leary (2003) I measured *TMT size* by summing all individuals identified in each offering prospectus as key company executives.

Auditor Reputation: Because of the differences in accounting conventions in other parts of the world and the difficulty some firms may experience in adopting the SEC mandated GAAP standards, the certification by prestigious auditors may play a role in the IPO process. Following Lester et. al. (2006), Beatty (1989), and Michaely and Shaw (1995),this dissertation controlled for the effects of "big" (Big 5) accounting firms and all other accounting firms (Auditor Reputation). In this dissertation, I used an indicator variable of 1 to denote a big five auditor, and 0 otherwise.

Rounds of Financing: I also counted the number of prior rounds of financing firms received before listing in the U.S.

4.4 Analysis

Ordinary least square regression (OLS) was used examine the relationships between the independent variables, Legal Protection, and Institutional Distance and the dependent variable Foreign IPO Performance. To test the moderating effects hypothesized in this dissertation I interacted the governance and capability variables with the legal protection and institutional distance variables. Chapter 5 outlines the results of regression tests on the hypothesized relationships and also reveals post-hoc analysis results.

CHAPTER 5

RESULTS

5.1 Introduction

In this dissertation I utilized hierarchal regression to empirically test a set of hypotheses relating to the manner in which certain country-of-origin signals, and firm-specific governance and capability signals would impact the success of foreign IPOs listing in the U.S. between 1996 and 2006. This chapter begins with a series of descriptive tables that highlight certain aspects of the IPOs under investigation. I then detail the results of factor analysis that identified the Normative and Regulative institutional dimension of each country in the sample. Next, I review the data cleaning procedures I undertook to arrive at the final sample of firms and also the steps used to arrive at the final variables examined. The ensuing section begins with a correlation table highlighting the mean, standard deviation, and correlations among all variables under examination. In this section I also present the regression results and describe how each of the hypothesized relationships presented in this dissertation relate to IPO performance, as measured by IPO Success (Gulati and Higgins, 2003). In the final section of this chapter I extend the investigation of the foreign IPO data in this study through post hoc analysis.

5.2 Descriptive Statistics and Correlations

Table 5.1 shows the distribution of foreign IPOs in the U.S. from 1996-2006. In reviewing these yearly averages a few points are worth mentioning. First, it is clear that prior to 2001 U.S. exchanges were a popular destination among foreign firms looking to make their first public equity offers. However, the volume of foreign firms listing on the NYSE and NASDAQ does appear to diminish in the years surrounding the enactment of Sarbanes-Oxley (SOX) legislation (2001-2003). Despite the slowdown in foreign listings, recent yearly totals suggest that the popularity of U.S. exchanges appears to be gaining strength, however the volume of new public offers of foreign firms is still roughly half of pre-SOX totals. In addition, Table 5.1 shows the average age of firms in 2001 is more than twice that of previous years. This is primarily due to the age of two firms, from Argentina and New Zealand, who maintained their private company status for over forty years prior to making their first public equity offering in the U.S.

Table 5.1: Average Offer Size and Proceeds per Year.

	Number of Foreign IPOs	Avg age	Avg Offer Price	Avg Shares Offered (mil)	Net Proceeds ($ mil)
2006	**30**	8.13	16.02	18.46	270.30
2005	**31**	6.94	14.06	10.50	151.90
2004	**28**	8.29	14.98	12.05	171.40
2003	**7**	3.43	18.48	18.20	315.10
2002	**7**	12.86	16.19	20.20	277.20
2001	**7**	18.57	12.70	17.16	229.50
2000	**20**	7.65	15.69	7.64	152.80
1999	**12**	7.50	14.46	3.44	58.20
1998	**12**	8.50	16.56	6.54	137.40
1997	**63**	10.94	15.38	5.33	84.60
1996	**67**	13.54	13.77	6.13	97.10

In Table 5.2 we can see that there has been 284 Foreign IPOs that have chosen to list either on the NYSE or the NASDAQ stock exchanges between 1996 and 2006. These listings represent a broad cross-section of both industrialized and emerging market countries, however a few country totals are worth mentioning. Firms from China represent a significant number of listings in the U.S (32). IPO firms from China are represented by roughly an equivalent number of firms in High Tech related industries (15) and those firms in Manufacturing and Non High-Tech related industries (17). In addition, firms from Israel represent another country with a large proportion of IPOs listing in the U.S. Due to the tax benefits many U.S. and U.K. firms have chosen to incorporate in Bermuda. For this dissertation I have omitted all financial services, and re-insurance firms incorporated in Bermuda. The remaining firms incorporated in Bermuda are in the telecommunications and shipping related industries.

Table 5.3 further breaks down the makeup of the firms and the offerings from each country in the sample. Results show new equity offers from South American companies based in Venezuela, Argentina, and Peru are considerably older than new lists from Hong Kong, and the Philippines. Japanese firms making their first equity offers in the US appear to have the highest offering prices, while new listings from Germany appear to average the highest number of shares offered. In terms of the offering syndicate, new lists from Chile and Philippines have on average the highest number of managing partners, while new lists from Japan and Argentina have the fewest. Firms from markets such Venezuela and Germany achieved considerably higher

net proceeds on average than firms from other countries. In addition, it appears that firms from China had on average quite successful IPOs in the US.

Table 5.2. Foreign IPO Country-of-Origin Totals

Number of IPOs per Country	Total	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Argentina	2	1					1					
Australia	5	2	3									
Bahamas	3	1										2
Belgium	2	1	1									
Bermuda	20	2	2			2	1	2	3	1	5	2
Brazil	6	1	1			1		1		2		
British Virgin Island	1			1								
Canada	29	6	7	1	3	4	2			2	1	3
Cayman Islands	3		1			1				1		
Chile	2		2									
China	32	1	3	1				1	2	9	8	7
France	11	6	2	2	1							
Germany	4	3										1
Greece	11			1	1		1			1	5	2
Hong Kong	15	4	4			1				3	1	2
Hungary	1		1									
India	2				1							1
Indonesia	2	1	1									
Ireland	6		4	1								1
Israel	43	15	10	1	1	5	1			3	4	3
Italy	2	1									1	
Japan	2				1	1						
Jersey	2							1			1	
Jordan	1		1									
Luxembourg	2					2						
Mexico	5	1	2							1		1
Netherlands	11	4	4	1	1							1
New Zealand	4	1	2				1					
Panama	1										1	
Peru	1	1										
Philippines	1					1						
Russian Federation	4					1		1		1		1
Singapore	2		1									1
South Africa	1								1			
South Korea	7	1							1	1	3	1
Spain	1									1		
Sweden	4	3	1									
Switzerland	4	1	3									
Taiwan	4	1						1			1	1
United Kingdom	24	8	7	3	3	1				2		
Venezuela	1	1										
TOTAL	284	67	63	12	12	20	7	7	7	28	31	30

Table 5.3. Foreign IPO Country Averages.

Domicile Nation Name	Avg. Age	Avg. Offer Price	Avg. Num. Shares Offered (mil)	Avg. Syndicate Size	Avg. Net Proceeds ($ mil)
Argentina	37.50	17.43	3.15	2.0	49.93
Australia	14.20	20.29	4.26	7.0	116.09
Bahamas	26.33	16.00	7.98	5.7	105.03
Belgium	9.00	12.50	3.37	3.5	40.71
Bermuda	6.30	19.03	22.25	11.3	220.03
Brazil	10.17	15.22	5.77	5.7	77.82
British Virgin	1.00	6.50	1.10	6.0	6.44
Canada	10.41	10.91	4.83	6.3	66.29
Cayman Islands	12.00	11.33	7.68	9.3	87.94
Chile	35.00	15.38	3.93	14.0	55.61
China	5.16	15.34	12.25	5.3	181.71
France	9.55	17.06	6.06	7.3	124.52
Germany	34.50	14.22	33.23	10.5	537.29
Greece	5.18	15.77	10.68	5.9	152.65
Hong Kong	6.53	14.60	12.76	7.1	212.71
Hungary	7.00	18.65	16.80	4.0	294.78
India	5.00	19.00	6.85	3.5	124.77
Indonesia	3.50	19.75	6.71	5.5	121.94
Ireland-Rep	4.50	17.37	8.09	13.3	151.52
Israel	10.09	11.90	3.26	8.2	37.26
Italy	9.50	10.50	2.81	4.0	27.55
Japan	7.00	23.75	4.93	2.5	108.36
Jersey	4.50	12.50	9.25	4.5	104.75
Jordan	16.00	7.00	1.00	6.0	6.51
Luxembourg	8.00	12.34	15.40	5.5	224.59
Mexico	13.80	17.81	8.38	9.0	140.54
Netherlands	7.18	21.45	11.18	9.3	243.21
New Zealand	15.25	14.72	3.96	9.8	51.62
Panama	8.00	20.00	15.75	5.0	297.25
Peru	44.00	16.25	3.54	3.0	54.38
Philippines	2.00	16.00	3.50	19.0	51.08
Russian Fed	16.00	19.00	12.11	4.0	197.59
Singapore	7.00	13.50	5.95	3.0	75.26
South Africa	13.00	13.98	8.62	7.0	88.16
South Korea	8.86	13.01	14.12	3.6	189.50
Spain	42.00	9.00	8.70	3.0	69.82
Sweden	11.00	17.37	5.30	6.0	105.64
Switzerland	4.75	15.85	3.90	9.8	55.23
Taiwan	5.00	11.27	25.93	4.5	252.98
United Kingdom	6.46	12.90	6.02	8.3	65.13
Venezuela	58.00	23.00	23.23	5.0	521.57

Table 5.4. Foreign IPO Size and Governance Characteristics.

Domicile Nation Name	Avg Total Revenue Pre-IPO ($ mil)	Avg. Insider Ownership	Avg. # Employees	Avg. Board Size	Avg % Board Independence
Germany	11806.15	10.73%	86584	8.75	66.67%
Greece	8628.60	35.44%	861	6.55	44.26%
France	3775.76	24.37%	14254	7.50	35.39%
Australia	3119.87	29.08%	13441	6.80	37.05%
South Africa	2996.80	5.40%	38589	11.00	27.27%
Hungary	1191.30	0.00%	153	9.00	33.33%
Brazil	887.28	41.06%	3222	9.67	42.01%
Netherlands	880.12	19.81%	2190	7.00	41.48%
Bermuda	871.65	28.14%	8275	7.55	45.21%
Russian Fed	846.98	59.94%	32282	9.00	55.56%
South Korea	762.08	15.68%	1941	7.00	47.78%
China	658.78	35.31%	9017	7.78	39.81%
Hong Kong	593.43	23.37%	22399	9.07	33.85%
Cayman Islands	591.58	29.60%	1203	9.00	22.22%
Chile	552.15	82.77%	4909	7.00	48.89%
Switzerland	542.45	10.22%	1441	6.00	38.49%
Panama	428.92	0.00%	4194	10.00	30.00%
Taiwan	397.38	22.61%	7720	8.25	45.48%
Mexico	384.58	35.16%	5629	11.00	36.36%
Spain	361.70	4.00%	2116	7.00	42.86%
Luxembourg	359.65	60.10%	4004	7.00	35.42%
Bahamas	318.13	5.87%	650	6.67	40.48%
Singapore	308.64	34.15%	337	7.00	60.00%
United Kingdom	285.11	34.22%	1439	7.13	36.56%
Ireland-Rep	242.69	41.42%	360	7.33	45.60%
New Zealand	215.41	14.13%	183	7.75	27.98%
Venezuela	170.00	10.80%	16031	9.00	30.00%
Italy	135.21	65.55%	35	7.00	100.00%
Canada	124.54	26.81%	582	7.07	47.83%
India	102.55	32.10%	5422	7.00	28.57%
Peru	91.56	26.79%	2622	7.00	28.57%
Israel	79.06	42.00%	470	6.37	35.65%
Japan	67.94	38.23%	435	5.00	29.17%
Indonesia	66.94	11.04%	350	7.50	22.22%
Jersey	63.05	1.83%	332	7.00	77.27%
Jordan	52.20	71.80%	800	3.00	33.33%
Philippines	48.80	37.20%	3373	9.00	33.33%
Argentina	31.61	40.79%	5111	7.00	41.69%
Sweden	19.55	20.80%	10105	8.00	35.15%
British Virgin	5.89	54.90%	200	6.00	50.00%
Belgium	1.50	9.60%	141	10.00	44.95%

Table 5.4 reveals additional information regarding the firms from each of the countries represented in the final sample. Ranking the countries by average firm revenue prior to IPO reveals a number of interesting statistics within the sample. First, organizations from Germany not only have substantial revenues prior to their initial

public offers in the U.S, these firms also have on average a high percentage of board independence. While much has been written by researchers and practioners regarding the importance of insider ownership levels to the success of firms at IPO, Table 5.4 reveals firms from seven countries had on average insider ownership levels less than 10%.

Table 5.5 and Table 5.6 offer details of the underwriters and syndicates as well as the auditing firms that supported the foreign new issues in the sample. According to the sample, it appears the majority of foreign IPOs are underwritten by managers who have little experience in foreign new listings in the U.S. The sample shows that 42 separate underwriters managed fewer than five foreign listings in the U.S. between 1996 and 2006. However, the sample reveals that as few as ten underwriters managed five or more new listings over this time period. The data reveals that the foreign firms that were able to secure the services of these more experienced underwriters had on average a larger group of managing partners working on their behalf to place their shares (7.71 vs. 5.04). In addition, more experienced underwriters achieved higher net proceeds on average for their clients than did less experienced underwriters ($162.8m vs. $135.3m). Table 5.6 outlines the accounting firms that provided the audit services of the new foreign issues. Companies such as Arthur Andersen and Coopers and Lybrand provided much of the audit support for foreign new issues prior to 1999. More recently, Deloitte and Touche, KPMG and Price Waterhouse perform the audit functions for most new foreign issues.

Table 5.5. Foreign IPO Underwriters

IPOs offered per Underwriter: 1996-2006	Number of Unique IPO Underwriters	Size of Offering Syndicate		Risk factors disclosed in offering prospectus		Proceeds	
		Avg.	SD.	Avg.	SD.	$ Avg.	SD.
1 to 5	42	5.04	1.5	26.8	10.52	135.3m	227.3m
>5	10	7.71	2.29	29.5	4.86	162.8m	91.1m

Table 5.6. Foreign IPO Auditors

Audit Firms	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Arthur Andersen & Co	11	8	4	2	4	1	1				
Coopers & Lybrand LLP	8	5	1								
Deloitte & Touche LLP	6	3	1	1	3			1	6	8	6
Ernst & Young LLP	9	5		1	1	1	1	2	3	8	
Kost Levary & Forer	4	1			2				2		
KPMG	5	13	2	3	4	1	2	1	3	2	6
Price Waterhouse	1	7	1	2	2	2	2	2	6	7	7

5.3 Factor Analysis

I calculated the regulative and normative distances for each foreign IPO country of origin to the U.S. for the period 1996-2006 following the procedures Gaur and Lu (2007) outlined in their calculations for the period 1991-2001. In order to extend this measure to cover the years in which the foreign firms listed in the U.S. I had to refer to the World Competitiveness Yearbooks (WCY) for the years 1996 to 2006 to obtain each of the indicators that Gaur and Lu (2007) utilized in their measure. The WCY analyzes and ranks the ability of nations to create and maintain an environment that sustains the competitiveness of enterprises. Indeed, an economy's competitiveness

cannot be reduced only to singular proxies such as GDP and productivity because enterprises must also continually cope with political, social and cultural dimensions. The WCY provides coverage of 300 competitiveness criteria that relate the economic performance, government efficiency, business efficiency, and infrastructure in 61 countries. A number of authors have relied on the World Competitiveness Yearbooks to measure country differences in institutional environments (Delios and Beamish, 1999). I relied upon the libraries of Texas AandM University and the Dallas Federal Reserve to obtain hard copies for every indicator variable within the WCY editions for each year 1991-2006.

Upon review of the WCY editions, two of the indicator items used in the original Gaur and Lu (2007) measure were no longer captured in the annual WCY editions after 2001. These two indicators, both of which loaded on the Regulative Distance factor in the original measure were *Political Transparency* and *Rarity of Market Dominance in Key Industries*. Upon making this discovery, I conferred with the original author of this measure regarding these two missing indicators. After evaluating possible alternative indicators the WCY provides in their 2002-2006 annual yearbook, Professor Gaur and I agreed that no other indicator could substitute for the original missing indicators to arrive at the regulative distance factor. Therefore, subsequent to the discussions with Dr. Gaur, factor analysis on the five normative distance indicators and remaining five regulative distance indicators was performed.

For each of the years under investigation I factor analyzed the remaining 10 indicators listed in Table 5.7 utilizing the varimax rotation procedure using SPSS

Version 15. However, prior to performing factor analysis, the suitability of the data for factor analysis was assessed. Inspection of the correlation matrix revealed the presence of a number of coefficients of .3 and above. Additionally, the Kaiser-Meyer-Oklin value was .821, exceeding the recommended value of .6 (Kaiser 1970, 1974) and the Bartlett's Test of Sphericity (Bartlett, 1954) reached statistical significance, both of which supporting the factorability of the correlation matrix. Initial tests reveal the presence of two factors with eigenvalues greater exceeding 1, explaining 64% and 11% of the variance respectively. Consistent with the procedures reported by Professors Gaur and Lu in the original 1996-2001 distance calculations, varimax rotation on the indicators for each country spanning the years 1996 to 2006 confirmed the presence of two distinct factors which may serve as proxies of the normative and regulative dimensions of a country's institutional environment. Figure 5.7 presents the rotated factor loadings for the two factors obtained through factor analysis on the data for the year 1999.

