Why European firms go public?

By

Franck Bancel*
(ESCP-EAP)
bancel@escp-eap.net

Usha R. Mittoo
(University of Manitoba, Canada)
umittoo@cc.umanitoba.ca

TO BE CONSIDERED FOR A PUBLICATION IN EFM

October 2007
JEL Classification: F30, G32, G34, G30
Keywords: Going public, European firms, IPO, survey, financing, exit, ownership

* Corresponding author. We are grateful to all Chief Financial Officers who have participated in this study, and to corporate finance team of BNP Paribas and Euronext for their valuable comments and suggestions. We thank Douglas Cummings, and participants at the 2007 Northern Finance Association meetings for helpful comments, and Zhou Zhang and Weimin for excellent research assistance. Mittoo acknowledges funding from the Bank of Montreal Professorship and from the Social Sciences and Humanities Research Council of Canada.

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Abstract

We survey 78 Chief Financial Officers (CFOs) from 12 European countries about the determinants of going public and exchange listing decisions. The CFOs identify enhanced visibility and prestige, and financing for growth as the most important benefits of an IPO. Their views on other motivations vary across firms and countries. Large firms consider the outside monitoring as the most important benefit, small firms go public primarily to raise capital for growth, and family controlled firms view the IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control. The English system firms consider the increased share liquidity and the ability to exit as the most important benefits whereas the Italian firms identify the reduction in the cost of capital as most valuable. Despite these divergent views, nearly all CFOs agree that the benefits of going public significantly outweigh the costs. Our main findings based on the structured questions are also confirmed by the CFO responses to open-ended questions. We ask questions on assumptions and implications of several IPO models and collect data on several firm characteristics, such as age, size, ownership structure, both before after the IPO to discriminate between different theories. We find that firms that raise capital in the IPO generally exhibit higher growth rates in assets subsequent to the IPO than their non-capital raising peers but firms also use new funds for reducing leverage. Our results provide strong support for the IPO theories that emphasize investor recognition as a major advantage of an IPO, and medium support for models that focus on financing, exit strategy, balance of power, monitoring, and financial flexibility as a major benefit but in different subsamples. We find less support for the asymmetric information and cost of capital theories. European CFOs' views on the major benefits of IPO, such as raising capital for both organic growth and creating a currency for merger and acquisitions, are very similar to those of U.S. managers reported in recent U.S. studies (e.g., Brau and Fawcett (2006)) but differ significantly on some factors, especially with regard to outside monitoring and enhanced transparency which is considered as a major benefit by European CFOs whereas it is a cost for U.S. CFOs. Our evidence suggests that going public decision is a complex decision that cannot be explained by one single theory because firms seek multiple benefits in going public, and these motivations vary widely across firms and countries.

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Introduction

The decision to go public is the most important decision in a firm's life and is one of the most researched areas in finance. A rich theoretical literature models why firms go public but there is little empirical evidence on which of these theories explains this decision. Pagano, Panetta, and Zingales (PPZ, 1998) is the only empirical study that directly tests several theories in a sample of 69 Italian firms that went public between 1982 and 1992. They conclude that Italian firms choose to go public primarily to rebalance their leverage, and to allow the pre-IPO owners and managers to liquidate their positions. Whether their findings can be generalized to other countries and time periods has not been investigated primarily because of data constraints. PPZ use a proprietary database on both ex-ante and ex-post characteristics of their sample and control firms to discriminate between different theories. Such data are not easily available or comparable across countries. Survey method provided an alternative approach to collect these data. In this study, we survey CFOs of firms that went public between 1994 to 2004 from 12 European countries about the costs and benefits of going public.

The survey method has several advantages and disadvantages compared to the traditional empirical studies. A major advantage is that we can directly ask questions on both the implications and assumptions of different theories. In addition, we can also gather data on variables, such as the ownership control, leverage, and asset base, both before and after the IPO that may not be publically available. A major drawback is that surveys measure beliefs and not necessarily actions of managers. We attempt to minimize this bias by asking both structured and open-ended questions on the same topic to check robustness of our main findings.

Our study also extends the IPO literature in several ways. First, an important aspect of the going public decision is the firm's choice of a stock exchange for listing which is likely to reflect its primary motivation for going public. For example, Pagano et al. (2002) show that European firms that list on the U.S. exchanges tend to be high-tech and export-oriented companies that expand rapidly by raising equity for financing growth whereas those that list on the European stock exchanges issue more debt and increase their leverage after listing. Very few prior studies have examined the interaction of the exchange listing and IPO decisions because it is difficult to untangle the effects of these two simultaneous decisions. Our study attempts to provide some insights into these linkages by asking separate questions on the exchange listing (home or foreign) and going public decisions.

Second, most IPO theories focus on one of the two major motivations for going public, raising financing for growth and facilitating exit strategy for owners, but differ in the underlying assumptions and the trade-off between costs and benefits of going public. For example, Maksimovic and Pichler (MP, 2001) and Chemmanur and Fulghieri (CF,1999) both assume that an IPO is a vehicle for raising equity financing for growth but the former models it as a strategic move and the latter as a move to increase the owner's balance of power against a small group of investors. The main contribution of our study is that we attempt to discriminate between different theories by asking an array of questions on both stock listing and IPO decisions, and on the changes in several firm characteristics, such as ownership structure, market capitalization, leverage, and financing after going public. The CFOs responses and the cross-correlations among responses provide us a rich set of information to test different theories in the same sample.

Finally, the motivations of going public are also likely to differ across countries because of the differences in their legal and institutional environments (e.g., Ritter (2003), Jenkinson and

Ljungvist (2001), and Degeorge and Maug (2006), La Porta et al. (1998)). Several studies highlight that European firms tend to go public at a much later stage in life and are more likely to include secondary shares (shares owned by existing shareholders) in the IPO offering compared to their U.S. peers. Other studies have examined the going public decision in different European countries using surveys or empirical methods (see for example, Burton et al. (2004), and Marchisio, G. and Ravasi, D. (2004)). We compare European managers' views on going public with those of U.S. managers in Brau and Fawcett (2006), and Brau, Ryan and DeGraw (2006) as well as with European studies to provide some insights into factors that drive differences across countries.

The rest of the paper is organized as follows. Section I describes our survey design and sample. Section II presents the survey results and examines different theories on going public. Section III presents cross-country comparisons and Section IV provides conclusions.

1. Survey Design and Sample Data

1.1 Initial Sample

The initial survey instrument was developed with a review of the IPO literature. It was circulated to several academics and financial executives, and their feedback was used to revise the survey. Our final survey questionnaire comprises over 100 questions, and tests show that it took at a minimum 25-30 minutes to complete. We ask several questions about changes in firm characteristics, such as percent shareholdings of the largest investor/founder/institutions, to enable us to discriminate between different IPO theories using the same sample. Although we assure anonymity to facilitate honest responses, the proprietary nature of the information asked and the additional time involved in answering the questions is likely to lower our response rate compared to a standard survey instrument.

Our initial sample of 1808 European firms that went public between January 1994 and December 2004 was provided by BNP Paribas and Euronext. We identified the CFO name and the firm's mailing address from Bloomberg and firms' web sites. We undertook three mailings; the first in April 2005, the second in September 2005 and the third in December 2005. In each mailing, an accompanying letter was included that explained the objectives of the study, and promised to send a summary of our findings to those who wished to receive them.

We received a total of 78 responses by mail or fax. Our response rate of 4.3% is reasonable considering the length of the time period, the nature of data gathered, and the number of countries involved. For example, Brounen et al. (2004)'s response rate is 5 percent for a survey of firms across four European countries.