Initial results revealed that items 4 and 5, which loaded on the original 1996-2001 regulative dimension factor, did not sufficiently load on either factor for the 1996-2006 time period. Despite this reduction in indicators from the original measure, the Cronbach alphas for the regulative items (1 - 3) and normative items (6-10) were .90 and .92 respectively. This compares to alpha values of .77 and .75 identified in the initial 1996-2001 calculations. Subsequent to identifying the indicators to include in capturing the regulative and normative dimensions for each country, I constructed the

regulative and normative distances from the country of origin of each foreign IPO identified in the final sample to the US.

Table 5.7 Varimax rotated factor matrix

	World Competitivenes Yearbook indicators	Regulative dimension (Factor 1)	Normative dimension (Factor 2)
1	Anti-trust regulation	**0.858**	0.261
2	Intellectual property protection	**0.846**	0.365
3	Judiciary system efficiency	**0.836**	0.36
4	Fiscal policy (inflation)	0.578	0.269
5	Central Govt. Foreign Debt levels	0.41	0.476
6	Adaption of government policies to new economic realities	0.339	**0.837**
7	Adaption of political system to today's economic challenges	0.475	**0.803**
8	Transparency of government towards its citizens	0.364	**0.856**
9	Degree to which bureacracy hinders government	0.31	**0.716**
10	Political risk rating	0.428	**0.705**
alpha		0.9	0.92
Eigenvalue		7.029	1.2
Percent of variance		63.9	11.1
Cumulative percent of variance		63.9	75

* Bold print indicates the largest factor loading for each institutional indicator

$$\text{Regulative Distance and Normative Distance} = \sum \left[\frac{(I_F - I_H)2}{V_I} \right] \Big/ N$$

Figure 5.1: Institutional Distance Formula

I followed the calculation Gaur and Lu (2007) employ which is based upon the Kogut and Sigh (1988) distance formula (Figure 5.1). Essentially, this formula calculates the overall separation between two countries utilizing a set of indicator variables. The final ***Regulative Distance*** and the ***Normative Distance*** calculations

represent the institutional separation along these dimensions from the country of origin of each foreign IPO in the final sample to the U.S. The larger the values in either the regulative and normative distance calculation, the greater the separation between the foreign IPO country of origin to the US within that respective dimension.

5.4 Results

Preliminary analyses were performed on each variable to ensure no violation of the assumptions of normality, linearity and homoscedasticity. Log transformations were employed to reconcile the skewed distributions of two control variables, total revenue prior to IPO, and firm age. Descriptive statistics and correlations are provided in Table 5.8. The results of all regression tests utilizing the full sample (n=284) is listed in Table 5.9.

Out of the 284 foreign IPOs that listed in the U.S. between 1996 and 2006, roughly half of the sample (n=162) are in high-tech industries. I followed the procedures outlined by Certo, Covin, Daily, and Dalton (2001) in sorting foreign IPOs that belonged in the high-tech sample of firms from those that did not. After classifying the firms according to their SIC codes, I then investigated where each firm derived its primary source of revenue. Firms that were classified as "high tech" include those in the following industrial sectors: semiconductors (SIC 36), computer software (SIC 73), computer hardware (SIC 35), biomedical firms (SIC 28), and telecommunications (SIC 48). Other authors have followed this industrial classification criteria (Certo, Daily, Cannella, and Dalton, 2003). This classification is also in accordance with the manner

in which Thomson Financial characterizes new issues as "high tech" in their widely referenced Securities Data Corp. New Issues Database.

Table 5.8. Correlation Table

	Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	China	0.113	0.317																		
2	Total Revenue (log)	7.759	1.022	-0.002																	
3	Firm age (log)	0.723	0.488	-0.074	0.072																
4	Underwriter Prestige	7.917	2.044	0.103	0.373**	0.046															
5	Big 5 Auditor	0.795	0.405	0.157**	0.193**	-0.104	0.195**														
6	Hot U.S.Market	0.148	0.142	-0.114	-0.078	-0.048	-0.118*	-0.031													
7	High Tech Industry	0.572	0.496	0.083	-0.234**	0.009	0.090	-0.060	-0.037												
8	Firm Risk	29.989	15.398	0.365**	0.012	-0.049	0.097	0.090	-0.334**	0.053											
9	Rounds of Financing	0.942	1.337	0.100	-0.154*	0.076	0.152*	-0.027	-0.056	0.311**	0.098										
10	Legal Protection	3.529	1.300	-0.738	-0.118	-0.008	-0.107	-0.119	0.123*	0.074	-0.295**	0.031									
11	Regulative Distance	1.768	1.646	-0.057	0.045	0.043	-0.024	-0.157*	-0.190**	-0.180**	0.130*	-0.041	-0.191**								
12	Normative Distance	1.207	0.969	-0.133*	0.008	0.071	0.069	-0.241**	-0.059	-0.031	0.034	0.012	-0.043	**0.708****							
13	Alliance	0.410	0.943	-0.142*	0.003	-0.047	-0.007	-0.109	0.155*	0.137*	-0.182**	0.027	0.132	-0.075	0.065						
14	Board Independence	0.408	0.172	-0.022	0.016	0.100	-0.127*	0.046	-0.120	-0.158*	0.179**	-0.107	-0.054	-0.031	-0.120	-0.116					
15	Founder/CEO Ownership	0.185	0.194	0.176*	-0.016	0.064	-0.127	-0.007	0.045	-0.131	0.073	-0.200*	-0.268**	0.272**	0.034	-0.075	0.184*				
16	Insider Ownerships	0.401	0.257	0.070	0.027	-0.003	-0.011	-0.016	-0.063	-0.096	-0.007	0.005	-0.026	0.173*	0.121	-0.025	0.037	0.486**			
17	TMT Affiliations	1.507	2.010	0.010	0.137*	0.111	0.209**	0.115	-0.114	0.129*	0.145*	0.064	-0.039	-0.093	-0.138*	-0.034	0.008	-0.079	-0.042		
18	US Venture Capital	0.280	0.450	0.129*	0.025	0.033	0.187**	0.030	-0.073	0.164**	0.092	0.554**	-0.099	0.001	-0.049	-0.054	-0.095	-0.159	0.031	0.121*	
19	IPO Success	0.000	0.826	0.184**	0.307**	-0.119*	0.112	0.091	-0.161**	0.040	0.011	-0.071	-0.147*	0.006	-0.049	0.010	-0.084	-0.054	0.066	0.019	-0.100

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

In addition, roughly 60% of these firms (n=181) listed in the U.S. prior to the date in which Sarbanes-Oxley legislation (SOX) went into effect. Since its enactment, many in the financial community have speculated that the increased governance and transparency requirements SOX placed on new issues (both foreign and domestic) would deter foreign issuers from listing in the U.S. in favor of other major exchanges. However, the volume of post-SOX foreign IPOs (n = 103) who have chosen to list in

the U.S. suggests these firms are undeterred by the increased governance and listing standards.

Initial regression assumption checks were performed on all variables. Remedial steps were taken in cases in which deviations occurred. Logarithm transformations were performed on the firm size variable, Total Revenue, and also on Firm Age in order to normalize their distribution. Preliminary analysis also revealed that International Assets was highly correlated with Total Revenues, and did not have a significant effect on IPO Success. Therefore, I chose to keep Total Revenues as the size control and omit International Assets from the final model. Leverage scores, studentized residuals, DF-Fit scores, and Cook's distance statistics were calculated to detect outlier issues. The results consistently indicated one outlier which had influential effects on the regression models; therefore it was dropped for the final analysis.

In reviewing the size and variety of firms that have listed in the US over the ten year sample period, initial analysis revealed that a number of firms from China had very successful IPOs. A review of the size, internal characteristics and performance of these firms hinted that their inclusion in the sample could significant adversely impact the findings from our hypothesized relationships. Correlations between Chinese firms and both independent and dependent variables underscore the importance of controlling for the effects of Chinese firms in our models. For example, the correlation between China and Legal Protection in Table 5.8 was quite large and negative ($r= -0.738$). In addition, there exists a strong positive correlation between Chinese foreign IPOs and the dependent variable, IPO Success, ($r = .184$, $p < .01$). To control for their effects

Chinese foreign IPOs in the U.S. were dummy coded in an effort to extract their effects from the final models. Table 5.8 also reveals one other intercorrelation which merits attention: the correlation between Regulative Distance and Normative Distance ($r = .708$, $p < .01$). Despite the strength and direction of this correlation, it does not present a problem in the analysis since these variables do theoretically have the same directionality, and these variables are not tested against one another in the regression model.

5.4.1. Regression Results

In order to examine the direct relationship between investor protection and IPO success (H1), I performed a hierarchical regression analysis that initially controlled for generally accepted predictors of IPO performance (China, Total Revenue, Age, Underwriter Prestige, Auditor, U.S.Market, Industry, Firm Risk, Prior Rounds of Financing, and China). The various control variables are in the direction theoretically expected (see Model 1 in Table 5.9) and tend to significantly relate to IPO success (R^2=15.9%). The regression results of Model 2 in Table 5.9 fail to provide empirical support for the direct effects of investor protection on IPO success (H1), while controlling for other effects. Thus, results fail to find support for the direct relationship between country of origin effect (i.e., investor protection) and firm performance hypothesized in H1. The second hypothesis argued for a negative relationship between institutional distance with IPO Success (H2). Model 2 also tested the hypothesis relating to the performance effects of both Regulative Distance and Normative Distance

variables. Results show both Regulative and Normative distance variables also fail to directly impact foreign IPO success.

Model 3 tests the direct effects of all of the corporate governance and capability variables espoused in this dissertation. I argued that investors would look favorably upon firms whose executives maintain high levels of ownership after public listing. However Model 3 in Table 5.9 reveals a lack of support for this relationship (H3). In addition, results show a lack of support for the hypothesized negative relationship between the presence of a founder-CEO and foreign IPO performance (H6). Similarly, results indicate the absence of a direct positive relationship between board independence and foreign IPO performance (H9). Finally, we argued for positive relationships between those firms staffed with top managers with prior public company experience (H15) as well as with those firms with strategic alliances (H18) and IPO performance. Our results fail to support these hypotheses.

Despite these results, one interesting result can be seen in the performance of foreign IPOs backed by U.S. venture firms. Earlier in this study I proposed that foreign IPO firms backed by U.S. Venture Capital firms would send positive signals to the investing community regarding their capacity to grow and maintain high governance standards as a public firm. Interestingly, U.S. Venture Capital firms appear to represent a significant cost when considering the longer-term performance implications after the firm has gone public. This result is discussed in greater detail in Chapter 6.

5.4.2. Interaction Results

In order to further examine the inter-relationships between variables, I conducted hierarchical moderated regression to investigate the remaining hypotheses which argue for interactive effects between the independent variables. These results are presented in Models 4-6 of Table 5.9, and include a final representation of all variables utilized in this study in Model 7. The variance inflation factor values of all variables in Models 4 through 6 in Table 5.9 range from 1.03—2.87, which suggest a lack of multicollinearity before including the interaction terms (Neter, Wasserman, and Kunter 1990; Velleman and Welsch 1981). In order to remove the inherent multicollinearity between predictor variables and interaction terms that include these predictors, I centered all moderating variables on their respective means as suggested by Aiken and West (1991).

After performing these steps, support for two of the six hypotheses is presented in Model 4. In Chapter 3, I argued that board independence and investor protection would interact to have a positive relationship with foreign IPO performance (H10). In addition, the interaction of top managers with prior public company experience and legal protection would have a positive effect on foreign IPO performance (H17). Our results show support for both of these relationships H10 (β=0.104, $p<0.01$) and H17 (β=0.108, $p<0.01$). In Chapter 3, I also suggested investor protection levels would positively interact with insider ownership levels (H4), as well as interact with founder-CEOs (H7), U.S. VCs (H14), and strategic alliances (H20). While positive results of these hypothesized relationships failed to materialize when evaluating the full sample of

firms over the entire sample period, post-hoc analysis examines these relationships again on sub-samples of our data.

Models 5 and 6 in Table 5.9 tests the remaining hypotheses which deal with the interactions of the institutional distance country variables with the firm-level variables. While statistical results do not support our hypothesized relationships, two of the interaction results are worth noting. Earlier in Chapter 3, I proposed the interaction of institutional distance and board independence would be positively related to foreign IPO performance (H11). Using regulatory distance as the country variable, results in Model 5 reveal this interaction works to *reduce* foreign IPO success ($\beta = -0.171$, $p<0.01$). The interaction of regulative distance and U.S. Venture Capital backing (H13) yielded significant results, yet in the opposite direction hypothesized ($\beta = -0.101$, $p<0.10$).

In addition to the previous tests, in Model 5, I also examined whether the interaction of the insider ownership and institutional distance would positively impact performance (H5). Further, I argued for the negative relationship of the interaction of firms led by founder-CEOs with legal protection on foreign IPO performance (H8). I also proposed that the interaction of top managers with prior public company experience and institutional distance would have a positive effect on foreign IPO performance (H16). Finally, in keeping with extant signaling literature, I argued in favor of a positive relationship between the interaction of strategic alliances and institutional distance and performance (H19). Unfortunately, results failed to support these hypothesized relationships. In Model 6 I tested the institutional distance

interaction hypotheses with the normative distance measure rather than the regulative distance measure. Regression results using the normative distance country level variable failed to support any of the hypothesized relationships.

A complete list of the results of regression tests on the hypothesized relations found on the entire sample of firms is found in Table 5.10.

Table 5.9. Hierarchal Regression of Hypothesized Relationships

	Model 1 β	Model 2 β	Model 3 β	Model 4 β	Model 5 β	Model 6 β	Model 7 β
Control Variables							
China	0.199***	0.228**	0.212**	0.183*	0.173*	0.208***	0.201*
Total Revenue (log)	0.333***	0.334***	0.344***	0.324***	0.336***	0.352***	0.329***
Firm age (log)	-0.137*	-0.134*	-0.124*	-0.116*	-0.111*	-0.121*	-0.114*
Underwriter Prestige	-0.027	-0.020	-0.014	-0.008	-0.020	-0.017	-0.004
Big 5 Auditor	0.003	-0.001	0.002	0.010	-0.001	0.003	0.009
Hot U.S. Market	-0.162**	-0.155**	-0.161**	-0.169***	-0.176***	-0.173***	-0.184***
High Tech Industry	0.121*	0.125*	0.120*	0.137*	0.140*	0.114*	0.132*
Firm Risk	-0.123*	-0.125*	-0.105†	-0.091	-0.089	-0.093	-0.083
Rounds of Financing	-0.060	-0.064	0.021	0.017	0.037	0.015	0.018
Independent Variables							
Investor Protection		0.043		-0.005			0.010
Regulative Distance		0.063			0.094		0.059
Normative Distance		-0.054				-0.025	0.010
Insider Ownership			0.010	0.029	0.029	0.016	0.042
Board Independence			-0.070	-0.068	-0.072	-0.081	-0.074
Founder/CEO Ownership			-0.033	-0.014	-0.018	-0.026	-0.010
TMT Affiliations			-0.015	-0.040	-0.018	-0.013	-0.042
Alliances			0.016	0.002	-0.043	0.015	-0.002
U.S. Venture Capital			-0.173**	-0.159**	-0.189**	-0.154**	-0.150**
2-way Interaction Terms							
Inv. Protect. X Ins. Own.				0.002			0.010
Inv. Protect. X B. Independ.				0.104**			0.087**
Inv. Protect. X F/CEO Owner.				0.022			0.034
Inv.Protect X TMT.Aff.				0.108**			0.102**
Inv.Protect X Alliance				0.025			0.047
Inv.Protect X U.S. V.C.				0.053			0.061
Reg.Dis X Ins. Own.					0.007		0.090
Reg.Dis X B. Independ.					-0.171**		-0.136
Reg.Dis X F/CEO Owner					-0.064		-0.039
Reg.Dis X TMT Aff.					-0.070		-0.061
Reg.Dis X Alliance					-0.088		-0.039
Reg.Dis X U.S. V.C.					-0.101†		-0.045
Norm.Dis. X Ins. Own.						-0.045	-0.116
Norm.Dis. X B. Independ.						0.011	0.122
Norm.Dis. X F/CEO Owner						0.064	0.103
Norm.Dis. X TMT Aff.						0.027	0.057
Norm.Dis. X Alliance						0.015	0.078
Norm.Dis. X U.S. V.C.						0.060	0.084
Model F	6.963	5.238	3.984	3.405	3.600	3.277	1.300
Adjusted R2	0.159	0.152	0.160	0.169	0.181	0.150	0.155
Sig. of Change	0.000	0.871	0.220	0.100	0.050	0.910	0.626

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

Table 5.10. Regression results of hypothesized relationships

	Independent Results	Results
H1	There is a positive relationship between investor protection and the performance of firms from that country in foreign IPOs.	Not supported
H2	There is a negative relationship between institutional distance and foreign IPO performance.	Not Supported
H3	There is a positive relationship between a firm's level of insider ownership and foreign IPO performance.	Not Supported
H6	There is a negative relationship between the presence of a founder-CEO and foreign IPO performance.	Not Supported
H9	There is positive relationship between the level of board independence and foreign IPO performance.	Not Supported
H12	There is a positive relationship between the presence of U.S. VCs and foreign IPO performance	Opposite of hypothesized drectionality
H15	There is a positive relationship between executives with prior public company managerial experience and foreign IPO performance.	Not supported
H18	There is a positive relationship between strategic alliances with prominent U.S. partners and foreign IPO performance.	Not supported
	Interaction Results	**Results**
H4:	A firm's level of insider ownership moderates the relationship between legal protection and foreign IPO performance. The level of insider ownership enhances the positive relationship between investor protection and performance.	Not supported
H5:	A firm's level of insider ownership moderates the relationship between institutional distance and foreign IPO performance. The level of insider ownership diminishes the negative relationship between institutional distance and foreign IPO performance.	Not supported
H7:	The presence of a founder-CEO moderates the positive relationship between investor protection and foreign IPO performance. Founder-CEOs diminish the positive relationship between investor protection and performance.	Not supported
H8:	The presence of a founder-CEO moderates the negative relationship between institutional distance and foreign IPO performance. Founder-CEOs enhance the negative relationship between institutional distance and foreign IPO performance.	Not supported
H10:	The level of board independence moderates the positive relationship between investor protection and foreign IPO performance. The level of board independence enhances the positive relationship between investor protection and performance.	Supported
H11:	The level of board independence moderates the negative relationship between institutional distance and foreign IPO performance. The level of board independence diminishes the negative relationship between institutional distance and foreign IPO performance.	Opposite of hypothesized drectionality
H13:	The presence of U.S. VCs moderates the relationship between institutional distance and foreign IPO performance such that U.S. VCs weaken the negative relationship found between institutional distance and foreign IPO performance.	Opposite of hypothesized drectionality
H14:	The presence of U.S. VCs moderates the relationship between legal protection and foreign IPO performance such that U.S. VCs strengthen the positive relationship found between legal protection and foreign IPO performance.	Not supported
H16:	Executives with prior public company managerial experience diminishes the negative relationship between institutional distance and foreign IPO performance.	Not supported
H17:	Executives with prior public company managerial experience enhances the positive relationship between legal protection and foreign IPO performance.	Supported
H19:	Strategic alliances with prominent U.S. partners diminishe the negative relationship between institutional distance and foreign IPO performance.	Not Supported
H20:	Strategic alliances with prominent U.S. partners enhance the positive relationship between legal protection and foreign IPO performance	Not Supported

5.5 Post Hoc Analysis

A number of factors support a finer grained analysis of the data. While many studies fail to support all of the relationships proposed by researchers, additional attention to this data is important for a number of reasons. First, initial regression tests revealed a lack of support for a number of the hypothesized relationships when evaluating the entire sample (1996-2006, n=284). This is important in light of the fact that many of the variables used in this study of foreign IPOs have received substantial attention among scholars evaluating their effects on domestic IPOs. Because of the attention these variables have received among scholars evaluating their performance implications on samples of domestic IPOs, and in light of the unique nature of the hand-picked sample of firms in this study, it would be premature to draw conclusions about the entire foreign IPO sample simply upon the initial results found earlier in Chapter 5. Secondly, three of the relationships initially proposed in this dissertation have significant effects, yet in the opposite direction originally hypothesized. This also suggests further attention of the data is merited. Third, the types of firms, as well as the time period in which these firms chose to list on U.S. exchanges, suggests there may be nuances to the data which may be masked when evaluating the whole dataset (1996-2006) in a single study.

Therefore, in an effort to parcel out and more fully understand the effects of the variables previously identified in this study, I divided the data by the time period in which the IPO went public in the U.S., and also by industry. Splitting the data along

these two criteria yielded a roughly equivalent number of firms in each case. I chose to divide the data according to whether the issuing firm chose to go public in the U.S. prior to the enactment of Sarbanes-Oxley legislation, or after the heightened regulatory and governance restrictions were put in place for all publicly listed firms on US exchanges. As a result, the first regression results found in Table 5.12 detail the results of my initial hypothesized relationships on a reduced sample of firms. This first subset of foreign listings are those overseas firms that listed in the U.S. prior to enactment of Sarbanes-Oxley legislation (1996-2001; n= 181).

The second set of regression tests are found in Table 5.13. These regression models detail the results of the initially hypothesized relationships in Chapter 3 on those firms who chose to go public in the U.S. after the increased governance and transparency requirements of SOX legislation went into effect (2002-2006; n=103).

The third set of regression models found in Table 5.14 is conducted on only those foreign IPOs in High-Tech related industries (1996-2006. n = 162). These firms are all internet related, electronics, and software firms. Some examples of "high-tech" firms include the new issues of manufacturers of semiconductors, internet service providers, software communication and network software developers. The fourth set of regression models examined the initially hypothesized relationships on only the non-High Tech foreign IPOs listing in the US (1996-2006. n = 122). The final regression models examines the importance of international venture capital among our hypothesized variables, rather than US Venture firms examined earlier, on the entire dataset (n=284).

In each of the models in this section one previously identified variable (U.S. Venture Capital) has been substituted by *International Venture Capital*. Following Wright, Pruthi, and Lockett (2005) and Wright and Robbie (1998) I adopt a broad definition of International VC to include a wide range of early stage financing to later private equity. This variable is measured by dummy coding a 1 when a foreign IPO firm has the backing of more than one foreign V.C. This measure was also operationalized as the percentage of post IPO holdings of International VC. The results reported in the ensuing sections are consistent for both operationalizations of International VC, dummy coded and percentage post-IPO holdings. Table 5.11 presents the correlations among all of the variables, including International VCs.

Table 5.11. Post Hoc Analysis Correlation Table

	Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	China	0.113	0.317																		
2	Total Revenue (log)	7.759	1.022	-0.002																	
3	Firm age (log)	0.723	0.488	-0.074	0.072																
4	Underwriter Prestige	7.917	2.044	0.103	0.373**	0.046															
5	Big 5 Auditor	0.795	0.405	0.157**	0.193**	-0.104	0.195**														
6	Hot U.S Market	0.148	0.142	-0.114	-0.078	-0.048	-0.118*	-0.031													
7	High Tech Industry	0.572	0.496	0.083	-0.234**	0.009	0.090	-0.060	-0.037												
8	Firm Risk	29.989	15.398	0.365**	0.012	-0.049	0.097	0.090	-0.334**	0.053											
9	Rounds of Financing	0.942	1.337	0.100	-0.154*	0.076	0.152*	-0.027	-0.056	0.311**	0.098										
10	Legal Protection	3.529	1.300	-0.738	-0.118	-0.008	-0.107	-0.119	0.123*	0.074	-0.295**	0.031									
11	Regulative Distance	1.768	1.646	-0.057	0.045	0.043	-0.024	-0.157*	-0.190**	-0.180**	0.130*	-0.041	-0.191**								
12	Normative Distance	1.207	0.969	-0.133*	0.008	0.071	0.069	-0.241**	-0.059	-0.031	0.034	0.012	-0.043	**0.708****							
13	Alliance	0.410	0.943	-0.142*	0.003	-0.047	-0.007	-0.109	0.155*	0.137*	-0.182**	0.027	0.132	-0.075	0.065						
14	Board Independence	0.408	0.172	-0.022	0.016	0.100	-0.127*	0.046	-0.120	-0.158*	0.179**	-0.107	-0.054	-0.031	-0.120	-0.116					
15	Founder/CEO Ownership	0.185	0.194	0.176*	-0.016	0.064	-0.127	-0.007	0.045	-0.131	0.073	-0.200*	-0.268**	0.272**	0.034	-0.075	0.184*				
16	Insider Ownerships	0.401	0.257	0.070	0.027	-0.003	-0.011	-0.016	-0.063	-0.096	-0.007	0.005	-0.026	0.173*	0.121	-0.025	0.037	0.486**			
17	TMT Affiliations	1.507	2.010	0.010	0.137*	0.111	0.209**	0.115	-0.114	0.129*	0.145*	0.064	-0.039	-0.093	-0.138*	-0.034	0.008	-0.079	-0.042		
18	US Venture Capital	0.280	0.450	0.129*	0.025	0.033	0.187**	0.030	-0.073	0.164**	0.092	0.554**	-0.099	0.001	-0.049	-0.054	-0.095	-0.159	0.031	0.121*	
19	IPO Success	0.000	0.826	0.184**	0.307**	-0.119*	0.112	0.091	-0.161**	0.040	0.011	-0.071	-0.147*	0.006	-0.049	0.010	-0.084	-0.054	0.066	0.019	-0.100

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

N=284

5.5.1. Post Hoc Analysis: Pre Sarbanes-Oxley legislation. 1996-2001.

Hierarchal regression was used to test the hypothesized relationships on this split sample of firms. Results are presented in Table 5.12. Among the control variables on Model 1 (R^2=14.6%) it is worth noting that unlike the full model which utilized the entire dataset (1996-2006) in Table 5.12, the effect of Chinese firms is not significantly related to performance over the 1996-2001 time period. In addition, the control variable for overall market effects during this time period is significantly positive ($\beta = 0.240$, $p<0.001$) whereas overall market effects had a negative effect on IPO performance over the entire study period. Like our initial results, individual country related signals measured by the legal protection, regulative distance, and normative distance proxies failed to show significant relationships with IPO Success. However, among the other independent variables, both Top Management Team affiliations ($\beta = 0.163$, $p<0.01$) and International Venture Capital ($\beta = 0.475$, $p<0.001$) are significantly related to IPO Success. Among the interaction terms, legal protection and international venture capital interact positively to impact IPO Success. Similarly, both of the institutional distance measures, regulative ($\beta = 0.768$, $p<0.01$), and normative distance ($\beta = 0.214$, $p<0.01$) interact with international venture capital to positively impact IPO Success.

Table 5.12. Pre Sarbanes-Oxley regression results

Foreign IPOs: Pre Sarbannes-Oxley. n = 181	Model 1 β	Model 2 β	Model 3 β	Model 4 β	Model 5 β	Model 6 β
Control Variables						
China	0.086	0.091	0.111†	0.045	0.110*	0.128*
Total Revenue (log)	0.318***	0.317	0.370***	0.354***	0.329***	0.362***
Firm age (log)	-0.050	-0.050	-0.029	-0.010	-0.018	-0.039
Underwriter Prestige	0.065	0.071	-0.026	-0.009	-0.019	-0.014
Big 5 Auditor	0.006	0.005	-0.001	-0.012	0.031	0.016
Hot U.S. Market	-0.035	-0.032	-0.074	-0.071	-0.064	-0.061
High Tech Industry	0.240***	0.241***	0.186***	0.188***	0.192***	0.185***
Firm Risk	-0.101	-0.100	-0.117†	-0.109†	-0.119†	-0.128†
Rounds of Financing	-0.160**	-0.162**	-0.138**	-0.082	-0.090	-0.158
Independent Variables						
Investor Protection		0.008		0.004		
Regulative Distance		0.029			-0.053	
Normative Distance		-0.032				0.146
Insider Ownership			0.042	0.028	0.020	0.023
Board Independence			0.002	-0.002	-0.010	-0.020
Founder/CEO Ownership			0.017	0.025	0.019	0.035
TMT Affiliations			0.163**	0.142*	0.107	0.169**
Alliances			0.071	0.094	0.078	0.070
Intl. Venture Syndicates			0.475***	-0.902	-0.279**	0.616***
2-way Interaction Terms						
Inv. Protect. X Ins. Own.				0.043		
Inv. Protect. X B. Independ.				0.002		
Inv. Protect. X F/CEO Owner.				-0.021		
Inv.Protect X TMT.Aff.				0.029		
Inv.Protect X Alliance				-0.053		
Inv.Protect X Intl. V.C.				1.38**		
Reg.Dis X Ins. Own.					-0.061	
Reg.Dis X B. Independ.					0.028	
Reg.Dis X F/CEO Owner					0.031	
Reg.Dis X TMT Aff.					-0.104	
Reg.Dis X Alliance					-0.063	
Reg.Dis X Intl. V.C.					0.768**	
Norm.Dis. X Ins. Own.						-0.049
Norm.Dis. X B. Independ.						-0.037
Norm.Dis. X F/CEO Owner						0.043
Norm.Dis. X TMT Aff.						-0.047
Norm.Dis. X Alliance						-0.049
Norm.Dis. X Intl. V.C.						0.214**
Model F	4.410	3.260	6.595	5.175	5.474	5.085
Adjusted R2	0.146	0.131	0.359	0.358	0.374	0.353
Sig. of Change	0.000	0.991	0.000	0.460	0.100	0.615

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

The importance of international venture capital both prior to and immediately following the enactment of SOX legislation is discussed further in Chapter 6.

5.5.2. Post Hoc Analysis: Post Sarbanes-Oxley legislation. 2002-2006.

Results of the models based on the reduced sample of firms that went public in the U.S. between 2002 and 2006 are presented in Table 5.13. Among the control variables on Model 1 (R^2=23.8%) it is worth noting the effect of Chinese firms ($\beta = 0.248$, $p<0.01$) on foreign IPO performance over the 2002-2006 time period. In addition, in contrast to the control variable for overall market effects during pre-SOX time period, market effects were significantly negatively related to foreign IPO performance during the post-SOX time period. Among the remaining variables it is worth noting that despite the strong impact international VCs have upon foreign IPO performance prior to SOX legislation, they do not appear to contribute to foreign IPO performance after the enactment of SOX legislation. This finding extends to both dummy coded and post IPO share retention operationalizations of international VCs . Finally, in Model 3 of Table 5.13, the interaction of Investor Protection and Board Independence ($\beta = .249$, $p<0.05$) as well as the interaction of Investor Protection and International VCs ($\beta = .328$, $p<0.01$) are positively related to foreign IPO performance in the post SOX time period.

Table 5.13 Post Sarbanes-Oxley regression results

Foreign IPOs: Post Sarbannes-Oxley. n = 103	**Model 1 β**	**Model 2 β**	**Model 3 β**	**Model 4 β**	**Model 5 β**	**Model 6 β**
Control Variables						
China	0.248**	0.295*	0.226	0.226	0.235	0.262
Total Revenue (log)	0.413***	0.427**	0.427***	0.427***	0.419***	0.437***
Firm age (log)	-0.267**	-0.262**	-0.237**	-0.237**	-0.240**	-0.248**
Underwriter Prestige	-0.061	-0.070	-0.049	-0.049	-0.055	-0.046
Big 5 Auditor	-0.062	-0.102	-0.065	-0.065	-0.061	-0.069
Hot U.S. Market	-0.231**	-0.235**	-0.186*	-0.186*	-0.191*	-0.199*
High Tech Industry	0.087	0.114	0.163	0.163	0.155	0.135
Firm Risk	-0.110	-0.099	-0.125	-0.125	-0.143	-0.099
Rounds of Financing	0.039	0.043	0.059	0.059	0.070	0.048
Independent Variables						
Investor Protection		0.083		0.224		
Regulative Distance		0.172			0.309	
Normative Distance		-0.171				-0.124
Insider Ownership			0.058	0.115	0.036	0.059
Board Independence			-0.100	-0.004	-0.098	-0.099
Founder/CEO Ownership			-0.102	-0.149	-0.102	-0.118
TMT Affiliations			-0.146	-0.157	-0.173	-0.140
Alliances			-0.040	-0.093	-0.044	-0.001
Intl. Venture Syndicates			-0.131	0.003	-0.129	-0.085
2-way Interaction Terms						
Inv. Protect. X Ins. Own.				-0.029		
Inv. Protect. X B. Independ.				0.249*		
Inv. Protect. X F/CEO Owner.				-0.055		
Inv.Protect X TMT.Aff.				0.050		
Inv.Protect X Alliance				0.091		
Inv.Protect X Intl. V.C.				0.328**		
Reg.Dis X Ins. Own.					0.110	
Reg.Dis X B. Independ.					-0.102	
Reg.Dis X F/CEO Owner					0.034	
Reg.Dis X TMT Aff.					-0.091	
Reg.Dis X Alliance					0.007	
Reg.Dis X Intl. V.C.					0.122	
Norm.Dis. X Ins. Own.						-0.032
Norm.Dis. X B. Independ.						0.080
Norm.Dis. X F/CEO Owner						0.089
Norm.Dis. X TMT Aff.						0.005
Norm.Dis. X Alliance						0.072
Norm.Dis. X Intl. V.C.						0.138
Model F	4.533	3.467	2.623	2.828	1.965	1.970
Adjusted R2	0.238	0.225	0.223	0.301	0.216	0.186
Sig. of Change	0.000	0.689	0.460	0.002	0.837	0.897

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

5.5.3. Post Hoc Analysis: High Tech Foreign IPOs 1996-2006.

Results of all foreign IPOs in technology related industries that listed in the U.S. between 1996-2006 are presented in Table 5.14. Among the control variables on Model 1 (R^2=20.6%) it is worth noting the positive effect of Chinese firms ($\beta = 0.278$, $p<0.001$) on foreign IPO performance. Models 3 and Model 6 reveal a handful of interactive relationships among high tech foreign IPO firms. First, our results reveal the strong positive interaction between Investor Protection and Board Independence ($\beta = 0.259$, $p<0.001$) to IPO Success. In addition, Model 3 discloses the strong interaction of top managers with prior public company experience and legal protection ($\beta = 0.278$, $p<0.001$). Results demonstrate the strong interaction of investor protection and strategic alliances ($\beta = 0.081$, $p<0.01$) for technology related foreign IPOs. Model 3 also displays the positive interaction of investor protection and international venture syndicates ($\beta = 0.202$, $p<0.01$) to performance. Finally, only one of the regression results based on the hypothesized interactions of our institutional distance variables with the firm level variables had a significant effect on the performance of high-tech foreign IPOs. Results in Model 6 of Table 5.14 demonstrates the interaction of normative distance and Founder/CEO ($\beta = 0.145$, $p<0.05$) to be positively related to performance. This result is discussed further in Chapter 6.