Table I (Panel A) compares the percentage of responses by country and legal systems. The UK firms form the largest component (23%), followed by the French (22%), and German (13%) firms. Greece, Italy, and Austria, comprise about 19 percent of the sample, and the remaining firms are from Switzerland, Portugal, the Netherlands, Spain, Ireland and Belgium. A significant lower response rate from countries, such as the U.K., Germany, and Italy raises a concern about whether our sample represents the population. We address this concern by comparing our findings with those of IPO studies/surveys in these countries. We find that our main results are in line with prior studies and are discussed more fully in Section 4 (cross-country comparisons). We also test for the nonresponse bias using the early-versus-late respondent comparison which suggests that our sample is not biased. We test for significant differences between responses to our first versus last mailing. Using t-test for equality or inequality of variances, we find that only 10 of the 109 survey questions have significant differences between sample means at the 10% level (4 are at the 5% level). Since random variation would predict a similar number of differences, this analysis suggest that there is no substantial difference between the two groups.

1. 2. Summary Statistics of Respondent Firms

Table 1 (panels B and C) and Figure 1 present information about our sample firms that are used as conditioning variables in our analysis. Our sample represents firms of varying size with annual sales ranging from less than 50 million euros (about 25%) to over 5 billion euros (about 20%) (Figure 1A). The pattern is similar when we measure firm size based on market capitalization, total assets, or number of employees (Table 1, panel B and Figure 1B). In subsequent tables, we define a firm as large if its market capitalization is greater than 500 million euros; the average (median) market capitalization in our sample is 3314.6 (400) million euros.

The mean (median) age of sample firm at the time of the IPO is 24 (12) years, the oldest firm is over 190 years old and the youngest only one year old (Table 1, panel B). We define firms with a founding year of 1987 or earlier (the median is 1988) as old. About half of the firms went public prior to year 2000, representing firms in both hot and cold IPO markets. The first day IPO mean (median) return is 36.7% (5 %) but varies from a low of –8 percent to a high of 1000 percent. The average (median) IPO price is 18.2 (12.83) and the average (median) Price to Earnings ratio is 20 (15). A firm is defined as hot if the initial first day IPO return is greater than 10 percent.

High-technology firms comprise 22% of the sample, and other industries represented include financial (13%), manufacturing (12%), services (12%), and pharmaceutical (7%)) (Figure 1.C.). Eighteen firms (21%) are listed on foreign exchanges; 11 on the European, and 6 on the US exchanges (4 on NYSE and 2 on NASDAQ), and one in other countries (Figure 1.D). About 38% earn half of their revenue from foreign countries whereas 36% have most of their sales in home country (Figure 1.E).

The ownership and control varies widely across firms. About 52% are widely held, and 35% are family controlled (Figure 1.F). An individual or a family is the largest shareholder in about half

of the firms (47%), and a public company (17%), banks or mutual funds (10%), state, private equity, or a foundation in the remaining (22%) firms (Figure 1.G). Although the ownership structure changes significantly after going public, the controlling shareholder(s) maintain a majority stake in most firms even after going public (Figures 1G, 1H and 1I). Table 1 (Panel C) shows that the mean (median) shareholding of the largest shareholders declines from 72.2% (77.5%) before the IPO to 54.7% (50.4%) after the IPO.[1] Before the IPO, the firm's founders are the largest controlling group, holding on average (median) 67.21% (76.2%) of the shares, followed by institutional investors 37.76% (30%), and management 16.31% (7%). After the IPO, the managers' holdings decline by about half, followed by founders (33%) while the stakes of the institutional and retail investors increases (not tabulated for brevity). Moreover, the number of firms with institutional investors almost doubles, from 33 before the IPO to 62 firms after the IPO; the number of firms with retail investors increases from 14 to 49 firms.

About 75% of firms issue new shares in the IPO and the mean (median) percentage of new shares issued is 35(30%). However, new shares comprise less than 50% of the shares outstanding for over 80% of firms (Figures 1.J and 1K.). About 45% of the firms also reduce their leverage (total debt / equity in book value) after the IPO (figure 1L).

In sum, our sample represents a cross-section of firms with different firm characteristics, ownership structures, exchanges listed, and the IPO timing which are useful in testing different theories.

2. Survey analysis: The Theory and Evidence on Going Public

We draw upon the IPO and exchange listing literature to design our questions about the benefits and costs of going public and listing. We ask the CFOs to indicate their agreement with the statements in the question on a five-point Likert scale (-2 = not important; +2 = very important).

Tables 2-5 present their responses on each question. In Column 1, we report the percentage of respondents who agree or strongly agree with the statement, and in Column 2, the overall mean. The remaining columns in each table present the univariate analyses on each survey question with conditioning variables based on several firm characteristics, such as size, age, family ownership, and foreign listing status. In addition, an open-ended question asks managers to list major costs and benefits of going public based on their company's experience. Their responses are summarized in Figures 2-4.

The small sample size and the high correlations among several of the conditioning variables limits our ability to do multivariate analysis. Instead, we examine correlations among responses to each structured and open-ended question on IPO and exchange listing to test the assumptions and implications of different theories and to check robustness of our results. Table 6 presents the correlations of responses to the questions relating to different theories. Below, we discuss the theories and our findings, grouped by a theoretical hypothesis or concepts that are neither mutually exclusive nor exhaustive. For ease of exposition, we summarize the implications of different theories, and our evidence and conclusions in Appendix 1.

2.1. The Benefits

2.1.(a) Investor Recognition, Reputation and Credibility

This hypothesis is based on Merton (1987)'s asset pricing model which assumes that investors invest only in stocks of firms they know about, and predicts that broadening the firm's shareholder base decreases its expected return and enhances firm value. Several studies document that listing on home/foreign exchanges increases the firm's visibility and its share price. Kadlec

and McConnell (1994) document a positive valuation effect for U.S. firms that move from Nasdaq and AMEX to the New York stock exchange (NYSE), and Foerster and Karolyi (1999) for foreign listings in the U.S. European firms cite visibility and investor recognition as the most important benefit of listing on foreign exchanges (Bancel and Mittoo (2001)). Baker et al. (2003) document increased analyst following for foreign firms listings in the U.S., and Bradley, Jordan and Ritter (2003) show that analyst recommendations are often biased upward after an IPO.

We find strong support for the investor recognition theory. The CFOs identify to enhance the company's prestige and visibility as the most important (78%, mean = 1.0, Table 2), and to broaden the shareholder base as the fourth most important (70%, mean = 0.75, Table 2) criteria in selecting a home exchange. Nearly all (83%) CFOs also agree or strongly agree that the IPO acts as an advertising for the company and increases its reputation/image (83%, mean = 0.90, Table 5), and the responses of the CFOs on this question are also positively correlated with their responses relating to the reduction in the cost of financing (Q4c/Q5b, corr.=0.238, *, Table 6). Enhanced visibility is also one of the top two benefits of an IPO mentioned in the open-ended question (Figure 2). The CFOs mention "*reputation among businesses, awareness of the company by stakeholders, good reputation as an employer, and increased company reputation", and "global exposure of our image"," international presence" and "international visibility*" as important benefits for home and foreign listing respectively.

Maksimovic and Pichler (MP, 2001) argue that an IPO is a strategic choice by the firm to gain the first-mover advantage in the product market. The higher disclosure requirement for exchange listing and public trading increases the credibility of the firms and the confidence and trust of investors, creditors, customers, and suppliers in the firm but also forces the firm to disclose sensitive information about its products that may be valuable to its competitors, especially in

industries undergoing rapid technological change. The firm selects the IPO timing when the benefits of capital raised in the IPO to expand early in the product market outweigh its cost of disclosure.

Consistent with their model, high-technology firms value visibility and prestige significantly more (mean=1.35 versus 0.89, *, Table 2), and also are more likely to seek recognition as a major player for exchange listing (mean=1.67 versus 0.62, **, Table 3). Few CFOs agree that they follow their peers when listing on home exchanges Their prediction that IPO firms are likely to be leaders rather than followers is also supported as few CFOs (21%, Table 2) agree that they follow their peers on home exchanges although this percentage is significantly larger on foreign exchanges (55%, Tables 3). We also note that firms that value high visibility also tend to rank the value in securing relations with stakeholders (Q3a/Q4f, corr.=0.1, Table 6), consistent with the MP model. However, very few CEOs agree that going public forces firms to disclose information that is crucial for the competitive advantage (mean = -0.38, Table 5), and firms that raise capital in the IPO disagree more strongly (mean =-0.5 versus 0.1, * Table 5) with this MP assumption. Further, firms that value high visibility also value recognition (BEN1 VISB/Q5b, corr.=0.40, **, Table 6), more consistent with the MP model. But firms are also more likely to follow their peers on home exchanges, contrary to the model (Q5b/Q3a, corr.=0.32, **, Table 6). Taken together, these results provide medium support for the MP model.