Table 5.14 High Tech Foreign IPO regression results

Foreign IPOs: High-Tech related n = 162	Model 1 β	Model 2 β	Model 3 β	Model 4 β	Model 5 β	Model 6 β
Control Variables						
China	0.278***	0.331**	0.308**	0.267*	0.294*	0.331*
Total Revenue (log)	0.362***	0.370***	0.354***	0.310***	0.359***	0.372***
Firm age (log)	-0.144**	-0.136**	-0.119	-0.076	-0.112	-0.132 †
Underwriter Prestige	-0.071	-0.069	-0.071	-0.044	-0.078	-0.058
Big 5 Auditor	-0.008	0.014	0.018	0.025	0.011	0.015
Hot U.S. Market	-0.183**	-0.169**	-0.169**	-0.151**	-0.167**	-0.190*
High Tech Industry	0.000		0.000			
Firm Risk	-0.236***	-0.245***	-0.231**	-0.210**	-0.224**	-0.231**
Rounds of Financing	-0.050	-0.063	-0.024	-0.082	-0.024	-0.030
Independent Variables						
Investor Protection		0.067		-0.070		
Regulative Distance		0.138			0.165	
Normative Distance		-0.047				-0.096
Insider Ownership			0.004	0.023	0.005	0.001
Board Independence			-0.106	-0.183	-0.104	-0.150
Founder/CEO Ownership			-0.033	0.023	-0.033	0.012
TMT Affiliations			-0.028	-0.148	-0.031	-0.042
Alliances			-0.005	-0.056	-0.007	-0.018
Intl. Venture Syndicates			-0.108	-0.140	-0.101	-0.077
2-way Interaction Terms						
Inv. Protect. X Ins. Own.				0.020		
Inv. Protect. X B. Independ.				0.259***		
Inv. Protect. X F/CEO Owner.				-0.036		
Inv.Protect X TMT.Aff.				0.278***		
Inv.Protect X Alliance				0.081**		
Inv.Protect X Intl. V.C.				0.202**		
Reg.Dis X Ins. Own.					-0.025	
Reg.Dis X B. Independ.					-0.087	
Reg.Dis X F/CEO Owner					0.015	
Reg.Dis X TMT Aff.					-0.022	
Reg.Dis X Alliance					-0.065	
Reg.Dis X Intl. V.C.					-0.056	
Norm.Dis. X Ins. Own.						-0.115
Norm.Dis. X B. Independ.						0.031
Norm.Dis. X F/CEO Owner						0.145 *
Norm.Dis. X TMT Aff.						0.075
Norm.Dis. X Alliance						0.017
Norm.Dis. X Intl. V.C.						0.076
Model F	6.212	4.693	3.198	3.799	2.372	2.494
Adjusted R2	0.206	0.201	0.188	0.286	0.164	0.176
Sig. of Change	0.000	0.536	0.733	0.001	0.937	0.700

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

5.5.4. Post Hoc Analysis: Non High Tech Foreign IPOs 1996-2006

Results of all foreign IPOs in technology related industries that listed in the U.S. between 1996-2006 are presented in Table 5.15. Among all of the control variables on

Table 5.15 Non Tech Foreign IPO regression results

Foreign IPOs: Non-High Tech	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
n = 122	**β**	**β**	**β**	**β**	**β**	**β**
Control Variables						
China	0.232***	0.209 †	0.199 †	0.230*	0.202	0.235**
Total Revenue (log)	0.289***	0.301 ***	0.302 ***	0.314***	0.290***	0.277***
Firm age (log)	-0.143 †	-0.142 †	-0.134	-0.106	-0.114	-0.128
Underwriter Prestige	0.011	0.024	0.022	-0.016	0.010	0.030
Big 5 Auditor	0.098	0.079	0.085	0.090	0.078	0.035
Hot U.S. Market	0.000	-0.026	-0.027	-0.033	-0.031	-0.011
High Tech Industry						
Firm Risk	0.189*	0.202*	0.212 *	0.210**	0.233*	0.192*
Rounds of Financing	-0.099	-0.112	-0.116	-0.090	-0.114	-0.096
Independent Variables						
Investor Protection		-0.025		-0.013		
Regulative Distance		-0.137 †			-0.115	
Normative Distance		-0.129 †				-0.125
Insider Ownership			0.013	0.019	0.046	0.010
Board Independence			-0.015	0.010	-0.015	-0.013
Founder/CEO Ownership			-0.011	-0.007	-0.078	-0.028
TMT Affiliations			-0.031	-0.057	-0.032	-0.025
Alliances			0.014	0.026	0.077	0.027
Intl. Venture Syndicates			0.016	0.017	0.012	0.014
2-way Interaction Terms						
Inv. Protect. X Ins. Own.				0.011		
Inv. Protect. X B. Independ.				-0.048		
Inv. Protect. X F/CEO Owner.				0.022		
Inv.Protect X TMT.Aff.				0.073		
Inv.Protect X Alliance				-0.154		
Inv.Protect X Intl. V.C.				0.202**		
Reg.Dis X Ins. Own.					-0.075	
Reg.Dis X B. Independ.					-0.004	
Reg.Dis X F/CEO Owner					0.152	
Reg.Dis X TMT Aff.					-0.017	
Reg.Dis X Alliance					0.079	
Reg.Dis X Intl. V.C.					0.029	
Norm.Dis. X Ins. Own.						-0.008
Norm.Dis. X B. Independ.						-0.022
Norm.Dis. X F/CEO Owner						0.049
Norm.Dis. X TMT Aff.						0.065
Norm.Dis. X Alliance						0.145
Norm.Dis. X Intl. V.C.						-0.165
Model F	5.129	4.000	2.467	2.248	1.802	2.069
Adjusted R2	0.266	0.286	0.287	0.345	0.132	0.156
Sig. of Change	0.000	0.398	0.813	0.204	0.966	0.847

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

Model 1 (R^2=26.6%) it is worth noting that market effects do not significantly contribute to the performance of foreign IPOs in non high tech industry sectors, in contrast to the high tech sample. Within this split sample, we find support for our hypothesized relationship between institutional distance and IPO performance. Regression tests in Model 2 demonstrate that both regulative distance (β = -0.137, p<0.10) and normative distance (β = -0.129, p<0.10) negatively related to foreign IPO performance. In addition, among the interaction terms, the interaction of Investor Protection and International VC Syndicates (β = .202, p<0.01) is positively related to foreign IPO performance. Finally, the interactions of independent boards, top manager affiliations and strategic alliances with the investor protection do not significantly impact foreign IPO performance among non high tech foreign IPOs, in contrast to the results in the High Tech sample (Table 5.14).

5.5.5. Post Hoc Analysis: Full Sample with International VC

Our final set of regression models deals with the full dataset (n=284) with the inclusion of the broader international venture syndicate variable rather than the U.S. V.C. variable originally tested on the full sample. Results in Model 3 of Table 5.16 show the positive effect of international venture syndicates (β = 0.199, p<0.001) on IPO performance. In addition, Model 4 regression results reveal the positive interaction of investor protection and international venture syndicates (β = 1.130, p<0.001) with IPO performance. Results indicate that the interaction of investor protection and board independence (β = .122, p < 0.01) in Model 3 is positively related to performance as is the interaction of investor protection and top manager affiliations (β = .090, p < 0.10).

Finally, the positive performance interaction of regulative distance and investor protection (β = .302, p<0.10) results in Model 5 reveals moderate support for the positive relationship of the interaction between regulative distance and investor protection.

Table 5.16 Post Hoc full sample results with International Venture Capital

	Model 1 β	Model 2 β	Model 3 β	Model 4 β	Model 5 β	Model 6 β
Control Variables						
China	0.199**	0.228**	0.203**	0.204**	0.212**	0.190**
Total Revenue (log)	0.333***	0.334***	0.357 ***	0.322 ***	0.344***	0.331***
Firm age (log)	-0.137**	-0.133**	-0.113*	-0.075*	-0.109*	-0.120*
Underwriter Prestige	-0.027	-0.020	-0.049	-0.029	-0.046	-0.022
Big 5 Auditor	0.003	-0.001	-0.003	-0.006	0.012	0.001
Hot U.S. Market	-0.162**	-0.155**	-0.175**	-0.178 **	-0.176**	-0.176**
High Tech Industry	0.120*	0.125*	0.104*	0.147*	0.105*	0.109*
Firm Risk	-0.122*	-0.125*	-0.101	-0.075	-0.094	-0.094
Rounds of Financing	-0.060	-0.064	-0.066	-0.007	-0.042	-0.033
Independent Variables						
Investor Protection		0.043		0.046		
Regulative Distance		0.063			0.063	
Normative Distance		-0.054				-0.033
Insider Ownership			0.000	0.013	-0.002	0.008
Board Independence			-0.053	-0.054	-0.057	-0.082
Founder/CEO Ownership			-0.015	0.002	-0.011	-0.012
TMT Affiliations			-0.016	-0.025	-0.033	-0.026
Alliances			0.016	0.002	0.017	0.015
Intl. Venture Syndicates			0.199 ***	-0.901	-0.088	0.264
2-way Interaction Terms						
Inv. Protect. X Ins. Own.				0.026		
Inv. Protect. X B. Independ.				0.122 **		
Inv. Protect. X F/CEO Owner.				0.010		
Inv.Protect X TMT.Aff.				0.090 †		
Inv.Protect X Alliance				0.010		
Inv.Protect X Intl. V.C.				1.130***		
Reg.Dis X Ins. Own.					-0.009	
Reg.Dis X B. Independ.					-0.018	
Reg.Dis X F/CEO Owner					0.038	
Reg.Dis X TMT Aff.					-0.064	
Reg.Dis X Alliance					-0.019	
Reg.Dis X Intl. V.C.					0.302 †	
Norm.Dis. X Ins. Own.						-0.040
Norm.Dis. X B. Independ.						0.016
Norm.Dis. X F/CEO Owner						0.049
Norm.Dis. X TMT Aff.						0.031
Norm.Dis. X Alliance						0.018
Norm.Dis. X Intl. V.C.						0.095
Model F	6.963	5.238	3.646	3.950	3.411	2.974
Adjusted R2	0.159	0.152	0.144	0.235	0.170	0.133
Sig. of Change	0.000	0.871	0.758	0.001	0.796	0.974

† p < 0.10
* p < 0.05
** p < 0.01
*** p < 0.001

CHAPTER 6

DISCUSSION

6.1 Introduction

While a portion of the results presented in Chapter 5 do support the hypothesized relationships presented in Chapter 3, a number of relationships are inconsistent with those found in the numerous IPO studies conducted upon domestic samples and therefore merit additional attention. This final chapter begins by highlighting those results which are consistent with extant agency and institutional theories. However, the body of this chapter focuses upon interpreting the results that run counter to relationships initially presumed and presents explanations that will help extend our understanding of the IPO process with regard to the factors which support as well as those which may limit the success of firms choosing to make foreign listings. The first section begins with a review of the major research questions which were initially posed in this dissertation. In the second portion of this chapter, I review and interpret the major findings regarding the signaling and performance implications of independent directors to the success of foreign IPOs. I then focus the remaining portion of the chapter on interpreting the results found in post-hoc analysis by first highlighting the negative effects US Venture Capital firms have upon the performance of foreign

IPOs. While these negative effects may at first seem counterintuitive, I contrast these results against the positive effect international venture syndicates have upon foreign IPO performance in the U.S. and offer a set of institutional explanations for this finding. After reviewing the impact of international venture firms I explore the factors which support foreign IPO performance in the years prior to and immediately following the enactment of Sarbanes-Oxley legislation. The last section highlights those interactive signals which benefit technology based foreign IPOs yet have little effect on non-technology related public offers of foreign firms.

6.2 Review of Research Questions

In this dissertation I suggested that one possible determinant of whether or not companies can enjoy a successful IPO on a foreign stock exchange could lie in certain country related factors. Unlike other types of IPO signals which emanate from the firm itself or through third party affiliations, a foreign IPO firm's country of origin represents a unique extra-organizational signal. Issues surrounding a firm's country-of-origin work to enhance investor uncertainties regarding the safety and security of their investment. I suggested that, consistent with the signaling perspective, companies from countries with unstable legal environments and institutionally distant country-of-origins with uncertain regulatory institutions may raise suspicion among potential investors regarding the safety and security of their investments and the behavior of management. Therefore, I argued that investor protection levels and the strength of a country's regulatory institutions may have a significant bearing on the success of foreign firms at

IPO and may function to enhance investor uncertainties regarding the safety and security of their investments.

In addition to country related factors, I argued that certain corporate governance and organizational capabilities work to reduce market uncertainties regarding a foreign new public issue. Consistent with extant agency theory, I suggested that when foreign IPOs signal their willingness to adhere to heightened governance standards by increasing the level of independent members on their corporate boards, or maintain high levels of insider ownership it would be conceivable to expect that investors will be more willing to respond with increased demand for the new issue. Similarly, I suggested that it would be reasonable to expect the endorsement of U.S. venture capitalists (VCs) would be especially helpful to a foreign new issue. Because of their knowledge and experience in guiding firms through the new issue process on U.S. exchanges, U.S. venture firms would conceivably be able to better prepare and position foreign issuers to achieve success at IPO on U.S. stock exchanges. Likewise, I argued that alliance membership and top manager affiliations may provide positive cues to investors regarding the ability of otherwise unfamiliar firms to compete for resources and grow successfully.

6.3 Major Findings

Using a unique, hand-collected sample of foreign IPOs in the U.S., this study found that country-of-origin, corporate governance and capability signals are not mutually independent. However they do interact with one another to impact the performance of foreign IPOs. Specifically, this study found that investor protection

levels within a country-of-origin positively interact with board independence and top manager affiliations to enhance the success of foreign IPOs. This finding is in line with a number of studies that advocate viewing corporate governance as a system of inter-related elements having strategic or institutional complementarities (Aoki, 2001; Milgrom and Roberts, 1994; 1995). In addition, some authors have recognized that governance mechanisms operate interdependently, with the overall effectiveness depending on a simultaneous operation of several mechanisms in limiting managerial opportunism and strategic errors (Rediker and Seth, 1995; Walsh and Seward, 1990). This study also supports previous research that found strategic actions such as increasing the level of international operations and board insider ownership interact with country of origin signals when going public (Bell, Moore, and Al-Shammari, 2008). As a result, the IPO firm is involved in a complex process of evaluating the costs and benefits of various signaling mechanisms in search of an optimal combination that minimizes both information asymmetry and costs of signaling (Titman and Trueman, 1986). This study found that country-of-origin effects, when measured by investor protection levels, interact with two strategic actions, board independence and top manager affiliations to enhance foreign IPO performance outcomes. Thus, governance signals and capability signals interact with country of origin signals to predict IPO valuation.

In addition to examining country-of-origin signals associated with investor protection levels, the study also sought to uncover the extent to which foreign IPOs founded in countries with vastly different regulatory environments than the U.S. may

impact IPO performance. Interestingly, this study found that the regulatory distance of foreign IPO from the US positively interacts with board independence to adversely impact performance. This finding challenge the assumptions made earlier in this dissertation regarding the positive effect increased board independence should have upon the performance of foreign IPOs who originate from distant regulative institutional environments, and prompts a closer analysis of both the regulatory environment surrounding these foreign IPO firms and possible limitations with extant agency theory research. Indeed, a growing number of scholars suggest that agency theory is currently limited to shareholders and managers and is "under-contextualized" (Aguilera, Filatotchev, Gospel and Jackson, 2008). Recent research suggests that agency problems may vary across resource environments, or different institutional environments. Some recent studies have demonstrated that there may not be a universal link, as was initially assumed in this dissertation, between governance practices and organizational performance in country setting other than the U.S (Aguillera *et al.*, 2008; Whitley 1999; Crouch 2005; Gourevitch and Shinn 2005; Kogut and Ragin 2006). Results of the current study demonstrate that increased governance does not translate into improved performance for firms that originate in uncertain regulatory environments characterized by unstable judiciary practices and low levels of intellectual property protection.

For foreign IPOs founded in distant regulatory environments, the negative effects of increased board independence can be due to their costs, and due to the uncertain regulatory environment within which these directors must perform their

duties. First, the costs associated with increased board independence may supersede the governance benefits for firms from distant regulatory environments. In order to meet SEC listing requirements foreign firms very often have to replace a number of current board members with independent directors. The new independent directors may become part of the board from a variety of sources including via recommendations of venture firms, underwriters, as well as audit firms. Increasing board independence is a step most private firms, foreign or domestic, must undertake during the listing process. However, as the results indicate, achieving listed company status through heightening board independence does not come without performance implications for some foreign new issues. When foreign IPOs founded in unstable regulatory environments replace high level executives who may have a great deal of experience and knowledge of the internal firm processes *and* environment, with independent directors who are unfamiliar with the organization, the cost may become manifested with heightened levels of uncertainty within the board regarding the strategic direction of the firm. The results of this study imply the costs may be insurmountable to firms founded in uncertain regulatory environments who replace board insiders with independent directors. Secondly, regulatory environments characterized by high levels of uncertainty inhibit the ability of independent directors from effectively performing their tasks as conduits of information to shareholders. Aguillera *et. al*. (2008) suggests that in certain national contexts independent directors may heighten the risks of proprietary costs when strategically sensitive information is shared with company outsiders. In this case, the overall cost of board independence for firms founded in regulatory environments very different from

the U.S. is generally high, and negatively impacts the dual wealth generating and wealth protection roles of independent directors. The negative performance results found in Table 5.9 underscores the extent to which increasing board independence to meet SEC board governance requirement represents a real cost to foreign IPOs founded in unstable regulatory regimes.

6.3.1. U.S. vs. International Venture Capital

Contrary to extant research that advocates the signaling value of venture firms, the results in Table 5.9 suggest that U.S. venture firms represent a cost that significantly reduces the success of foreign IPOs in the U.S. This finding stands out in the results due to its magnitude and because it contradicts the positive role extant signaling research would suggest U.S. venture firms should provide foreign IPOs listing in the U.S. Therefore, a finer grained analysis of the data was warranted into possible explanations for this negative directionality, and more importantly, to find if alternative forms of venture backing would enhance foreign IPO performance in the U.S. above that of U.S. venture firms acting alone. I begin this portion of the discussion section with the role venture firms perform in the IPO process and why many investors who are otherwise unfamiliar with a new issue refer to venture firms to reduce information asymmetry. Next, I present explanations why the certifying value that U.S. venture firms bring to unknown firms at IPO does not extend to foreign IPOs in the U.S. Finally, I review extant research on cross-country venture syndicates and explain why cross-country venture enabled foreign firms tend to enjoy success at IPO above that of U.S. venture firms who act alone.

As stated in previous sections, there exists a great deal of information asymmetry between buyers (investors) and sellers (firm insiders) in the IPO process. However, because VCs serve as effective monitors of their portfolio firms (Barry et al. 1990) researchers contend VCs help to certify that new issue prices reflect all available and relevant inside information. VC firms also take steps to enhance the perceived value of their portfolio firms by changing the management of their portfolio firms (Hellman and Puri, 2002) and by investing substantial amounts of monetary and reputational capital into their firms. As third parties in the IPO process, VC firms are unique in their ability to work in highly uncertain environments and reduce the cost of information asymmetries (Ang, 2006).

Pollack *et. al.* (2004) refers to the auditors, institutional investors, board members, and regulatory agencies that are all closely tied to the lead underwriter of the new issue as the IPO "deal network". These authors posit that the underwriter represents the focal point of the deal network, and because of their importance much of the relationships found between the participants in the IPO deal network are financially based. This financially based representation may best explain the nature of relationships found between U.S. venture firms and underwriters, yet may fall short in explaining the nature of the relationships found in venture syndicates in other institutional environments. Recognizing these differences is a critical step to explaining why foreign IPOs backed by cross-country venture syndicates outperform those issues backed by U.S. venture firms acting alone.

Within the U.S., the venture capital industry is often characterized simply as organizations that take firms public (Hellmann and Puri, 2002). Because of this, the mark of success and much of the basis for evaluating one venture firm over another is based upon their track record of successful IPOs. Recent finance research indicates that there exists substantial pressure on venture firms to bring companies public. Due to these pressures and shortened time horizons some have pointed to "undercooked IPOs" (Barnes, Cahill and McCarthy; 2003) being brought to market. Indeed, critics of U.S. VCs charge that the interests of VCs run counter with other stakeholders around the time of the new issue (Stross, 2000; Healy, 2002; Tunic, 2003; Cohen and Langberg, 2005). Some contend that VCs use their leverage over management to artificially inflate IPO prices to the extent these firms may be partly responsible for fueling the Internet IPO bubble (Biddle, 2001; Buckman, 2001; Mills, 2001).

Gompers (1996) first characterized this rush to market behavior among some VC firms as "grandstanding". Gompers (1996) proposed that young and less experienced VCs hurry their portfolio firms to public status in order to attain visibility associated with the new issue, and then promptly leverage their heightened visibility in order to gain and attract new business. Alternatively, fundraising is less of a concern for older VC firms because their reputations are already established (Gompers, 1996). The costs associated with this "grandstanding" behavior are believed to be a weak foundation upon which firms can sustain long-term value creation (Barnes, Cahill, McCarthy; 2003). To date, finance scholars have identified "grandstanding" (Gompers, 1996) behavior primarily in samples of U.S. venture firms. While this may be due to the

volume of firms that enter public life in the U.S., it may also suggest certain institutional differences between U.S. VCs and venture firms found in other parts of the world. Indeed, age and experience of the VC firm may indeed explain "grandstanding" behaviors when evaluating VCs within a singular institutional context. However, VC age and experience alone inadequately accounts for distinct performance differences between US and cross-country venture firms supporting IPOs originating in foreign countries.

Makela and Maula (2006) identify three factors: financial importance, distance, and relational embeddedness as potential factors that may help explain the commitment levels venture companies have with their portfolio firms. Within the context of this study, it is reasonable to suggest the short-term financial emphasis of IPO deal networks in US may place undue influence on U.S. venture firms to bring "undercooked" foreign IPO firms to market. Similarly, cultural distance, geographic distance and foreignness may also prompt US VC firms to lower their resource commitment levels to foreign firms to the extent that these firms suffer immediately after going public and perhaps shorten their life expectancy.

Finally, and perhaps most importantly, the nature of the relational embeddedness of US VC and cross-country VC to their respective "deal networks" may best explain the performance differences between foreign IPOs who utilized these third parties. As stated previously, the reputations of US VCs are largely built upon the monetary success they enable their portfolio firms to achieve at IPO, whereas the reputations foreign venture firms build among their peers is contingent upon how well they position

their portfolio firms for longer term success after IPO. This assessment of venture firms backing foreign IPOs in the U.S. is similar to recent finding of venture backing in India. Research has shown in the Indian market, foreign venture capital firms are more likely to be involved at the strategic level, whereas domestic venture firms tended to focus their efforts more on operational levels (Pruthi, Wright, and Lockett, 2003). Since the performance measure used in this study, IPO Success, accounts for not only the first day IPO returns but also six month post-IPO performance, it appears that cross-country syndicates do indeed better position their portfolio firms for life as a publicly held firm in the US over that of US VCs.

6.3.2. Foreign IPOs Before and After Sarbanes-Oxley Legislation

In this dissertation I endeavored to investigate how the institutional environment surrounding foreign firms impacted their IPO performance. While much of the hypothesized relationships discussed earlier in this dissertation dealt with performance issues related to the investor protection levels and regulatory uncertainty in a foreign IPO's country-of-origin, post-hoc analysis reveals that sudden regulatory changes within a *host country* can also significantly impact the performance of foreign IPOs. Of particular importance for the firms evaluated in this study are the heightened governance requirements placed upon new issues due to the enactment of Sarbanes-Oxley (SOX) legislation. In this section I will review post-hoc results that reveal the diminished value of cross-country venture syndicates in the wake of SOX legislation.

In 2001, after the revelation of Enron's inflated profits and hidden debt, a series of additional corporate scandals among prominent firms such as WorldCom, Global

Crossing, Tyco and Adelphia Communications shook the financial markets. SOX legislation began as a result of these corporate scandals, in addition to the economic turbulence and the posturing of elected officials during the 2002 midterm elections. In order to better understand how such a sudden regulatory change impacted foreign listings in the US and how these changes reduced the value of cross-country venture syndicates we can refer to others who have endeavored to understand sudden environment changes.

Meyer (1982: 515) first defined environmental jolts as "transient perturbations whose occurrences are often difficult to foresee and potentially inimical." A number of other studies have looked at the effects of sudden external environmental changes. However, authors use a number of different terms to describe the magnitude of these events. Some scholars call these sudden changes "crisis" (Reilly, 1993), "problem" (Kiesler and Sproull, 1982) and "disasters" (Gephart, 1984). Despite the variety of terms used to describe these events, each of these studies closely resembles punctuated equilibrium literature. This refers to an environment characterized by an extended period of relative stability. However, this "equilibrium" state is interrupted by an often unanticipated period of environmental turbulence often terminating with a spike or a punctuated equilibrium. Researchers have utilized Meyer's concept of "environmental jolts" to focus on events such as breakthrough technology, new legislation and union strikes or boycotts. However, few studies have endeavored to investigate the effects of sudden regulatory changes on the signaling value of third parties to the IPO process.

With regard to foreign listings, SOX legislation represents a unique regulatory event. Prior to its enactment, US exchanges enjoyed steady growth in the number of new listings of foreign firms. After its enactment, the most noticeable impact of SOX can be seen in the number of foreign firms that have forgone U.S. exchanges in favor of listing their shares on stock exchanges in other countries who have lower regulatory requirements (Table 5.1). A less apparent result has been an abrupt change in the role and value of third party endorsements of cross-country venture syndicates in those foreign firms who do list in the U.S. A comparison of results found in Table 5.12 and Table 5.13 reveals that prior to the enactment of SOX legislation, cross-country venture syndicates contributed quite significantly to the overall success of foreign IPOs, yet the value associated with these venture syndicates diminished in the wake of SOX legislation.

A review of the provisions of SOX may contribute to our understanding of its role in reducing the apparent value of cross-country syndicates to new listings of foreign firms. The first element of SOX is increasing the level of disclosure of publicly traded companies. While this is accomplished in a number of ways, the overall function of each is to tie the authenticity of financial documents directly to the company's chief executive officer. In addition, SOX required firms to adopt a code of ethics for senior officers, and also place a qualified 'financial expert' on the company's audit committee. Secondly, SOX required firms to put in place a number of measures intended to reduce conflicts of interest such as requiring all audit committee members to be independent directors, and eliminating all provisions which allowed credit to be offered to directors

or executive officers. The third substantive component of SOX encourages the reporting by attorneys and audit firms of violations. The fourth major area of SOX legislation involves establishing criminal penalties for altering documents, and criminal penalties for defrauding shareholders.

Perhaps one possible explanation for the reduction in the value of cross-country syndicates may be the increased importance SOX rules place upon accounting firms. A Grant-Thornton executive surveyed regarding the impact of SOX on his company's operations said that "Sarbanes-Oxley forced [his firm] to dig down into the muck of the company's processes. So while [they] were there, [they] figured [they] might as well stay a little longer and take some soil samples." (Grant Thornton Corporate Governor Series, 2006)

An alternative explanation may reside in the SOX regulations themselves. Much of the value investors place in venture firms resides in their certification and monitoring of their portfolio firms. The enactment of SOX may represent a distinct point in which the regulatory environment in the U.S. abruptly internalizes the certification and monitoring role of foreign IPOs to the extent that once a foreign IPO has achieved the SEC, stock exchange, and SOX governance listing provisions, additional governance and monitoring efforts put into effect by venture firms may have diminishing returns. Indeed, Sanders and Boivie (2004) argue that an increase in the marginal costs of monitoring may more than offset the reduction in investor uncertainty. This rationale is also consistent with more recent research that suggests that investors may be concerned with "over-regulation" of firms (Claessens *et al.*2007).

These post-hoc results suggest that once a foreign IPO has met the stringent post-SOX transparency and listing standards of the SEC and New York exchanges, individual signals associated with a new foreign issue's cross-country venture syndicates become less salient to investors evaluating their participation levels in a foreign new issue.

6.3.3. High Tech vs. Non High Tech Foreign IPOs

Much of strategy and entrepreneurship studies of IPOs have been conducted on firms in many types of industries, however most center on new issues of internet and biomedical firms (Mudambi and Treichel, 2005; Sanders and Boivie, 2004; Stuart and Sorenson, 2003; Higgins and Gulati, 2003; Jackson and Hambrick, 2003; Pollock, Gulati and Sadler, 2002). Indeed, this may be due to the volume of internet and technology related firms making new issues in the U.S. over the last fifteen years (Certo, Covin, Daily, and Dalton, 2001). In addition to the popularity of internet IPO research, most extant IPO research is conducted within a single industry, a single sample year, or individual institutional context. Therefore, in light of the unique hand-picked sample of foreign IPOs in this study, post hoc analysis was necessary to examine how the salience of country-of-origin and company related signals may differ among technology and non-technology related foreign IPO firms.

We can note that individual signals associated with a foreign IPO country-of-origin are the most salient among the non high tech sample of foreign IPOs (Table 5.15). This is not surprising when considering that technology related firms are more likely to have business partners, alliances, and other company stakeholders outside the

firm's country-of-origin. One of the most significant challenges faced by those contemplating the merits of investment in, or partnering with foreign firms comes from the inherent uncertainty in assessing host country risks. Host country risk reflects uncertainty about the continuation of current economic and political conditions and government policies that are deemed to be critical to the survival and profitability of a firm's operations in that country (Agarwal and Ramaswami 1992). Outside investors appear to question the viability of firms that are founded in regulatory environments that do not provide support for new businesses, do not reduce the risks for individuals starting a new company, and do not facilitates entrepreneurs' efforts to acquire resources. Likewise, investors appear to discount firms that are founded in societies in which normative traditions do not support entrepreneurial initiative and risk, and the industrial context these firms compete within do not facilitate collaborate efforts with firms founded in countries with very different normative traditions. Outside investors evaluating their participation in a foreign IPO can be reasonably assured that the technology related firms will strive to continually improve internal organizational practices and behaviors in an effort to maintain and nurture these relationships with external stakeholders in order to sustain and grow the firm. However, the results found in the non-high tech sample suggest that investors may consider firms in these industrial sectors to be more likely to be entrenched in the normative behaviors found among business persons in these distant countries, and be susceptible to the regulatory uncertainties found in these markets.

A further review of the results from the high-tech sample of foreign IPOs (Table 5.14) reveals the interaction of country-of-origin and corporate governance and capability signals have significant performance implications among foreign IPOs. Among high tech foreign IPOs, investor protection levels interact with board independence to positively impact IPO performance. In addition, it is only among these high tech foreign IPOs that we can see that top manager affiliations, alliances, and venture backing all interact with the investor protection levels to positively impact IPO performance. In addition, it is also worthwhile to note the value of founder /CEOs of technology related foreign IPOs that originate in countries with very different normative business traditions than the U.S. This finding appears to suggest that founder CEOs of technology related foreign IPOs may be especially important to the performance of foreign entrepreneurial firms. Others note that founder CEOs often make substantial personal investments in helping an organization grow from infancy (Nelson, 2003). From a resource perspective, founders often possess a great deal of knowledge about the firm and its processes (Fisher and Pollock, 2004) to the extent these executives can be considered a source of competitive advantage (Baum, Locke, and Smith, 2001). In addition, founders of entrepreneurial firms very often have a reputational stake in the firm and exert a greater effort than nonfounder CEOs to ensure firm success. Indeed, these results indicate that among technology related firms, founder/CEOs do add to the success of foreign IPOs that originate in business environments that adhere to very different normative traditions than the U.S.

6.4 Limitations and Future Research Possibilities

This study has a number of limitations that suggest areas for further research. First, in line with many other IPO studies, this research focused only on short term stock-market performance. Longitudinal data is needed to explore the longer-term post-IPO effects of ownership patterns on performance. Indeed, many research avenues exist regarding the factors which enable the longer-term survival of these firms in addition to the catalysts of foreign IPO failure. Third, what constitutes the best leadership combination for these firms? Extant research suggests that science educated CEOs help initial IPO pricing levels. Does this extend to foreign IPOs as well? Also, how do International Venture Capital syndicates pick firms to include in their portfolio?

6.5 Managerial Implications

In conjunction with country-of-origin signals, there are a handful of strategic steps that managers of private foreign firms can take in order to ensure successful new public offer on US exchanges. First, the presence of international VC, rather than U.S. VC, may be a powerful first step towards ensuring the firm has the best strategy in place that will facilitate success as a publicly held firm. In addition to the right support, foreign non High Tech private firms contemplating a new foreign issue should note that regulatory uncertainty and normative traditions in their country-of-origin are important signals to external investors. This study revealed that internally generated governance

and capability related signals do not help enable foreign IPO firms in non High Tech industries overcome negative country-of-origin signals. On the other hand, managers of foreign firms should note that governance and capability related signals are more salient among investors evaluating investments in High-Tech related foreign IPOs. Therefore, managers of foreign IPOs in High Tech fields should take steps to develop alliance partnerships, retain international VC backing, and recruit experienced public company executives prior to making their first equity offer in the U.S.

6.5 Conclusion

Although some empirical attention has been paid to the study of domestic "threshold" firms (i.e., IPOs), to date there has been very little attention paid to the study of *foreign* IPOs and the factors which impact the benefits of international listings. To date scholars have broadened our understanding of the motivational influences that prompt foreign executives to choose to go public on western exchanges. However, prior to this study, the country and firm related factors that affect performance of foreign firms on western exchanges were yet to be uncovered.

This dissertation advances signaling research and institutional perspectives in a number of ways. First, although previous IPO studies recognize potential signaling effects of the firm's governance characteristics (Certo *et al.et al.*, 2001; Filatotchev and Bishop, 2002; Sanders and Boivie, 2004), there is very little research on corporate governance and capability effects on performance of *foreign* IPOs. By focusing on the

signaling value of both governance and capability signals within this unique context this study begins to close this conceptual and empirical gap. In addition, this study advance previous research by considering performance outcomes associated with the interaction of country-of-origin effects with firm level signals to impact the performance of foreign firms who forgo local exchanges in favor of make initial public offers in the U.S. Also, this study also demonstrates how dramatic host country regulatory changes can impact the salience of country-of-origin and corporate governance signals. Finally, results contrary to those hypothesized have enabled additional questions to be raised regarding the important role of international venture capital in the U.S. foreign IPO market.

REFERENCES

Agarwal, S., 1994. Socio-cultural distance and the choice of joint ventures: A contingency perspective. ***Journal of International Marketing,*** 2: 63-80.