2.1.(b) Funding for Growth Opportunities

Ritter and Welch (2002) argue that most firms go public primarily to raise new capital for growth. Kim and Weisbach (KW, 2007) examine this motivation in a sample of IPO conducted between 1990 to 2003 in 38 countries from different geographical regions. They document that almost all firms raise substantial amount of new capital in the IPO, although European firms also

sell a relatively large portion of the firm's existing shares in the IPO. Their findings are consistent with the notion that the IPO is primarily a vehicle to raise capital for investment.

Most of the CFOs in our sample agree with this view. They assign the highest mean rating (73%, mean = 1.04, Table 4) to the reason "to finance investment opportunities" among the stated IPO benefits, and the highest mean rating (76%, mean = 1.11, Table 2) to the criterion "to facilitate raising capital" for exchange listing. Three-fourth of our sample firms also raise new capital in the IPO (Figure 1.J), although the proportion of new shares issued varies widely across firms with the mean (median) percentage of 35 (30%). To examine whether these funds are used for growth, we estimate the annual percentage of growth in assets, the number of employees, and the market capitalization from the IPO year to year 2005 (year of our survey) for both capital and non-capital raising firms in our sample using data that are self-reported in the survey (not tabulated for brevity). The capital raising firms exhibit significantly stronger growth in assets (51% versus 3%, ***) as well as higher growth rates in market value (34% versus 14%, not tabulated) and the number of employees (18% versus 12%), although the latter are not statistically significant. However, the large differential in the growth rates between the two is driven by a few high performers. When we restrict our analysis to firms with growth rates between -50% to +100%, the difference is more modest. The growth rate in market value is actually lower for capital raising firms in this case (7% versus 10%). Further, firms that report a reduction in leverage also assign a higher mean rating to the benefit of raising capital for growth (mean = 1.48 versus 0.57, ***, Table 4), indicating that firms use part of the funds for rebalancing their leverage consistent with Pagano et al. (1998). Table 6 (Cols. 1-3) also show that the CFO responses to the benefit of raising financing for growth are strongly positively correlated to those of the ability to reduce leverage (Q4a/Q4b, corr.=0.42, **), to financial flexibility

(Q4a/Q4d, corr.=0.41, **), to a reduction in cost of financing (Q4a/Q4b, corr.=0.48, **). This evidence is in line with Kim and Weisbach (2007) that firms use the cash raised in the IPO for several purposes but financing investment is only one of them.

Brau et al. (2006) argue that IPOs create a public shares for a firm that may be used as a currency in merger or acquisitions or in being acquired in a stock deal. We find that firms that raise capital also assign a higher ranking to the role of an IPO in creating a currency for growth through future mergers and acquisitions compared to non-capital raising firms (mean = 0.59 versus – 0.30, Table 4) and (mean = 0.67 versus 0.10, *, Table 2). In untabulated analysis, we find that the CFO responses to these two questions are also significantly positively correlated, with correlations varying from 0.30 to 0.50 in both the exchange listing and IPO decisions. This evidence supports the notion that firms that raise financing are likely to be high growth companies but also use cash for other purposes. This views is also confirmed in CFOs comments in the open-ended question about major benefit of the IPO " *Raising funds x 3; Tool for financing; Group has grown substantially in profitability and financial strength; Money to finance new investments without debt; Raised essential funds to develop the company; Encouraged further investment in the company; Allowed us to achieve our expansion plans; Raise cash; Reduction of debt; Access to additional funding; Currency for acquisitions; Access to outside capital and a "currency" to buy other businesses; Capital for expansion; Potential capital raise for M&A*".

Most theoretical models implicitly or explicitly include raising new capital as a part of the motivation for an IPO. Chemmanur and Fulghieri (1999) model use an asymmetric information framework in which the going public decision is a trade-off between the option to raise equity financing from public versus private sale of equity to a small group of large investors. Their model predicts 1) that equilibrium firms go public only when a sufficient amount of information

has accumulated in the public domain because it lowers their information production costs and 2) that the adverse selection cost is a more serious obstacle to the listing of young and small companies that have no track record compared to their old and well-established peers.

We do find that average (median) age of the firm in our sample is 24 (12) years, consistent with this prediction. Small firms as well as high-tech firms in our sample also assign significantly higher value to the ability to raise financing than their peers (mean = 1.41 versus 0.61, ***, and 1.37 versus 0.91 respectively, Table 4), consistent with their model. We also find a strong positive correlation between CFO responses to questions on raising financing and on increasing the balance of power (QAa/Q4e, corr.=0.25, *, Table 6), consistent with the model. However, we find less support for the assumption of an asymmetric information framework. Only 37 percent of CFOs agree that asymmetry of information was a major problem before going public (mean = 0.05, Table 5). The CFOs of firms that went public in the hot markets agree more with the asymmetric information than those who went public in cold markets (mean = 0.33 versus -0.19, *, Table 5), suggesting that it is related more to market timing notion.

2.1.(c) Financial Flexibility and Greater Bargaining Power with Banks

Rajan (1992) argues that going public can enhance the bargaining power of the pre-IPO owners versus bankers and other financial creditors who have advantage in collecting information about their credit worthiness, and thus, can extract rent from them for their property information. This model predicts a greater financial flexibility (generating alternative sources of capital), and a reduced cost of credit as the major benefits of going public. Managerial surveys in Europe and U.S. report that financial flexibility is the most important factor in the firm's debt policy (Bancel and Mittoo (2004), and Graham and Harvey (2002)), and Pagano et al. (1998) provide supporting evidence in the case of Italian firms.

We find strong support for this model but primarily in the family-owned firms. More than half of the CFOs (56%) agree or strongly agree that the IPO has reinforced the firm's balance of power with bankers and other financial creditors (mean = 0.51, Table 4) but this support stems mainly from family-controlled firms (mean = 0.96 versus 0.31, **, Table 4). To increase financial flexibility is considered important or very important by 75% of managers (mean = 0.90, Table 4). We also find that firms that value enhanced balance of power also agree more with increased flexibility (Q4d/Q4e, corr=0.56, **, Table 6), and in reduction in cost of capital (debt or equity) (Q4c/Q4e, corr=0.41, **, Table 6) as well as report a reduction in leverage (Q4b/Q4e, corr.=0.39, **, Table 6), consistent with this model. Financial flexibility is valued less by technology (mean = 0.47 versus 1.02, **, Table 4) and small firms (mean = 0.77 versus 1.03, Table 4), possibly because such firms rely more on equity financing, and less on debt.

Chemmanur and Fulghieri (1999) model is also based on a similar notion of bargaining power but in their model, the main bargaining power comes from broadening the shareholder base. We find less support for this prediction as the correlation between firms who value the benefits of raising financing and those who value a wider shareholder base is weak (Q4a/Q3d, corr.=-0.053, Table 6). The correlation between the benefit of financing and between enhancing balance of power is, however, stronger (Q4a/Q4e, corr.=0.25, *, Table 6), consistent with the model.

Some theoretical models emphasize that the IPO allows the firm to enhance its financial flexibility by generating additional source for raising capital (other than banks and venture capitalists) to finance its growth and expansion. Huyghebaert and Hulle (2005) argue that companies with major investments on current projects for the future growth tend to be risky, and therefore the owners of such firms rely on external finance for funding of their major investments

rather than investing their funds. We do find that firms that tend to value financing for growth also value financial flexibility higher (Q4a/Q4d, corr.=0.41, **, Table 6).