Agarwal, S., and Ramaswami, S. N. 1992. Choice of foreign market entry mode: Impact of ownership, location and internalization factors. ***Journal of International Business Studies***, 23: 1-26.

Aggarwal. R.; Prabhaia, N. & Puri, M. 2002. Institutional allocation in initial public offerings: Empirical evidence. *Journal of Finance,* 57: 1421-1442.

Aggarwal. R., 2003. Allocation of Initial Public Offerings and Flipping Activity. ***Journal of Financial Economics,*** 68: 111-135.

Aggarwal, R., Erel, I., Stulz, R. M. & Williamson, R. G. 2007. Do U.S. firms have the best corporate governance? A cross-country examination of the relation between corporate governance and shareholder wealth. Fisher College of Business Working Paper No. 2006-03-006.

Aggarval, R., Leal, R., & Hernandez, L., 1993. The aftermarket performance of initial public offerings in Latin America. ***Financial Management***, 22: 42-53.

Aguilera, R., Filatotchev, I., Gospel, H., and Jackson, G. 2008. An organizational approach to comparative corporate governance: costs, contingencies and complementarities. ***Organization Science***, forthcoming.

Ahmed, K., & Courtis, J. K. 1999. Associations between corporate characteristics and disclosure levels in annual reports: a meta-analysis. ***British Accounting Review***, 31: 35-61.

Aiken LS, West SG. 1991. Multiple *Regression: Testing and Interpreting Interactions*. Sage: Newbury Park, CA.

Albaum, G., & Tse. D. 2001. Adaptation of international marketing strategy components, Competitive advantage, and firm performance: A study of Hong Kong exporters. ***Journal of International Marketing,*** 9: 59-81.

Aldrich, H.E., & Fiol, C.M. 1994. Fools rush in? The institutional context of industry creation. ***The Academy of Management Review***, 19: 645–670.

Allen, F., & Faulhaber, G. 1989. Signaling by underpricing in the IPO market. ***Journal of Financial Economics***, 23: 303–323.

Amihud, Y., & Lev, B. 1981. Risk reduction as a managerial motive for conglomerate mergers. ***Bell Journal of Economics***, 12: 605-617.

Anderson S. C., Beard, T. R., & Born, J. A. 1995. ***Initial Public Offerings: Findings and Theories.*** Kluwer: Boston, MA.

Ang, S. H. 2006. Country-of-origin effect of VC investment in biotechnology companies. ***Journal of Commercial Biotechnology,*** 13: 12-19.

Aoki, Masahiko (2001) ***Toward a Comparative Institutional Analysis***. Cambridge, MA, MIT Press.

Arthurs, J., & Busenitz, L. 2005. Dynamic capabilities and venture performance: the effects of venture capitalists. ***Journal of Business Venturing***, 21: 195–215.

Aussenegg, W. 1997. Short and long-run performance of initial public offerings in the Austrian stock market. Unpublished Vienna University of Technology working paper.

Balvers, R. J., McDonald, B. D., & Miller, R. E. 1988. Underpricing of new issues and the choice of auditor as a signal of investment banker reputation. ***The Accounting Review***, 63: 605-622.

Barkema, H, G., Bell, J., H., & Pennings, J. M., 1996. Foreign entry, cultural barriers, and learning. ***Strategic Management Journal***, 17: 151-166.

Barnett, W. P., & Carroll, G. R. 1995. Modeling internal organization change. ***Annual Review of Sociology***, 21: 217–236.

Baron, D. P. 1982. A model of the demand for investment banking advising and distribution services for new issues. ***Journal of Finance***, 955-976.

Baron, D., & Holmstrom, B. 1980. The investment banking contract for new issues under asymmetric information: delegation and the incentive problem. ***The Journal of Finance,*** 35: 1115–1138.

Barnes, E., Cahill, E. and McCarthy, Y. (2003) Grandstanding in the UK Venture Capital Industry, ***Journal of Alternative Investments*** 6(3), 60–80.

Barry, C. B., Muscarella, C. J., Peavy, J. W. III, Vetsuypens, M. R. 1990. The role of venture capital in the creation of public companies: Evidence from the going public process. ***Journal of Financial Economics,*** 27: 447-471.

Baum, J. & Oliver, C. 1991. Institutional linkages and organizational mortality. Administrative Science Quarterly, 36: 187-218.

Baum, J. A. C., Calabrese, T., & Silverman, B. S. 2000. Don't go it alone: Alliance network composition and startups' performance in Canadian biotechnology. ***Strategic Management Journal.*** 21: 267–294.

Baum, J. R., Locke, E. A., & Smith, K. G. 2001. A multidimensional model of venture growth. ***Academy of Management Journal***, 44: 292 – 303.

Baumol, W. 1959. ***Business Behavior, Value, and Growth.*** New York: Macmillan, 45-81.

Beatty, R., & Ritter, J. 1986. Investment banking, reputation, and the underpricing of initial public offerings. ***Journal of Financial Economics***, 15: 213–232.

Beatty, R. P., & Zajac, E. J. 1994. Managerial incentives, monitoring, and risk bearing: A study of executive compensation, ownership, and board structure in initial public offerings. ***Administrative Science Quarterly***, 39: 313–335.

Beatty. R. 1989. Auditor reputation and the pricing of initial public offerings. ***The Accounting Review,*** 64: 693-709.

Becht, Marco, Patrick Bolton, and Ailsa R¨oell, 2003, Corporate governance and control, in George M. Constantinides, Milton Harris, and Ren´e M. Stulz, eds.: ***Handbook of the Economics of Finance*** (Elsevier, North Holland).

Riahi-Belkaoui, A., Picur, R. D. 1991. Cultural determinism and the perception of accounting concepts. ***International Journal of Accounting***, 26: 118-130.

Benito, G. R., & Gripsrud, G. 1992. The expansion of foreign direct investments: Discrete rational location choices or a cultural learning process? ***Journal of International Business Studies,*** 23: 461-476.

Berger, P. G., & Ofek, E. 1995. Diversificarion's Effect on Firm Value. ***Journal of Financial Economics***, 37: 39-65.

Bhattacharya, S. 1979. Imperfect information, dividend policy, and the "bird in the hand" fallacy. ***Bell Journal of Economics and Management Science,*** 10: 259-270.

Biddle, J. 2001. The ones who blew up the balloon. *Washington Post* (January 11): E.1.

Bilkey, W. J., & Nes, E. 1982. Country-of-origin effects on product evaluations. ***Journal of International Business Studies***, 13: 89-99.

Black, J. S., & Mendenhall, M. 1991. A practical but theory-based framework for selecting cross-cultural training methods, in Mendenhall, M., and Oddou, G. (eds), ***International Human Resource Management***, 177-204.

Boardman, A. E., & Laurin, C. 2000. Factors affecting the stock price performance of share issued privatizations. ***Applied Economics***, 32: 1451-1464.

Bochner, S. E., Priest, G. M. 1993. ***Guide to the Initial Public Offering***. 2nd ed. Merrill Corporation, New York.

Boehmer, E. & Fishe, R. 2004, Underwriter short covering in the IPO aftermarket: A clinical study, ***Journal of Corporate Finance,*** 10: 575–594.

Booth, J. R., & Chua, L. 1996. Ownership dispersion, costly information, and IPO underpricing. ***Journal of Financial Economics,*** 41:291-310.

Booth, J. R., & Smith, R. L. 1986. Capital raising, underwriting, and the certification hypothesis. ***Journal of Financial Economics***, 15: 261–281.

Brav, A., & Gompers, P. A. 1997. Myth or reality? The long-run underperformance of initial public offerings; Evidence from venture and nonventure capital-backed companies. ***Journal of Finance,*** 52: 1791-8121.

Brennan, M., & Cao, H. 1997. International portfolio investment flows. Journal of Finance. 52: 1851-1880.

Brickley, J., Lease, R. C., & Smith, J. R. 1988. Ownership structure and voting on anti-takeover amendments. ***Journal of Financial Economics***, 20: 267-291.

Brouthers, K, D., & Brouthers, L. E. 2001. Explaining the national cultural distance paradox. ***Journal of International Business Studies,*** 32: 177-189.

Buckley, P, J,, & Casson, M. C. 1998. Analyzing foreign market entry strategies: Extending the internalization approach. ***Journal of International Business Studies***, 29: 539-561.

Buckman, R. 2001. Who caused the dot.com crash? Venture capitalists, analysts, entrepreneurs, day traders all play the blame game. *Wall Street Journal* (March 5): B1.

Burton, D. M., Sorensen, J. B., & Beckman, C. 2002. Coming from good stock: Career histories and new venture formation. ***Research in the sociology of organizations.*** M. Lounsbury and M. Ventresca. Greenwich, CT, JAI Press, Inc. 19 229-262.

Busenitz, L.W., & Lau, C. M. 1996. A cross-cultural cognitive model of new venture creation. ***Entrepreneurship, Theory and Practice,*** 20: 25-39.

Bushman, R. M., & Smith, A. J. 2001. Financial accounting information and corporate governance. ***Journal of Accounting and Economics***, 32: 237-333.

Cai, Y., Cude, B., & Swagler, R. 2004. Country-of-origin effects on consumer's willingness to buy foreign products: An experiment in consumer decision making. ***Consumer Interest Annual***, 50: 98-105.

Carpenter, M. A., Pollock, T. G. & Leary, M. M. 2003. Testing a model of reasoned risk- taking: Governance, the experience of principals and agents, and global strategy in high-technology IPO Firms. ***Strategic Management Journal***, 24: 803-820.

Carter, R.B. & Manaster, S. 1990. Initial public offerings and underwriter reputation. ***Journal of Finance***, 65: 1045-1067.

Carter, R. B., Dark, F. H., and Singh, A. K. 1998. Underwriter reputation, initial returns and long run performance of IPO stocks. ***The Journal of Finance***, 53: 285-311.

Caves, Richard E. 1996. ***Multinational Enterprise and Economic Analysis***. 2ed. Cambridge: Cambridge University Press.

Certo, S. T., Covin, J. G., Daily, C. M., & Dalton, D. R. 2001. Wealth and the effects of founder management among IPO-stage new ventures. ***Strategic Management Journal***, 22: 641-658.

Certo, S. T., Daily, C. M., Cannella, A. A., Jr., & Dalton, D. R. 2003. Giving money to get money: How CEO stock options and CEO equity enhance IPO valuations. ***Academy of Management Journal,*** 46: 643-653.

Chadha, S., 2003. Do insiders knowingly issue overvalued equity? Evidence from IPOs that get delisted, Working paper, Alabama University, 2003.

Chemmanur, T. J. & Fulghieri, P. 2006. Competition and cooperation among exchanges: A theory of cross-listing and endogenous listing standards. ***Journal of Financial Economics,*** 82: 455-489.

Chemmanur, T, J. 1993. The pricing of initial public offers: A dynamic model with information production. ***Journal of Finance***, 48: 285-304.

Cho, M-H. 1998. Ownership structure, investment, and the corporate value: An empirical analysis. ***Journal of Financial Economics*****,** 47: 103-121.

Claessens, S., and Bruno, V. 2007. Corporate Governance and Regulation: Can there be Too Much of a Good Thing? World Bank Working Paper 4140.

Clark, T. & Pugh, D. S. 2001. Foreign country priorities in the internationalization process: A measure and an exploratory test on British firms. ***International Business Review***, 10: 285–303.

Coffee, J. C. 2002. Racing towards the top? The impact of cross-listings and stock market competition on international corporate governance. ***Columbia Law Review***, 102: 1757-75.

Coffee, J. C. 2001. Do country norms matter? A cross-country evaluation. University of Pennsylvania Law Review, 149: 2151-2177.

Cohen, B. D., & Dean, T. J. 2005. Information asymmetry and investor valuation of IPOs: Top management team legitimacy as a capital market signal. ***Strategic Management Journal***, 26: 683–690.

Cohen, D., and N. Langberg. 2005. From private to public: Venture capital financing and the informativeness of earnings. Working paper, University of Southern California, Los Angeles, CA, and University of Houston, Houston, TX.

Coombes, P., & Watson, M. 2000. Three surveys on corporate governance. ***The McKinsey Quarterly Special Ed***. 4:74-77.

Cooper, I., Kaplanis, E. 1994.The implications of the homes bias in equity portfolios, ***Business Strategy Review***, 5: 41-53.

Coval, J. D., & Moskowitz, T. J. 1999. Home bias at home: Local equity preference in domestic portfolios. ***Journal of Finance***, Vol. LIV:2045-2073.

Coval, J. D., & Moskowitz, T. J. 2001. The geography of investment: Informed trading and asset prices. ***Journal of Political Economy***, 109:811-841.

Crouch, Colin (2005) Capitalist Diversity and Change. Recombinant Governance and Institutional Entrepreneurs. Oxford, Oxford University Press.

Cyr, L. A., Johnson, D. E., & Welbourne, T. M. 2000. Human resources in initial public offering firms: Do venture capitalists make a difference? ***Entrepreneurship Theory and Practice,*** 25: 77–91.

D'Aveni, R. A. 1990. Top managerial prestige and organizational bankruptcy. ***Organization Science,*** 1: 121–142.

Daily, C. M., & Dalton, D. R. 1992. Financial performance of founder managed versus professionally managed corporation. ***Journal of Small Business Management,*** 30: 25–34.

Daily, C. M., Certo, S. T., Dalton, D. R. & Roengpitya, R., 2003. IPO underpricing: a meta-analysis and research synthesis. ***Entrepreneurship Theory and Practice***, 27: 271–295.

Daily, C. M., Certo, S. T., Dalton, D. R., & Roengpitya, R. 2003. IPO underpricing: A meta-analysis and research synthesis. ***Entrepreneurship Theory and Practice***, 27: 271-295.

Davenport, K. A., Dolan, M. F., & Hayashi, Y. 2006. A primer for non-US issuers. ***International Financial Law Review,*** 25: 59-70.

Davis, G. F. 1991. Agents without principles? The spread of the poison pill through the intercorporate network. ***Administrative Science Quarterly,*** 36: 583-613.

Davis, G. F. & Stout, S. K. 1992. Organization theory and the market for corporate control: A dynamic analysis of the characteristics of large takeover target, 1980-1990. ***Administrative Science Quarterly,*** 37: 605-633.

Dawson, S. M., & Hiraki, T. 1985. Selling unseasoned new shares in Hong Kong and Japan: A test of primary markets efficiency and underpricing. ***Hong Kong Journal of Business Management,*** 3: 125–134.

DeCarolis D. M., & Deeds, D. L. 1999. The impact of stock and flows of organizational knowledge on firm performance: an empirical investigation of the biotechnology industry. ***Strategic Management Journal,*** 20: 953-968.

Deeds, D. L., Decarolis, D., & Coombs, J. E. 1997. The impact of firm-specific capabilities on the amount of capital raised in an initial public offering:

Evidence from the biotechnology industry. ***Journal of Business Venturing***, 12: 31–46.

Deeds, D. L., Mang, P. Y., & Frandsen, M. L. 2004. The influence of firms' and industries' legitimacy on the flow of capital into high-technology ventures. ***Strategic Organization,*** 2: 9-34.

Demers, E., Joos, P. 2007. IPO failure risk. ***Journal of Accounting Research,*** 45: 333-371.

Demers, E., & Lewellen, K. 2003. The marketing role of IPOs: Evidence from internet stocks. ***Journal of Financial Economics,*** 68: 413–437.

Demirguc-Kunt, A. & Maksimovic, V. 1998. Law, finance and firm growth. ***Journal of Finance,*** 53: 2107-2139.

De Santis, G. & Gerard, B. 1997. International asset pricing and portfolio diversification with time-varying risk, ***Journal of Finance,*** 52: 1881-1912.

Dewenter, K., & Malatesta, P., 2001. State-owned and privately owned firms: An empirical analysis of profitability, leverage, and labor intensity. ***The American Economic Review***, 91: 320-334.

DiMaggio, P. J., & Powell, W. W. 1983. The iron cage Revisited: Institutional isomorphism and collective rationality in organizational fields. ***American Sociological Review,*** 48: 147–160.

Dobrev, S. D., & Carroll, G. R. 2003. Size (and competition) among organizations: Modeling scale-based selection among automobile producers in four major countries, 1885–1981. ***Strategic Management Journal,*** 24: 541–558.

Dowling, J. & Pfeffer, J. 1975. Organisational legitimacy: Social values and organisational behaviour. ***Pacific Sociological Review*****,** 18**:** 122-136.

Downes, D. H. & Heinkel, R. 1982. Signaling and the valuation of unseasoned new issues. ***Journal of Finance****,* 37: 1-10.

Drake, P. D., & Vetsuypens, M. R. 1993. IPO underpricing and insurance against legal liability, ***Financial Management,*** 22: 64–73.

Drucker, P. F. 1974. ***Management: Tasks, Responsibilities, Practices.*** New York: Harper & Row Publishers, Inc.

Dunbar, R. L.M. & Kotha, S. 2000. Managing institutional and cultural contrasts: The case of Sanyo Electric in the United States. ***Advances in International Comparative Management*****,** 13: 149-174.

Dunning, J.H 1977. Trade, location of economic activity and the MNE: A search for an eclectic approach. In B. Ohlin, P. Hesselborn & M. Wijkman, eds, ***The International allocation of economic activity***. New York: Holmes & Meier.

Dyer, J., & Singh, H. 1998. The relational view: Cooperative strategy and sources of interorganizational competitive strategy. ***Academy of Management Review,*** 23: 660-679.