2.1.(d) To lower cost of capital

The traditional capital structure suggests that a firm's cost of capital is determined by a trade-off between the tax benefits and the potential distress cost of debt (e.g., Scott (1976) and Modigliani and Miller (1963)). This theory predicts that firms attempt to maintain an optimal capital structure and the IPO is a mean to achieve this goal. We find medium support for this model. Although 58% of the CFOs agree or strongly agree that going public has reduced the cost of financing (mean = 0.33, Table 4), this support arises mainly from firms that reduced leverage (mean = 0.86 versus –0.17, ***, Table 4). This result suggests that the reduced cost of capital arises primarily from the lower cost of credit because of the enhanced power of balance with creditors - as discussed in section 2.1.1 (c) - rather than an optimal capital structure. This model also predicts that firms that raise new capital in the IPO are more likely to reduce their leverage, and are more likely to say that the IPO reduces the firm's cost of capital. Although we find strong positive correlations among all these variables, ranging from 0.42 to 0.59 (Table 6, cols. 1 and 2), part of these reflect the high correlation of these variables with the benefit of enhanced balance of power (row 5, Table 6).

Diamond (1991) and Holmstrom and Tirole (1993) argue that firms can obtain cheap financing direct from market which reduces their cost of capital. We find that firms that raise capital in the IPO are more likely to agree that the IPO reduces the cost of capital than non-capital raising firms (mean = 0.50 versus –0.20, **, Table 4), consistent with this prediction.

Myers (1984) and Myers and Majluf (1984) provide a pecking order model in asymmetric information framework which implies that firms first raise internal funds, then debt, and finally

equity. Further, firms tend to issue equity when the firm is overvalued. We find weak support for this model. As mentioned in section 2.1.1 (b), few CFOs agree that asymmetric information was a problem and the support is weaker for firms that raise equity at the time of the IPO. The correlation between CFO responses to questions on raising financing and on good market conditions is also not significant (Q4a/Q4n, corr.=0.18, Table 6). The support is similar when we ask questions on the exchange listings. Less than half of the CFOs agree that their exchange listing decision is motivated to reduce cost of capital (45%, mean=0.04, Table 2) (29%, mean=-0.33, Tables 3), and the support is significantly higher among firms that reduce their leverage.

2.1.(e) External Monitoring and Better Corporate Governance

External monitoring and better corporate governance is regarded as a primary benefit in the exchange listing literature but few IPO theories explicitly mention this benefit. However, complying with the exchange and regulatory requirements can be burdensome. Burton et al. (2004) report that 67 percent of IPO firms make significant changes in governance structure to satisfy stock exchange listing requirements, both leading up to and after the IPO. These changes include the appointment of non-executive directors, and in audit and remuneration committees to improve the accountability of the organization to the new outside stakeholders. These costs and benefits are likely to vary across firms and countries and stock exchanges. For example, the U.S. stock exchanges have the most stringent disclosure and corporate governance requirements although the European stock exchanges have increased their requirements in the 1990s (see for example, Ritter (2003)).

We find strong support that exchange listing and external monitoring leads to better corporate governance practices, and consequently the firm value. About 70 percent of managers agree or strongly agree that monitoring by outsiders (analysts, investors etc.) increases firm value

(mean=0.79, Table 4). A majority of managers also agree or strongly agree that the IPO has allowed them to improve corporate governance by providing stock options to employees and managers (60%, mean=0.49, Table 4). There is significant variation across firms. Large firms value external monitoring more than small firms (mean = 1.09 versus 0.49, **, Table 4), non-capital raising firms more than capital raisin firms (mean = 1.15 versus 0.64, *, Table 4), and high technology firms value less than their peers (mean = 0.32 versus 0.95, ** Table 4). There is also a positive correlation between the firms who value monitoring and those who tend to disengage from the business (Q4h/Q4i, corr.=0.23, *, Table 6), and between those who tend to provide stock options for managers (Q4i/Q4j, corr=0.25, *, Table 6), both significant at less than 10 percent.

Several CFOs also mention benefits of external monitoring in the open-ended question with comments such as "*Pressure on management to perform; Better governance, greater management discipline; Transparency of value; Better monitoring and improved performance; Having the market as a reference for managers, external scrutiny and accountability focuses; Now, the company as a whole has to be more professional due to the increasing transparency;, Management's attention on value-creating*".

Coffee (2002), Stulz (1998) and Doidge et al. (2004) argue that a U.S. listing serves as a bonding mechanism for the foreign firm's insiders to limit their private benefits of control and to raise external financing at better terms for the firm's growth opportunities. This argument predicts a positive relation between firms that raise capital in the IPO and the benefit of external monitoring, especially for the European firms that go public in the U.S. However, this correlation is negative (corr.=-0.21, not tabulated), although not significant - contrary to the prediction. We also do not find any significant differences in the views of U.S. versus European listed or versus

home listed firms on the benefits of external monitoring which indicates that European firms seek reputational bonding not the legal bonding as the main benefit from listing. The U.S. listed firms in our sample also earn a much higher percentage of their revenue from abroad, suggesting that they may cross-list for business not financing or monitoring reasons. When we ask CFOs whether going public is a trade-off between private benefits of control and the gains from diversification, only 40 percent agreed with this statement (mean=0.03, Table 5). Our evidence is also not consistent with models, such as Pagano and Roell (1998), Chemmanur and Fulghieri (1999) that assumes that monitoring is more prior to going public compared to after the IPO. Further, our evidence suggests that monitoring could be more burdensome for small and young firms, and this may be a plausible explanation as to why the AIM market has become an attractive place for listing for small firms, including several U.S. firms after the Sarbanes-Oxley (SOX) Act.

2.1.(f) Exit Strategy (Change of Ownership Control)

Several theories argue that going public decision is a vehicle for the initial owner to eventually sell his company. Zingales (1995) assumes that the market for corporate control is not perfectly competitive, but the market for individual shares is, and argues that an IPO is a first step in the owner's plan to maximize the total proceeds from its eventual sale. In Mello and Parsons (1998)'s model, the IPO is a vehicle to create a secondary market for the firm's shares to sell the shares in several stages. Their model predicts that firms that go public are those who selling shares also value liquidity and enhanced firm value. Black and Gilson (1998) model the IPO decision as an opportunity for the Venture capitalist to cash out their investments.

We find medium support for these models. Over half of the CFOs agree or strongly agree that the IPO has allowed them "to sell the company to external shareholders" (57%, mean = 0.47, Table 4). Those who sell the company also are less likely to agree that an IPO creates a currency for

merger and acquisitions (corr= -0.25, non tabulated), consistent with Zingales, and more likely to agree that they list to increase the liquidity of shares (Q4g/BEN4 LIQ, corr.= 0.23, Table 6), consistent with Mello and Parsons. There is also medium support that the IPO allows firms to disengage but as expected, family-owned firms agree less with this statement because they typically maintain control in our sample after the IPO, and generally do not sell their shares.

2.1.(g) Windows- of- Opportunity

The windows-of-opportunity hypothesis assumes asymmetric information between investors and managers, and argues that managers use their superior information to select the timing of exchange listing and IPO, opportunistically to take advantage of temporarily favorable market conditions and to capture attractive stock prices. Dharan and Ikenberry (1995) document strong abnormal returns prior to listing and negative abnormal returns following the domestic listings on the NYSE. Foerster and Karolyi (1999) document a similar pattern for foreign listings in the U.S.

Ritter (1991) argues that firms use windows-of-opportunity to go public by selecting timing when other companies in their industry are overvalued. A large number of studies document short-run underpricing and long-run underperformance following domestic initial public offerings as well as the clustering in IPOs during certain periods, and these patterns are pervasive across both US and non-US countries (e.g., Ritter (2003), Ritter (1991), Loughran and Ritter (1995), Choe, Masulis, and Nanda (1993), Lowery and Schwert (2002), Schuster (2003), and Jenkinson and Ljungqvist (2001)). Pagano et al. (2002) show that a large number of European listings in the U.S. in the 1990s comprised high-tech, and newly privatized firms. Bancel, Kalimpialli, Mittoo (2007) document that European IPOs listed in the U.S. underperform significantly (between 10% to 35%) compared to the non-IPOs, especially the high technology firms listed on the Nasdaq.

We find modest support for this hypothesis. Although, 73% of respondents believe that it was best time to do an IPO (mean=0.96, Table 5), only 40% agree that the IPO has allowed them "to benefit from favorable market conditions (such as, bullish stock exchange/industry valuation)" (mean=0.14, Table 4). There is more support for this hypothesis for firms listing on foreign exchanges as half of the managers agree that trading at a better price/earnings multiple is an important criteria for foreign listing (45%, mean=0.5, Table 3). Table 6 shows that the CFOs who agree that they went public to benefit from favorable market conditions (bullish stock exchange/industry valuations) are also more likely to say that they follow industry peers on foreign exchanges (Q4n/Q3f, corr.=0.39, **), trade at high P/E ratios (Q4n/Q3p, corr.=0.37, **), and that outside investors are more willing to pay high valuations (Q4m/Q4n, corr.=0.63, **). This support is limited mostly to high-tech firms that list on foreign exchanges (mean = 1.33 versus 0.0, **, Table 3), consistent with Pagano (2002) and BKM (2007). Only about one third of managers agree that to trade at better price/earnings multiples is an important factor in selecting an exchange of listing.

2.1.(h) Stock Liquidity

Several models suggest that listing on major stock exchange enhances stock liquidity which in turn, increases firm value (e.g., Amihud and Mendelson (1986), Booth and Chua (1996) and Bolton and Von Thadden (1998)). About 75% of the CFOs agree or strongly agree that higher liquidity and increased share value is one of the major benefits of going public (mean=1.0, Table 4), consistent with Amihud and Mendelson (1986). However, when asked to list important benefits of going public, stock liquidity is cited by very few CFOs in the open-ended question. The correlations in Table 6 show that the importance of liquidity, however, varies widely across firms. The CFOs who value liquidity are also more likely to value external monitoring (Q4k/Q4i,

corr.=0.64, **), compensation plans for employees (Q4k/Q4j, corr.=0.43, **), relations with stakeholders (Q4k/Q4f, corr. = 0.38, **), and broader shareholder base (Q4k/Q3d, corr.=0.24, **). As expected, widely held firms value stock liquidity significantly higher than family-owned firms for home exchange listing (mean = 0.82 versus 0.24, *, Table 2) and foreign exchange listings (mean = 1.55 versus 0.43, **, Tables 3). Technology firms also value liquidity more than non-technology firms on foreign exchanges (mean = 1.67 versus 0.69, *, Table 3), and old firms value it more than young firms on home exchanges (mean = 0.83 versus 0.23, *, Table 2). Taken together these two pieces of evidence suggest that although all agree that exchange listing enhances liquidity and firm value; its value is higher for those who seek monitoring and market discipline as a tool for better corporate governance as a major motivations in going public.

2.2. The Costs

2.2.(a) Direct Costs

The CFOs are less concerned with the costs of listing or going public. About 42 percent of the CFOs agree that the cost of IPO is not a real issue because it does not significantly affect the earning per share (mean=0.08, Table 5). In the open-ended questions, the professional fees including banking fees, auditors and lawyer fees were cited most frequently as the major cost. One respondent estimated the fees at the time of going public to be 9% of the funds raised, one third each for banking, public relations, and auditors and lawyers. Underwriting fees were mentioned by only few respondents. The public relation costs, and management time, and the increase in the accounting reporting requirements, particularly the frequency of reporting and the need to change accounting systems, are also frequently mentioned. A few CFOs mention opportunity costs, such as the short-term focus of the market as away from. One respondent specifically mentioned Sarbane-Oxley compliance as the major cost.

2.2.(b) Indirect Costs

Most theories model the IPO decision as a trade-off between one major indirect costs and one major benefit. Two types of indirect costs are included in most models: Information Asymmetry and Adverse Selection Costs, and Loss of confidentiality. We have discussed these in our analysis of the benefits but briefly review these below, and find little support for these costs.

Information Asymmetry and Adverse Selection Costs: Several IPO models suggest that prevailing information asymmetries about the quality of issuers in IPO market result in adverse selection and are a major factor in influencing the firms' going public decision (Leland and Pyle (1977), Albornoz and Pope, 2004, Ritter (2003)). Chemmanur and Fulgheri (1999) predict that information asymmetry could result in an IPO price lower than could be raised by selling private equity to a small group of venture capitalists, and Rock (1986) and Welch (1989) attribute the observed under-pricing in the IPOs to the presence of adverse selection cost. We find little support for asymmetric information costs in our study.

Loss of confidentiality: Some models suggest that the mandatory disclosures requirements for public companies may reveal crucial information for their competitive advantage and may deter the companies from going public (Campbell (1979), Yosha (1995), Maksimovic and Pichler (2001)). We find little support for this view as mentioned in the discussion of the investor recognition benefit, and very few managers agree that disclosure of sensitive information is a major problem.

2.2.(c) Trade-off between benefits and costs

Figure 4 summaries the CFO views on the trade-off between the costs and benefits of an IPO. Despite divergent views on the major motivations for going public, and stock exchange listings, about 80% of the CFOs agree that the benefits of the IPO outweigh the costs significantly.

3. Cross-Country Comparisons

Table 7 compares the CFO views across European countries in our sample, and Table 8 compares European CFO views in our study with their U.S. peers in two recent surveys.

3.1 Comparison Across European Countries

We divide the countries into three groups based on the legal system for comparison: English system, French system, and German system countries[1]. We further divide French system countries into two groups based on ownership structure. Table 7 (Panel A) compares the mean ratings of the CFO responses on going public and exchange listing decisions across these country groupings. We tabulate mean ratings for only those questions for which the mean ratings are significantly different for at least one set of country groups. In other words, the mean rankings for those questions that do not appear in the Table 7 (e.g., funding for investments) are not significantly different across any of the country groups. Table 7 (Panel B) compares the firm and IPO offering characteristics, and Panel C examines the ownership and control structures before and after the IPO for these groups. These data are self-reported and are collected through the survey.

3.1. (a) English versus Civil System countries

The English system (UK and Ireland) CFOs strongly disagree with their Civil system peers on two benefits of going public (Table 7, Cols. 1 and 2). First, they view the ability to sell the company as a major benefit of an IPO whereas their Continental European peers do not (mean rating = 1.15 versus. 0.20, **). Second, they consider the enhanced share liquidity as the most important benefit, and assign it the highest mean rating among all benefits (1.40 versus 0.84, **). In addition, they also agree less that going public is a normal stage in the growth of the company.

[1] We exclude Switzerland, Greece, the Netherlands that either have a small number of responses and / or very different firm characteristics.

Table 7 (Panel B) shows that the English system IPOs are also different from the Civil system IPOs in several aspects, such as size, age, and IPO year. They are significantly smaller and younger when they go public compared to their Continental European peers. The estimated mean (median) market capitalization of an English system IPO is 145 (30) million euros, less than one-twentieth of a Civil system IPO whereas its average age is about one third of a Civil system IPO (8 versus 24 years); the differences are significant at less than 0.01 level. Further, they issue a significantly higher proportion of primary shares in the IPO offering and have a lower tendency to use these new funds to reduce their leverage compared to their Continental European peers. The percentage of high-technology firms is very similar in both groups, although most of the English system IPOs occur after 2000 compared to about half of the Continental European IPOs.

Table 7 (Panel C) shows that the most striking difference between the two groups is in the ownership and control structure. About 44% of the Civil system firms are controlled by a family, and the largest shareholder typically controls about 80% of the shares prior to the IPO. In contrast, only 5% of the English system firms are family controlled, and the largest shareholder controls about 50% of the shares. The mean shareholdings of the 5 largest shareholders is, however, very similar between the two groups (81% vs. 85%) which indicates that the English system firms typically may have five large shareholders before the IPO whereas Civil system firms are typically controlled by one controlling shareholder. After the IPO, the mean shareholdings of the largest shareholder/founder falls to less than 30% for the English system firms whereas the Civil system firms continue to retain a majority stake. The average stake of the institutional shareholders in the English system firms rises slightly after the IPO (from less than 43% to about 47%) whereas it drops from 35% to 26% for the Continental European IPOs.