Eden, L., & Miller, S. R. 2004. Distance matters: Liability of foreignness, institutional distance and ownership strategy. In M. Hitt & J. Cheng (Eds.), ***Advances in international management,*** 16: 187–221. New York: Elsevier.

Eisenhardt, K. M. & Schoonhoven, C. B. 1990. Organizational growth: linking founding team, strategy, environment, and growth among U.S. semiconductor ventures, 1978-1988. ***Administrative Science Quarterly,*** 35: 504-529.

Ejara, D. D., Ghosh, C., & Nunn, K., 1999. IPO underpricing and aftermarket performance: A comparison of american depositary receipt (ADRs) IPOs and US IPOs, ***European Finance Association Conference*****,** 25-28th August, Helsinki (Finland).

Eldor, R., Pines, D., & Schwartz, A. 1988. Home asset preference and productivity shocks. ***Journal of International Economics,*** 25: 165–76.

Ensley, M. D., & Hmieleski, K. M., 2005. A comparative study of new venture top management team composition, dynamics and performance between university based and independent start-ups. ***Research Policy,*** 34: 1091-1105.

Eriksson, K., Majkgard, A. & Sharma, D. (2000). Path dependence and knowledge development in the internationalization process. ***Management International Review*****,** 40: 307-328.

Evans, J. & Mavondo, F. 2002. Psychic distance and organizational performance: An empirical examination of international retailing operations. ***Journal of International Business Studies*****,** 33: 515-532.

Evans, J., Treadgold, A., & Mavondo F T, 2000, Psychic distance and the performance of international retailers: a suggested theoretical framework. ***International Marketing Review,*** 17: 373 – 391.

Fama, E. F., & French, K. R. 2004. New lists: fundamentals and survival rates. ***Journal of Financial Economics,*** 73: 229–269.

Field, L. C., & Karpoff, J. 2002. Takeover defenses of IPO firms. ***Journal of Finance*** 57: 1857-1889.

Filatotchev**,** I., Chahine, S. & Bruton, G. 2006. The impact of founders' ownership, social capital and investors on IPO stockmarket performance. ***Academy of Management Proceedings***. A1-A6.

Fischer, H. M. & Pollock, T. G. 2004. Effects of social capital and power on surviving transformational change: The case of initial public offerings. Academy of Management Journal, 47: 463-481.

Fletcher, R. & Bohn, J. 1998. The impact of psychic distance on the internationalization of the Australian firm. ***Journal of Global Marketing,*** 12: 47–68.

Francis, B., Hasan, I. & Zhou, M. 2005. R&D insider ownership, analyst coverage, and underpricing of technology IPOs. ***Academy of Management Proceedings***. S1-S6.

French, K. R., Poterba, J. M. (1991): Investor diversification and international equity markets, NBER Working Paper Series No. 3609.

French, J. R. P. & Raven, B. (1960). The bases of social power. In D. Cartwright & A. F. Zander (eds.), ***Group Dynamics***. Evanston, IL: Row Peterson.

Fried, V. H., & Hisrich, R. D. 1995. The venture capitalist: A relationship investor. ***California Management Review,*** 37: 101-113.

Furst, O. & Kang, S. 1998. Corporate governance, expected operating performance and pricing, Yale School of Management Working Paper

Gehrig, T. 1993. Intermediation in search markets. ***Journal of Economics and Management Strategy*****,** 2: 97-120.

Gephart, R. P. 1984. Making sense of organizationally based environmental disasters. Journal of Management. 10:205-225.

Ghemawat, P. 2001. ***Strategy and the business landscape: Core concepts***. Upper Saddle. River, NJ: Prentice Hall.

Gillan, S., & Starks, L. 2003. Corporate governance, corporate ownership and the role of institutional investors: A global perspective, ***Journal of Applied Finance,*** 13: 4-22.

Gomez-Mejia, L. R. & Palich. L. E. 1997. Cultural diversity and the performance of multinational firms. ***Journal of International Business Studies,*** 28: 309-335.

Gompers, P. & Lerner, J. 2001. ***The Money of Invention.*** Massachusetts: Harvard.

Gompers, P. A. 1997. Resource Allocation, Incentives, and Control: The Importance of Venture Capital in Financing Entrepreneurial Firms. ***In Entrepreneurship, SMEs, and the Macroeconomy,*** Cambridge University Press.

Gompers, P. & Lerner, J. 1999. The Venture Capital ***Cycle.*** Massachusetts: MIT.

Gompers, P. & Lerner, J. 1999. Can corporate venture capital succeed? Organizational structure, complementaries, and success. In ***Concentrated Ownership.*** National Bureau of Economic Research Conference Reports, edited by Randall Morck. Chicago: University of Chicago Press.

Gompers, P. 1996. Grandstanding in the venture capital industry. ***Journal of Financial Economics,*** 42: 133-156.

Gompers, P., Ishii, L. & Metrick, A. 2003. Corporate governance and equity prices. ***Quarterly Journal of Economics,*** 118: 107-155.

Gordon, M. J. & Jin, J. 1993. Risk, asymmetric payoffs, and the underpricing of initial public offerings. ***Research in Finance,*** 11:133–165.

Gourevitch, Peter A. and James Shinn (2005) ***Political Power and Corporate Control : The New Global Politics of Corporate Governance*** Princeton, NJ, Princeton University Press

Grauer, R. R., & Hakansson, N. H. 1987, Gains from international diversification: 1968-85 returns on portfolios of stocks and bonds, ***Journal of Finance,*** 42: 721-739.

Gray, S. J. 1988. Towards a theory of cultural influence on the development of accounting systems internationally***. Abacus,*** 24: 1-15.

Grinblatt, M., & Hwang, C. 1989. Signaling and the pricing of new issues. ***Journal of Finance,*** 44: 393-420.

Grinblatt, M. & Keloharju, M. 2001. How distance, language and culture influence stockholdings and trades. ***Journal of Finance,*** 56: 1053-1073.

Grosse, R., & Trevino, L. J. 1996. Foreign direct investment in the United States: An analysis by country of origin. ***Journal of International Business Studies,*** 27: 139-155.

Grubel, H. G., 1968. Internationally diversified portfolios, ***The American Economic Review,*** 58: 1299-1314.

Gulati, R., & Higgins, M. C. 2003. Which ties matter when? The contingent effects of interorganizational partnerships on IPOs success. ***Strategic Management Journal,*** 24: 127-144.

Gulati, R. 1998. Alliances and networks. ***Strategic Management Journal,*** 19: 293-317.

Hakenes, H., Nevries, P., 2000. Underpricing initial public offerings due to the value increasing publicity effect, working paper, Westfälische Wilhelms-Universität Münster.

Hambrick, P. Mason. 1984. Upper echelons: The organization as a reflection of its top managers. ***Academy of Management Review,*** 9: 193–206.

Hambrick, D. C., Cho, T. S., & Chen, M. J. 1996. Top management team heterogeneity and competitive behaviors of the firm. ***Administrative Science Quarterly,*** 41: 659-684.

Hannan, M. T., & Freeman, J. 1989. ***Organizational Ecology*****.** Cambridge, MA: Harvard University Press.Hansen,

R. S., & Torregrosa, P. 1992. Underwriter compensation and corporate monitoring. ***Journal of Finance,*** 47:1537–55.Healy, B. 2002. Insider or outsider? Cozy ties with management are raising questions when VCs sit on corporate boards. *Boston Globe* (September 2): D

Heide, J.B. & Stump. R.L. 1995. Performance implications of buyer-supplier relationships in industrial markets: A transaction cost explanation. ***Journal of Business Research,*** 32: 57-66.

Hellman, T. A. & Puri, M. 2002. Venture capital and the professionalization of start-up firms: Empirical evidence. ***Journal of Finance,*** 57, 169–197.

Hennart, J. F. 1982. ***A theory of the multinational enterprise,*** Ann Arbor: University of Michigan Press.

Hensler, D., Rutherford, R. & Springer, T. 1997. The survival of initial public offerings in the aftermarket. ***Journal of Financial Research,*** 20: 93–110.

Higgins, M. C., & Gulati, R. 2006. Stacking the deck: The effects of top management backgrounds on investor decisions***. Strategic Management Journal***, 27: 1-25.

Higgins, M. C., & Gulati, R. 2003. Getting off to a good start: the effects of upper echelon affiliations on underwriter prestige. ***Organization Science,*** 14: 244-263.

Ho, S. & Wong, K. S. 2001. A study of the relationship between corporate governance structures and the extent of voluntary disclosure. ***Journal of International Accounting, Auditing& Taxation,*** 10: 139–156.

Hofstede, Geert. 1980. ***Culture's consequences: international differences in work related values*****.** Beverly Hill, CA: Sage

Hope, O. 2003. Firm-level disclosures and the relative roles of culture and legal origin. ***Journal of International Financial Management and Accounting,*** 14: 218–248.

Huberman, G. 2001. Familiarity breeds investment. *Review of Financial Studies,* 14: 659-680.

Hughes, P. & Thakor, A. 1992. Litigation risk, intermediation, and the underpricing of initial public offerings. ***Review of Financial Studies****,* 5: 709–742.

Hymer, S. H. 1976. ***The international operations of national firms*****.** Cambridge: MIT Press.

Ibbotson, R. G. 1975. Price performance of common stock new issues. Journal of Financial Economics, 12: 235-72.

Ibbotson, R. G., Sindelar, J. L., & Ritter, J. R. 1988. Initial public offerings. ***Journal of Applied Corporate Finance,*** 1: 37–45.

Ibbotson, R. G., Sindelar, J. and Ritter, J. 1994. The market's problems with the pricing of initial public offerings. *Journal of Applied Corporate Finance,* 7: 66-74.

Inkpen, A. & Beamish, P. 1997. Knowledge, bargaining power and international joint venture instability. ***Academy of Management Review,*** 22: 177-202.

Jackson, E. M., Hambrick, D. C. 2003. Prestigious executives, directors and backers of IPOs: Enduring advantage or fading gloss? ***Academy of Management Proceedings.***

Jackson, J. C., Stone, S. W. 2006. Regulatory and operational issues for US advisers investing overseas. ***Investment Lawyer,*** 13:3-9.

Jaggi, B., & Low, P. K. 2000. Impact of culture, market forces, and legal system on financial disclosures. ***The International Journal of Accounting,*** 35: 495-519.

Jain, B. A. & Kini, O. 1999. On investment banker monitoring in the new issues market. ***Journal of Banking and Finance***, 23: 49–84.

Jain, B. A., & Kini, O. 1994. The post issue operating performance of IPO firms. ***Journal of Finance,*** 49: 1699–1726.

Jain, B. A. & Kini, O. 2000. Does the presence of venture capitalists improve the survival profile of IPO firms? ***Journal of Business Finance and Accounting***, 27: 1139–1183.

Jarillo C. 1989. Entrepreneurship and growth: the strategic use of external resources. ***Journal of Business Venturing*** 4: 133–147.

Jenkinson, T. J. 1990. Initial public offerings in the United Kingdom, the United States, and Japan. ***Journal of the Japanese and International Economies,*** 4: 428-449.

Jensen, M.C. & Meckling, W.H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. ***Journal of Financial Economics***, 3: 305–360.

Jensen, M. C. 1983. Organization theory and methodology. ***Accounting Review***, 56: 319-338.

Johnson, J. L., Daily, C. M., & Ellstrand, A. E. 1996. Board of directors: A review and research agenda. ***Journal of Management,*** 22:409–438.

Kadiyala, P. & Subrahmanyam A. 2002. Foreign firms issuing equity on US exchanges: An empirical investigation of IPOs and SEOs. ***International Review of Finance,*** 3: 27-51.

Kang, J., & Stulz, R. 1997. Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan. ***Journal of Financial Economics***, 46: 3-28.

Keasey, K. & Short, H. 1997. Equity retention and initial public offerings: The influence of signaling and entrenchment effects. ***Applied Financial Economics***, 7: 75–85.

Kiesler, S. & Sproull, L. 1982. Managerial response to changing environments: Perspectives on problem sensing. Administrative Science Quarterly, 27: 548-570.

Keloharju, M. 1993. The winner's curse, legal liability, and the long-run performance of initial public offerings. ***Journal of Financial Economics,*** 34: 251-277.

Khanna, T. & Palepu, K. 1999. The right way to restructure conglomerates in emerging markets. ***Harvard Business Review,*** (July-August): 125-34.

Khurshed, A. 2000. Discussion of the survival profile of IPO firms. ***Journal of Business Finance and Accounting,*** 27: 1177-1183.

Kim, M. & Ritter, J. R. 1999. Valuing IPOs, ***Journal of Financial Economics,*** 53: 409-437.

Knight, G. A. 1997. Cross-cultural reliability and validity of a scale to measure firm entrepreneurial orientation. Journal of Business Venturing, 12: 213-225.

Kogut, B. and Ragin, C. (2006) 'Exploring complexity when diversity is limited: institutional complementarity in theories of rule of law and national systems revisited', ***European Management Review*** 3(1), 44-59.

Kogut, B. & Singh, H. 1988. The effect of national culture on the choice of entry mode. ***Journal of International Business Studies***, 19: 411-432.

Kostova, T., & Zaheer, S. 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. ***Academy of Management Review,*** 24: 64–81.

Kostova, T. 1997. Country institutional profiles: Concept and measurement. ***Academy of Management Best Paper Proceedings,*** L. N. Dosier & J. B. Keys (eds.), 180-184.

Kostova, T. & Roth, K. 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. Academy of Management Journal, 45: 215-233.

Kostova, T. 1999. Transnational transfer of strategic organizational practices: A contextual perspective. ***Academy of Management Review,*** 24: 308-324.

Kotha, S., Rajgopal, S., & Rindova, V. 2001. Reputation building and performance: An empirical analysis of the top-50 pure internet firms. ***European Management Journal,*** 19: 571- 586.

Krigman, L., Shaw, W. H., Womack, K. L., 1999. The persistence of IPO mispricing and the predictive power of flipping. ***Journal of Finance,*** 54:1015-1044.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 1997. Legal determinants of external finance. Journal of Finance, 52: 1131-1150.

LaPorta, R., Lopez-de-Silanes, F, Schleifer, F. & Vishny, A. 1998. Law and finance. ***Journal of Political Economy,*** 106: 1,113-1,155.

LaPorta, R., Lopez-de-Silanes, F, Schleifer, F. & Vishny, A. 1999. The quality of government. ***Journal of Law, Economics, and Organization*****,** 15: 222-79.

Lawless, R. M., S. P. Ferris, & Bacon, B. 1998. The influence of legal liability on corporate financial signaling. ***The Journal of Corporation Law,*** 23: 209-243.

Lee, P., Taylor, S. & Walter, T. (1996) Australian IPO underpricing in the short and long run, ***Journal of Banking and Finance*** 20, 1189-1210.

Lee, P.M. & Wahal, S. 2004. Grandstanding, certification and underpricing of venture backed IPOs. ***Journal of Financial Economics,*** 73: 375-407.

Lee, P., Taylor, S., & Walter, T. 1996. Australian IPO pricing in the short and long run. ***Journal of Banking & Finance,*** 20: 1189-1210.

Leyland, H. & Pyle, D. 1977. Information asymmetries, financial structure, and financial intermediation. ***Journal of Finance*****,** 32: 371–387.

Lester, R. H., Certo, S. T., Dalton, C. M., Dalton, D. R., & Cannella, A. A., Jr. 2006. Initial public offering investor valuations: An examination of top management team prestige and environmental uncertainty. ***Journal of Small Business Management,*** 44: 1-26.

Leuz, C., Nanda, D. & Wysocki, P. 2003. Earnings management and investor protection: An international comparison. ***Journal of Financial Economics,*** 69: 505–27.

Levis, M. 1993. The long-run performance of initial public offerings: The UK experience 1980 -1988. ***Financial Management*****,** 22: 28-41.

Levy, H. & Sarnat, M. 1970. International diversification of investment portfolio[s]. ***American Economic Review,*** 4: 668-675.

Lins, K., Strickland, D. & Zenner, M. 2004. Do non-U.S. firms issue equity on U.S. exchanges to relax capital constraints? ***Journal of Financial and Quantitative Analysis*** 40: 109-133.

Ljungqvist. A., & Wilhelm, W. J. 2002. IPO allocations: Discriminatory or discretionary? ***Journal of Financial Economics,*** 65: 167-201.

Ljungqvist, A. P., 1997. Pricing initial public offerings: Further evidence from Germany. ***European Economic Review,*** 41:1309-1320.

Logue, D. E. 1973. On the pricing of unseasoned equity issues: 1965-1969. ***Journal of Financial and Quantitative Analysis,*** 91-103.

Loughran, T., & Ritter, J. R. 2002. Why don't issuers get upset about leaving money on the table in IPOs? ***Review of Financial Studies,*** 15: 413–444.

Loughran, T., & Ritter, J. R. 2004. Why has IPO underpricing changed over time? ***Financial Management,*** 33: 5–37.

Lowry, M., & Shu, S. 2002. Litigation risk and IPO underpricing. ***Journal of Financial Economics,*** 65: 309-335.

Lu, J. & Beamish, P. 2001. Internationalization and performance of SMEs. ***Strategic Management Journal,*** 22: 565-586.

MacMillan, I. C., Kulow, D. M., & Khoylian, R. 1988. Venture capitalists' involvement in their investments: Extent and performance. ***Journal of Business Venturing,*** 4: 27–47.

Maisonrouge, G. J. 1983. The education of a modern international manager. ***Journal of International Business Studies*****,** Spring/Summer: 141-146.