Taken together, these pieces of evidence suggest that the English system may put a high premium on liquidity because it allows the pre-IPO owners who are typically likely to be a few

large investors (such as venture capital or mutual funds) to harvest their shares at a higher price, although they do value visibility, financial flexibility, and external monitoring (similar to their other European peers).

A major concern in our study is whether our small sample of English system firms is representative of the population. To address this concern, we compare how our findings stack up against other prior European IPO studies. The study closest to our work is Burton, Helliar and Power (BHP, 2006) who survey managers and intermediaries that were associated with going public and exchange listing decisions in a sample of U.K. IPOs. Two thirds of their respondent firms were also small firms (with mean market capitalization of 100 m pounds)—similar to ours.

BHP find that the most important influences on the timing of an IPO related to the need to obtain funds both for growth and to overhaul the capital structure, as well as the diversification of the investor base. The second most important factor was the views of the firm's major investors who generally wanted to realize some of their investment (especially in the smaller companies) and strengthen the management team. They note that often smaller companies had founders with sizeable equity stakes who wanted to reduce their investment and bring in new shareholders. The views of an Interviewee in their survey are particularly informative about the changes in ownership stakes after the IPO *"facilitating an exit route for major shareholders, whether individuals, companies or venture capitalists, was vital. Venture capitalists, in particular, often required an exit route and did not like to hold shares in any company for too long"* Their results provide some plausible explanations for the observed ownership structure for the English system firms in our study before and after the IPO, and why they value the ability to sell and liquidity significantly higher than their Continental European peers. Although, the majority of their sample IPOs were done at the height of the internet bubble in 2000 whereas most of our U.K. IPOs are from the post-2000 period, their results are strikingly similar to our findings. This comparison not

only confirms that our U.K. sample is representative of the population but also the robustness of our findings.

Several other empirical studies also allow us to check the robustness of our findings. Brennan and Franks and al. (1997) document that the U.K. IPO relinquish control after the IPO, and show that control retention is an important reason for underpricing and share rationing schemes enable original shareholders to disperse shares to atomistic subscribers. Goergen and Renneboog (2007) examine the control changes for U.K. and German IPOs. In the UK, new large shareholders will accumulate stronger control in smaller, riskier and faster growing firms, especially when it is the founder (or founding family) who reduces control. In contrast, in German firms, new large shareholders acquire control in older, profitable firms. They argue that the differences in control between the U.K. and Germany driven by economic and legal factors. For example, shareholders in the UK are limited to a 30% stake in the public firms unless they wish to acquire a company whereas this threshold is 75% for German shareholders. In addition, the weaker shareholder protection in Germany increases the potential to benefit from private benefits of control, and consequently, the value of large blocks holdings. Boehmer & Ljungqvist (2004) examined 330 German firms that went public between 1984 and 1995, and conclude that to preserve the private benefits of control was a major motivation behind staying private.

3.1.(b) Comparisons Across Civil System countries

We group the countries based on legal system and family ownership differences for comparison.[2] We first compare the CFO views from two French system countries, France and Belgium, with those of two German system countries, Germany and Austria because these countries have similar proportions of family-owned firms. We then compare the group of three French system countries with a relatively

[2] We exclude countries with a small number of observations, such as the Netherlands, or with distinct size such as Switzerland or mostly high- tech firms such as Greece.

high percentage of family ownership (Italy, Portugal and Spain) with their other French system peers. In addition, we also compare the views of Italian firms with other Continental European firms to see how our survey findings compare with the Pagano et al. (1998) study, and other recent Italian IPO studies.

3.1.(b.1) French Versus German system firms

The French and German system CFOs have very similar views, except in one aspect. The German system firms disagree strongly with their French system peers that IPO allows the firm to increase its power of balance with the bank (mean=0.89 versus 0.0, **, Table 7). A potential explanation could be because in Germany, banks generally hold large ownership stakes in firms. The German system firms also have significantly higher ownership concentration before the IPO (89% versus 77%, Table 7) although the concentration is similar. Other differences, such as IPO costs, and other aspects that are not considered as major issues by most CFOs which could reflect differences in the institutional features related to IPO such as book building etc.

3.1.(b.2) Comparisons Across French system countries

The difference between family and non-family controlled firms is only with regard to merger and acquisitions. The Italian, Greece, and Portuguese CFOs do not view IPO as a vehicle to facilitate mergers and acquisitions or as a currency for acquisitions (mean = -0.55 versus 0.37, Table 7). They also do not tend to raise new capital in the IPO. However, Italian CFOs have significantly different views than their other civil system peers in several dimensions. They agree more strongly that an IPO reduces the cost financing (mean=1.2 versus 0.32, Table 7), are less likely to disengage from the business (mean = -0.75 versus 0.41, Table 7), and are more likely to say that an IPO is a trade-off between diversification gains and private benefits of control (mean=1.25 versus 0.2, Table 7). They also value visibility and prestige much more, and liquidity less than their peers. These cross-country differences across firms with similar ownership concentration suggest that country-specific regulatory

and institutional differences play a strong role in the motivations of going public.

We compare our findings with other studies of Italian IPOs. Marchisio and Ravasi (2003) conducted a survey of 54 family-owned Italian firms who went public during 1996-2001. They conclude that beside the usual financial motives, family-owned firms go public to increase the visibility and to expand and strengthen the network of relationships that can sustain entrepreneurial activity. Marchisio and Ravasi (2004) survey 74 Italian IPO firms and found that these market listings were undertaken at a time when either additional finance was required or where succession problems in family firms needed to be resolved. The IPOs appeared to improve the reputational and social capital of firms which obtained a listing. They also enabled the companies to access external resources, resulting in higher visibility and an expanded network of relationships which, in turn, led to a greater recognition from their customers. Further, IPOs enabled professional managers to be appointed and the issue of shares allowed incentive schemes to be devised to reward the managers in the business. Pagano *et al.* (1998) find that while IPOs were undertaken primarily to 'rebalance their accounts', they were also undertaken to avail of the opportunity to lower the cost of credit and, therefore, borrow more cheaply. Our findings for Italian firms are generally consistent with Marchisio and Ravasi (2003, 2004) and Pagano *et al.* (1998) and suggest that home country's institutional factors play a major role in the firm's reasons for going public.

3.2. European and U.S. IPO Differences

Table 8 compares the European CFOs' views in our study with their U.S. peers in two recent studies. Brau and Fawcett (2006) survey 336 CFOs that included 87 firms that had successfully completed the IPO in a two year post-internet bubble period, from January 2000 and December 2002. They find that the major motivation in conducting an IPO was to create public shares for use in future acquisitions. The establishment of market price or value of the firm that may also serve as the first step in the acquisition process was the next important motivation (Zingales (1995)). They conclude that these two reasons strongly

support the notion that IPOs serve as potential acquisition posturing. One limitation of their survey is that it was done in the post-Internet bubble period and thus, may not be generalizable to IPOs in normal or bull markets.

Brau, Ryan and DeGraw (2006) survey 438 CFOs in both pre-Internet bubble (1996-1998) and post-Internet bubble (2000-2002) IPOs but did not survey the IPOs in the bubble period (1998 –2000). They ask several questions on life-cycle and market timing theories, and their survey suggests that the going public decision is motivated by three interrelated strategic considerations. First, they find that firms go public primarily to fund growth both in short-term and long-term. They also find that managers are highly concerned about the loss of confidentiality, and the increased public scrutiny, and many IPOs would not be pursued without a growth need. They conclude that these findings support Maksimoivc and Pichler (2001) model that firms try to take advantage of first mover advantage. Second, they find a strong motivation to retain and preserve ownership in their sample, and conclude that IPOs are not a vehicle for changing control, owners exit, sales of owner shares, or for boosting future share price as implied in several models (Zingales (1995), Brennan and Franks (1997), Mello and Parsons (1998), Chemmanur and Fulghieri (1999)). Third, they conclude that IPOs are motivated by a desire for liquidity to provide currency for future growth opportunities and to preserve management control because increased liquidity allows firms to fund expansion through generic growth or through mergers and acquisitions, reduces the reliance on concentrated control by a small number of investors, and allows management to increase effective control while diversifying ownership consistent with Brennan and Franks (1997) and Chemmanur and Fulghieri (1999). They do not find strong support for the capital structure theories that imply a reduction in cost of capital but find medium evidence that firm try to time the IPOs to benefit from the strong market conditions.

In Table 8, we tabulate both survey results for those questions that are comparable with our study using our scale from –2 to +2 , and find that our results are similar to US findings in several dimensions. Our findings that the need for financing to fund growth via new projects or through mergers and acquisitions, and

stock liquidity are major motivations in going public are in line with their findings. Similar to Brau, Ryan and DeGraw (2006), we also find that most IPO firms try to retain and preserve ownership, and do not find support for cost of capital and asymmetric information theories.

We also find striking differences in two aspects. First, in sharp contrast to the US case, the enhanced investor recognition, reputation, and credibility is one of the major motivation in our survey. Ritter and Welch (2002) observe: "*Non-financial reasons, such as increased publicity, play only a minor role for most US firms; Absent cash considerations, most entrepreneurs would rather just run their firms than concern themselves with complex public market process*" Brau et al. find support for this view as less than half of the CFO's agree that an IPO serves to improve the market perception of the stock, and that the prestige of being on an exchange is a benefit of an IPO.

Second, Brau, Ryan and DeGraw (2006) report that US firms are highly concerned about both direct and indirect costs of undertaking an IPO. About 60% of the CFOs in their sample agree that underwriting fees and auditing fees are major direct cost, and 64% agree that the loss of confidentiality and public scrutiny is the major indirect cost of going public (Panel H, Table 3). By contrast, European firms in our survey are not only less concerned about the cost of IPO, they view the increased monitoring by outsiders is a major benefit of going public because it helps them to improve their corporate governance practices.

We also note that the views of English system firms are also different from their U.S. peers in one aspect. The English system firms view the ability to sell shares in the IPO as a major benefit whereas the U.S. firms do not consider this as a benefit. This evidence suggests that the differences in institutional and regulatory structures as discussed in Section 3.1 may play a role in the motivations of the IPOs.

Why European CFOs' perception on the IPO costs differ from their US peers? One possibility is that the direct costs of going public may be significantly lower in Europe than in the US. For

example, the gross underwriting spread that makes up the largest explicit cost of conducting an IPO clusters around 7% in the US more than double that in Europe (about 3%). This cost may also be less burdensome for European firms because they go public at an older age than US firms (median age of 13 versus 7 years). Large firms in our survey are less concerned with direct cost than smaller firms (mean = -1.11 versus –0.21, Table 5).

More puzzling is why European firms view the increased public scrutiny of the firm as a benefit whereas the U.S. IPOs consider it as an onerous cost. One plausible explanation could be that the disclosure levels for the IPOs are higher and more burdensome in the U.S. compared to that in Europe. This is not supported because the firms that go public on the U.S. exchanges about monitoring benefit are similar to their peers listed on home or other European exchanges. Our discussions with some European managers suggest that the increased transparency and disclosure requirements required by stock exchanges motivate the firms to initiate better internal control systems for setting future goals and measuring managerial performance. Our evidence supports this notion because firms that value external monitoring also agree more that public stock listing helps design managers' compensation schemes.

4. Summary and Conclusions

We survey CFOs of firms from 12 European countries on the major costs and benefits of going public and the criteria in selecting an exchange for listing. We find that the CFOs identify enhanced visibility and prestige, funding for growth, financial flexibility, and external monitoring firm value as important benefits of going public. We find that most CFOs agree that going public is a stage in the firm's life-cycle and are less concerned with the costs of going public, and perceive benefits to be significantly higher than costs of going public.

We also find significant differences across firms, countries, and legal systems in some aspects. Large firms consider the outside monitoring as the most important benefit. Small firms go public

primarily to raise capital for growth, and family controlled firms view the IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control. The English system firms consider the increased share liquidity and the ability to exit as the most important benefits whereas the Italian firms identify the reduction in the cost of capital as most valuable.

We find strong support for theoretical models that focus on financial and strategic considerations, such as increased credibility and reputation, and funding for growth. We also find support for models that focus on exit strategy, balance of power, monitoring, and financial flexibility as a major benefit but in different subsamples. We find less support for the asymmetric information and cost of capital theories. European CFOs' views on some of the major benefits of IPO, such as raising capital for both organic growth and creating a currency for merger and acquisitions, are very similar to those of U.S. managers but differ significantly on outside monitoring and enhanced transparency which is considered as a major benefit by European CFOs whereas it is a cost for U.S. CFOs. Our evidence suggests that going public decision is a complex decision that cannot be explained by one single theory because firms seek multiple benefits in going public, and these motivations are also influenced by the home country's institutional and regulatory environment.

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Table 1 (Panel A)

Reponding firms by Country of Origin

Country of origin	Number of sample firms	% of sample firms	Reponding firms	% of respondent firms
French Law Countries	**619**	**34,2%**	**38**	**48,7%**
BELGIUM	41	2,3%	3	3,9%
FRANCE	245	13,6%	17	21,8%
GREECE	144	8,0%	5	6,4%
ITALY	74	4,1%	5	6,4%
NETHERLANDS	58	3,2%	1	1,3%
PORTUGAL	19	1,1%	4	5,1%
SPAIN	38	2,1%	3	3,9%
German Law Countries	**464**	**25,7%**	**19**	**24,4%**
AUSTRIA	48	2,7%	5	6,4%
GERMANY	349	19,3%	10	12,8%
SWITZERLAND	67	3,7%	4	5,1%
English Law Countries	**725**	**40,1%**	**21**	**26,9%**
IRELAND	22	1,2%	3	3,9%
UNITED KINGDOM	703	38,9%	18	23,1%
TOTAL	**1808**	**100,0%**	**78**	**100,0%**

Table 1 (Panel B)

Summary Statistics

	N	Mean	Median	S.D	Min	Max
Market Capitalization (million euro)	75	3 315	400	7 692	4	50 000
Employees	76	14 965	950	48 761	8	380 000
Total Assets (million euro)	72	22 118	240	100 479	7	815 000
When incorporated	73	1 977	1 988	35	1 819	2 004
When IPO	77	2 001	2 000	3	1 994	2 005
PE ratio	45	20,4	15,40	24,86	5,00	175
Price per share	72	18,2	12,83	21,37	0,05	126,7
first day return	45	36,7%	5,0%	149,8%	-8,0%	1000,0%

Table 1 (Panel C)

Did the IPO change the percentage of control of major shareholders? If YES, Please, specify

	N	mean	Median	sd	min	max
Q2 if yes %largest BEFORE	72	72,2	77,5	28,6	12,8	100,0
Q2 if yes % 5 largest BEFORE	42	81,9	90,0	22,9	20,0	100,0
Q2 if yes %largest AFTER	70	54,7	50,4	69,6	9,9	99,0
Q2 if yes % 5 largest AFTER	47	54,5	58,0	22,1	6,5	100,0