Mäkelä M., & Maula M. V. 2005. Cross-border venture capital and new venture internationalization: An isomorphism perspective. ***Venture Capital: An International Journal of Entrepreneurial Finance,*** 7: 227-257.

Manev, I. M. & Stevenson, W. B. 2001. Nationality, cultural distance, and expatriate status: Effects on the managerial network in a multinational enterprise. ***Journal of International Business Studies,*** 32(2): 285–303.

Maynard, T. H., 2002. Spinning in a hot IPO - Breach of fiduciary duty or business as usual? ***William and Mary Law Review,*** 43: 2023-2092.

McConnell, J., & Servaes, H., 1990. Additional evidence on equity ownership and corporate value. ***Journal of Financial Economics,*** 27: 595-612.

McGuinness, P. 1993. The market valuation of initial public offerings Hong Kong. ***Applied Financial Economics*****,** 3: 267–281.

Megginson, W. L. & Weiss, K. A. 1991. Venture capitalist certification in initial public offerings. ***Journal of Finance*****,** 46: 879–903.

Mehran, H. 1995. Executive compensation structure, ownership, and firm performance. ***Journal of Financial Economics*****,** 38: 163-184.

Meyer, a.D. 1982. Adapting to environmental jolts. Administrative Science Quarterly, 27: 515-537.

Meyer, J. W. & Rowan. B. 1977. Institutional organizations: Formal structure as myth and ceremony. ***American Journal of Sociology,*** 83: 341-63.

Mezias J. M. 2002. Identifying liabilities of foreignness and strategies to minimize their effects: The case of labour judgements in the United States. ***Strategic Management Journal,*** 23: 229-344.

Michaely, R. & Shaw, W. H. 1994. The pricing of initial public offerings: Tests of adverse-selection and signaling theories. ***The Review of Financial Studies*****,** 7: 279–319.

Mikkelson, W. H., Partch, M. M., & Shah, K. 1997. Ownership and operating performance of companies that go public. ***Journal of Financial Economics*****,** 44:281–307.

Milgrom, P. R., and Roberts, J. 1994. Complementarities and systems: understanding Japanese economic organization. ***Estudios Economicos****,* 9(1): 3-42.

Milgrom, P. R., and Roberts, J. 1995. Complementarities and fit: strategy, structure, and organizational change in manufacturing. ***Journal of Accounting and Economics,*** 19(2-3): 179-208.

Miller, S., & Parkhe, A. 2002. Is there a liability of foreignness in global banking? An empirical test of banks X-efficiency. ***Strategic Management Journal,*** 23: 55-75.

Millestein, I. M., & MacAvoy, P. W. 1998. The active board of directors and performance of the large publicly traded corporation. ***Columbia Law Journal,*** 98: 1283-1321.

Mills, D. Q. 2001. Who's to blame for the bubble? ***Harvard Business Review*** 79 (5): 22.

Moeller, S., Schlingemann, F. & Stulz, R. 2004, Firm size and the gains from acquisitions, ***Journal of Financial Economics,*** 73: 201–228.

Monks, R. & Minow, N. 1995. ***Corporate Governance*****,** Blackwell, Cambridge, M.A.

Morck, R., Shleifer, A., & Vishny, R. W. 1988. Managerial ownership and market valuation. ***Journal of Financial Economics***, 20: 293–315.

Morosini, P., Shane, S. & Singh, H. 1998. National cultural distance and cross-border acquisition performance, ***Journal of International Business Studies,*** 29: 137-156.

Mowery, D., Oxley, J. & Silverman, B. 1996. Strategic alliances and interfirm knowledge transfer. ***Strategic Management Journal,*** 17: 77-91.

Mudambi, R., & Treichel, M. Z. 2005. Cash crisis in newly public Internet-based firms: An empirical analysis. ***Journal of Business Venturing,*** 20: 543-571.

Nachum, L. 2003. Liability of foreignness in global competition? Financial service affiliates in the city of London. ***Strategic Management Journal,*** 24: 1187-1208.

Nelson, T. 2003. The persistence of founder influence: Management, ownership, and performance effects at initial public offering. ***Strategic Management Journal,*** 24: 707-724.

Neter, Wasserman, and Kunter. 1990. *Applied Linear Statistical Models*. 3rd edition, Irwin.

North, D. 1990. Institutions, institutional Change and economic performance, Cambridge University Press.

O'Grady, S., Lane, H. W., 1996. The psychic distance paradox. ***Journal of International Business Studies,*** 27: 309-333.

Obstfeld, M., Rogoff, K. 2000. The six major puzzles in international macroeconomics: Is there a common cause? ***NBER/Macroeconomics Annual,*** 15: 339-390.

Oliver, C. 1991. Strategic responses to institutional processes. ***Academy of Management Review,*** 16: 145–179.

Papadopoulos , N. & Heslop, L . 2002. Country equity and country branding: Problems and prospects. ***Journal of Brand Management*****,** 9: 294 – 314.

Park, S. H., & Kim, D. 1997. Market valuation of joint ventures: Joint venture characteristics and wealth gains. ***Journal of Business Venturing,*** 12: 83–108.

Paudyal, K.; Saadouni, B., & Briston, R. J. 1998. Privatization initial public offerings in Malaysia: Initial premium and long-term performance. ***Pacific-Basin Finance Journal,*** 6: 427-451.

Penaloza, L. & Gilly, M. C. 1999. Marketer acculturation: The changer and the changed. ***Journal of Marketing,*** 63: 84-104.

Peng, M. W., Hill, C., & Wang, D. 2000. Schumpeterian dynamics versus Williamsonian considerations: A test of export intermediary performance. ***Journal of Management Studies,*** 37: 167–184.

Perlmutter, H. V. 1969. The tortuous evolution of the multinational corporation. ***Columbia Journal of World Business.*** January-February.

Pfeffer, J., & Salancik, G. 1978. ***The external control of organizations: A resource dependence perspective.*** New York: Harper & Row.

Podolny, J. M. 1994. Market uncertainty and the social character of economic exchange. ***Administrative Science Quarterly,*** 39: 458-483.

Pollock, T. & Gulati, R. (Forthcoming). Standing out from the crowd: The availability-enhancing effects of IPO-related signals on alliance formation by entrepreneurial firms. ***Strategic Organization.***

Pollock, T. G., Porac, J. F., & Wade, J. B. 2004. Constructing deal networks: Brokers as network architects in the U.S. IPO market and other examples. ***Academy of Management Review,*** 29: 50–72.

Pollock, T. G., Gulati, R., & Sadler, A. 2002. Relational and market-based legitimation of internet IPOs. ***Academy of Management Best Paper Proceedings,*** BPS 11-16.

Pothukuchi, V., Damanpour, F., Choi, J., Chen, C. C., & Park, S. H. 2002. National and organizational culture differences and international joint venture performance. ***Journal of International Business Studies.*** 33: 243–265.

Prasad, D., Vozikis, G. S. & Mohamed. A. 2006. Government public policy, regulatory intervention, and their Impact on IPO underpricing: The case of malaysian IPOs. ***Journal of Small Business Management,*** 44: 81-98.

Prasad, D., Vozikis, G., Bruton, G. & Merikas, A. 1995. Harvesting through initial public offerings (IPOs): The implications of underpricing for the small firm. ***Entrepreneurship Theory and Practice,*** 20: 31-41.

Rasheed, A.M.A., Datta, D.K., & Chinta, R.R. 1997. Determinants of price premiums: A study of initial public offerings in the medical diagnostics and devices industry. ***Journal of Small Business Management,*** 11: 11–23.

Prasad, D., Vozikis, G., Bruton, G. and Merikas, A. 1995. Harvesting through initial public offerings (IPOs): The implications of underpricing for the small firm. ***Entrepreneurship Theory and Practice,*** 20: 31-41.

Pruthi, S.; Wright, M.; Lockett, A.(2003)., "Do Foreign and Domestic Venture Capital Firms Differ in Their Monitoring of Investees?", ***Asia Pacific Journal of Management*****,** Vol.20 (2), pp.175-204.

Reese, W.A., & Weisbach, M., 2002. Protection of minority shareholder interests, cross-listings in the United States, and subsequent equity offerings. ***Journal of Financial Economics,*** 66: 65–104.

Reierson, C. 1966. Are foreign products seen as national stereotypes. ***Journal of Retailing,*** 3: 33–40.

Reilly, A. H. 1993. Preparing for the worst: The process of effective crises management. ***Industrial and Environmental Crises Quarterly,*** 7(2): 115-143.

Ritter, J. R. 2003. Differences between European and American IPO markets. ***European Financial Management,*** 9: 421–34.

Ritter, J.R. 1987. The costs of going public. ***Journal of Financial Economics*****,** 19: 269–281.

Ritter, J. R. 1991. The long-run performance of initial public offerings. ***Journal of Finance,*** 46: 3–27.

Rock, K. 1986. Why new issues are underpriced. ***Journal of Financial Economics,*** 15: 187–212.

Roe**,** M. J. 2003. Delaware's competition. ***Harvard Law Review***, 117: 590-646.

Rondinelli, D. A., & Kasarda, J. D. 1992. Foreign trade potential, small enterprise development and job creation in developing countries. ***Small Business Economics,*** 4: 253-265.

Rosenzweig, P., & Singh, J. 1991. Organizational environments and the multinational enterprise. ***Academy of Management Review,*** 16: 340-61.

Ross, S. 1977. The determination of financial structure: the incentive-signaling approach. ***Bell Journal of Economics,*** 8: 23-40.

Salter, S. B., & Niswander, F. 1995. Cultural influence on the development of accounting systems internationally: a test of Gray (1988) theory. ***Journal of International Business Studies,*** 26: 379-97.

Sanders, W. M., & Boivie, S. 2004. Sorting things out: Valuation of new firms in uncertain markets. ***Strategic Management Journal,*** 2: 167-186.

Sarkissian S. & M.J. Schill, 2004, The overseas listing decision: New evidence of proximity preference. ***Review of Financial Studies,*** 17: 769-809

Saunders, A., Elizabeth, S., & Travlos, N. 1990. Ownership structure, deregulation, and bank risk taking, ***Journal of Finance,*** 45: 643-654.

Shleifer, A., Vishny R.W. 1986. Large shareholders and corporate control. ***Journal of Political Economy,*** 94: 461-488.

Schneider, S. 1988. National versus corporate culture: Implications for human resource management. ***Human Resource Management,*** 27: 231–46.

Schooler, R. D. 1965. Product bias in the Central American common market. ***Journal of Marketing Research,*** 4: 394-397.

Schultz, P. 1993. Unit initial public offerings: A form of staged financing. ***Journal of Financial Economics,*** 34:199–229.

Schwartz, S. H. 1994. Are there universal aspects in the structure and contents of human values? ***Journal of Social Issues,*** 50: 19–45.

Scott, W. R. 1995. ***Institutions and organizations***. Thousand Oaks, CA: Sage.

Shan, W., Walker, G. & Kogut, B. 1994. Interfirm cooperation and startup innovation in the biotechnology industry. ***Strategic Management Journal,*** 15: 387–394.

Shane, S. 1992. Why do some societies invent more than others? ***Journal of Business Venturing,*** 7:29–46.

Shenkar, O. 2001. Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. ***Journal of International Business Studies,*** 32: 519

Singh, J., Tucker, D., & House, R. 1986. Organizational legitimacy and the liability of newness. ***Administrative Science Quarterly,*** 31:171-93.

Solnik, B. 1974. An equilibrium model of the international capital market. ***Journal of Economic Theory,*** 8: 500-524.

Spence, A. 1973. Job market signaling. ***Quarterly Journal of Economics***, 87: 355-379.

Spiess, D. K., & Pettway, R. H. 1997. The IPO and first seasoned equity sale: Issue proceeds, owner/managers' wealth, and the underpricing signal. ***Journal of Banking and Finance,*** 21: 967-988.

Steenkamp, J. B., The role of national culture in international market research. 2001. ***International Marketing Review,*** 18: 30-45.

Stoughton, N., & Zechner, J. 1998. IPO-mechanisms, monitoring and ownership structure. ***Journal of Financial Economics***, 49: 45-77.

Stross, R. E. 2000. Venture capitalists aren't villains. ***Wall Street Journal*** (July 25): A.22.

Stuart, T.E., H. Hoang, T. H. & Hybels, R. 1999. Interorganizational endorsements and the performance of entrepreneurial ventures. ***Administrative Science Quarterly***, 44: 315-349.

Stuart, T. E. 1998. Network positions and propensities to collaborate: An investigation of strategic alliance formation in a high technology industry. ***Administrative Science Quarterly,*** 43: 668–698.

Stulz, R. 1981. On the effects of barriers to international investment. ***Journal of Finance*** 36: 923-934.

Teoh, S. H., Welch, I. & Wong, T. J. 1998. Earnings management and the long-run market performance of initial public offerings. ***Journal of Finance***, 53: 1935-1974.

Tesar, L., & I. Werner, 1995. Home bias and high turnover. ***Journal of International Money and Finance***, 14: 467-493.

Tinic, S., 1988. Anatomy of initial public offerings of common stock. ***Journal of Finance,*** 43: 789-822

Titman, S. & B. Trueman. 1986. Information quality and the valuation of new issues. ***Journal of Accounting and Economics,*** 8: 159-172.

Trabold, H. 2002. Export intermediation: An empirical test of Peng and Ilinitch. ***Journal of International Business Studies,*** 33:327–344.

Tunick, B. 2003. Are VCs next on Fed hit list? Amid secrecy, accounting irregularities and fuzzy IRR calculations flourish in private equity. ***The Investment Dealer's Digest*** (January): 1.

Useem, M., Bowman, E. H., Myatt, J., & Irvine, C. W. 1993. U.S. institutional investors look at corporate governance in the 1990s. ***European Management Journal,*** 11: 175-189.

Velleman and Welsch. 1981. "Efficient Computing of Regression Diagnostics," *American Statistician*, 35(4): 234-242.

Verlegh, P. & Steenkamp, J. 1999. A review and meta-analysis of country-of-origin research. ***Journal of Economic Psychology,*** 20: 521–546.

Violet, W. J. 1983. A philosophical perspective on the development of international accounting standards. ***International Journal of Accounting,*** 19: 1-14.

Walsh, J. P., and Seward, J. K. 1990. On the efficiency of internal and external corporate control mechanisms. *Academy of Management Review*, 15(3): 421-458.

Wat, L. 1983. ***Strategies for going public.*** New York: Deloitte, Haskin & Sells.

Welbourne, T. M. & Andrews, A. O. 1996. Predicting the performance of initial public offerings: Should human resource management be in the equation? ***Academy of Management Journal,*** 39: 891–919.

Welbourne, T. M. & Cyr, L. A. 1999. The human resource executive effect in initial public offering firms. ***Academy of Management Journal***, 42: 616–629.

Welch, I. 1992. Sequential sales, learning, and cascades. ***Journal of Finance,*** 47:695–732.

Welch, I. 1989. Seasoned offerings, imitation costs, and the underpricing of initial public offerings. ***Journal of Finance***, 44: 421–449.

Whitley, R. (1999) Divergent Capitalisms: ***The Social Structuring and Change of Business Systems.*** Oxford, Oxford University Press.

Willard, G. E., Krueger, D. A., & Feeser, H. R. 1992. In order to grow, must the founder go: A comparison of performance between founder and non-founder managed high-growth manufacturing firms. ***Journal of Business Venturing,*** 7: 181-194.

Williamson, O. E. 1964. ***The economics of discretionary behavior***. Managerial objectives in a theory of the firm. Englewood Cliffs, NJ: Prentice-Hall.

Wright, M., Pruthis, S., Lockett, A. (2005). International venture capital research: From cross-country comparisons to crossing borders. International Journal of Management Reviews, 7(3), 135-165.

Wright, M. & Robbie, K. (1998). Venture capital and private equity: a review and synthesis. ***Journal of Business Finance and Accounting*****,** 25(5&6), 521–570.

Wysokci, P. D. 2007. Discussion of IPO failure risk. ***Journal of Accounting Research***, 45: 373-384.

Xu, D., Yigang, P., & Beamish, P. W. 2004. The effect of regulative and normative distances on MNE ownership and expatriate strategies. ***Management International Review (MIR),*** 44: 285-307.

Zacharakis, A.L. 1997. Entrepreneurial entry into foreign markets: A transaction cost perspective. ***Entrepreneurship Theory and Practice***, 21: 23–39.

Zaheer, S., & Mosakowski, E. 1997. The dynamics of the liability of foreignness: A global study of survival in financial services. ***Strategic Management Journal***, 18: 439-464.

Zaheer, S. 1995. Overcoming the liability of foreignness. ***Academy of Management Journal***, 38: 341-363.

Zahra, S. & Filatotchev, I. 2004. Governance of the entrepreneurial threshold firm: A knowledge-based perspective. ***Journal of Management Studies***, 41: 883-895.

Zimmerman, M., & Zeitz, G. 2002. Beyond Survival: Achieving New Venture Growth by Building Legitimacy. ***Academy of Management Review***, 27: 414-432.

BIOGRAPHICAL INFORMATION

R. Greg Bell is an assistant professor of at the University of Dallas. He teaches courses in international business and corporate sustainability. Mr. Bell's areas of research include international entrepreneurship, and venture capital strategy. After obtaining his MBA at the University of North Texas (1992), he joined Fidelity Investments and served as a licensed broker for over twelve years. He later taught courses in international finance and corporate strategy at Dallas Baptist University (2001-2005) and The University of Texas at Arlington (2005-2008).