Table 2
Survey response to the question 3: Home Exchange Listing Criteria

	Important or very important (%)	Mean	Size			Hi-Tech			Age			Initial Return			Ownership: Family Control			Foreign Listing			Rasing cap			Change lvrg		
			Small	Large		No	Yes		Young	Old		Cold	Hot		No	Yes		No	Yes		No	Yes		No	Yes	
a) To enhance the company's prestige, image and visibility	77.77	1.00	1.03	0.94		0.89	1.35	*	1.14	0.84		1.16	1.31		1.09	0.84		1.05	0.75		1.05	0.98		0.92	0.97	
l) To facilitate raising capital	76.39	1.11	1.26	1.03		1.11	1.18		1.05	1.20		1.08	1.13		1.30	0.92		1.17	0.83		0.42	1.37	***	0.88	1.40	*
j) To implement a "natural path" of growth for our firm	70.83	0.86	0.82	0.89		0.96	0.56		0.62	1.20	**	0.58	1.06		0.77	1.08		0.97	0.33	*	0.75	0.90		0.71	1.04	
d) To increase shareholder base	69.87	0.75	0.69	0.86		0.83	0.65		0.92	0.65		0.69	1.06		0.89	0.52		0.74	0.83		0.80	0.71		0.88	0.68	
e) To increase the liquidity of the company's securities	62.50	0.60	0.37	0.79		0.66	0.29		0.83	0.23	*	0.76	0.81		0.82	0.24	*	0.59	0.64		1.10	0.37	**	1.15	0.04	***
n) To appeal to institutional investors	60.56	0.75	0.76	0.69		0.75	0.65		1.00	0.48	*	0.80	0.94		0.91	0.52		0.70	1.00		1.11	0.61	*	1.05	0.58	
g) To be recognized by the relevant financial community as a major player	59.72	0.56	0.46	0.68		0.53	0.71		0.44	0.68		0.36	0.94		0.50	0.64		0.54	0.64		0.60	0.53		0.47	0.58	
i) To facilitate mergers and acquisitions	55.56	0.50	0.66	0.41		0.47	0.71		0.42	0.58		0.32	0.56		0.52	0.56		0.56	0.18		0.10	0.67	*	0.32	0.42	
k) To facilitate business operations	52.12	0.46	0.46	0.52		0.48	0.41		0.36	0.53		0.29	0.38		0.58	0.40		0.53	0.09		-0.16	0.73	**	0.15	0.75	**
q) To provide stockownership plans for employees	50.69	0.30	0.26	0.37		0.28	0.47		0.27	0.45		-0.19	0.81	***	0.31	0.36		0.38	-0.08		0.30	0.27		0.35	0.40	
c) To reduce the cost of debt and equity	45.07	0.04	0.11	0.03		0.04	-0.06		0.08	-0.07		0.04	-0.13		0.02	0.13		0.08	-0.17		-0.26	0.20		-0.39	0.50	***
b) To trade on a large stock exchange	40.28	0.19	-0.14	0.56	**	0.13	0.47		0.33	-0.06		0.31	0.31		0.43	-0.12	*	0.23	0.00		-0.05	0.27		0.15	0.16	
r) To be listed where financial analysts (and other major financial actors) are located	38.57	0.09	0.29	-0.15		0.11	-0.07		0.43	-0.29	**	0.24	0.14		0.21	-0.17		0.07	0.18		-0.16	0.16		0.25	-0.04	
m) To support marketing efforts in the country where the firm is listed	32.35	-0.09	0.22	-0.33	*	-0.08	-0.25		-0.13	-0.06		-0.04	-0.07		-0.19	0.08		-0.12	0.10		0.22	-0.22		-0.06	0.04	
p) To trade at a better price/earning multiple	30.98	-0.11	-0.03	-0.18		-0.12	-0.24		0.23	-0.58	***	-0.40	0.38	**	-0.05	-0.28		-0.15	0.09		-0.15	-0.06		-0.09	-0.04	
h) To minimize the cost of the IPO	21.42	-0.44	-0.49	-0.41		-0.47	-0.41		-0.42	-0.69		-0.63	-0.50		-0.33	-0.63		-0.47	-0.27		-0.63	-0.34		-0.56	-0.43	
f) To follow competitors/peers that are listed on this exchange	20.83	-0.57	-0.57	-0.53		-0.57	-0.71		-0.22	-1.00	**	-0.48	-0.31		-0.59	-0.52		-0.51	-0.91		-0.90	-0.41		-0.82	-0.72	
o) To create "good relations" with government or local authorities	13.05	-0.62	-0.64	-0.61		-0.63	-0.75		-0.68	-0.70		-0.92	-0.20	**	-0.67	-0.58		-0.69	-0.20		-0.47	-0.65		-0.71	-0.50	
s) Other reasons																										

Respondents are asked to rate on a scale of -2 (not important) to 2 (very important). We report the overall mean as well as the % of respondents that answered 1 and 2 (important and very important). We present the following variables: **Size** (= large firms if Market cap > 400 mil); **Hi-Tech** (=1 if the firm in Hi-Tech industry); **Age** (=1 if the firm was founded at least 19 years ago); **Initial Return**(= hot if IPO day stock return > 10%, = cold if IPO day stock return < 10%); **Ownership:** Family Control (=1 if the firm indicated being controlled by a family); **Foreign Listing** (=1 if the firm indicated being listed in a foreign country); **Raise Capital** (=1 if the firm indicated raising capital during IPO); **Change Lvrg** (=1 if the firm indicated changing leverage due to IPO)

***, **, * denote significance at 1%, 5%, 10%, respectively

Table 3
Survey response to the question 3: Foreign Exchange Listing Criteria

	Important or very important (%)	Mean	Size			Hi-Tech			Age			Initial Return			Ownership: Family Control			Foreign Listing			Rasing cap			Change lvrg	
			Small	Large		No	Yes		Young	Old		Cold	Hot		No	Yes		No	Yes		No	Yes		No	Yes
n) To appeal to institutional investors	89.48	1.26	1.27	1.25		1.08	1.50		1.58	0.67	*	1.50	1.17		1.73	0.57	**	1.25	1.27		1.00	1.33		1.17	1.13
d) To increase shareholder base	80.95	1.14	1.00	1.38		1.00	1.50		1.29	0.83		1.43	0.83		1.42	0.71	**	1.00	1.19		1.00	1.19		1.00	1.00
a) To enhance the company's prestige, image and visibility	76.20	1.00	1.00	1.00		0.93	1.17		0.79	1.33		1.57	0.83		0.75	1.14		0.80	1.06		1.20	0.94		1.29	0.67
e) To increase the liquidity of the company's securities	75.00	1.05	0.92	1.29		0.69	1.67	*	1.38	0.50		1.50	0.33		1.55	0.43	**	0.60	1.20		0.80	1.13		0.29	0.50
g) To be recognized by the relevant financial community as a major player	75.00	0.90	1.08	0.57		0.62	1.67	**	1.08	0.50		1.17	1.17		1.09	0.57		0.60	1.00		0.80	0.93		1.14	0.63
r) To be listed where financial analysts (and other major financial actors) are located	71.43	0.67	1.15	-0.13	**	0.29	1.50	**	0.86	0.33		0.71	0.67		0.75	0.86		1.40	0.44		0.40	0.75		1.00	0.89
l) To facilitate raising capital	66.66	0.90	0.77	1.13		1.00	0.50		1.14	0.67		1.00	1.17		1.17	0.71		0.60	1.00		1.00	0.88		0.86	0.89
j) To implement a "natural path" of growth for our firm	65.00	0.35	0.54	0.00		0.00	1.00		0.92	-0.83	***	1.00	0.00		0.45	0.14		0.20	0.40		-0.20	0.53		0.57	0.33
b) To trade on a large stock exchange	60.00	0.40	0.54	0.14		0.15	1.17		0.46	0.50		0.00	0.83		0.55	0.71		0.20	0.47		0.20	0.47		0.83	0.33
f) To follow competitors/peers that are listed on this exchange	55.00	0.25	0.46	-0.14		0.08	0.50		0.62	-0.50		0.50	0.00		0.36	0.43		1.00	0.00		-0.80	0.60		0.29	0.50
i) To facilitate mergers and acquisitions	50.00	0.45	0.46	0.43		0.31	0.83		0.69	0.17		0.33	0.67		0.64	0.71		0.80	0.33		0.20	0.53		0.71	0.13
p) To trade at a better price/earning multiple	50.00	0.50	0.67	0.17		0.00	1.33	**	0.91	-0.17	*	0.50	0.50		1.11	0.14	*	0.75	0.43		-0.20	0.77		0.29	0.71
k) To facilitate business operations	47.37	0.11	-0.15	0.67		0.25	-0.33		0.08	0.17		0.17	0.17		0.10	0.43		-0.40	0.29		-1.00	0.50	**	0.14	0.25
m) To support marketing efforts in the country where the firm is listed	41.17	-0.29	-0.40	-0.14		-0.09	-0.60		-0.20	-0.67		0.25	-0.17		-0.20	-0.67		-1.67	0.00	**	-0.75	-0.15		0.33	-0.86
c) To reduce the cost of debt and equity	28.57	-0.33	-0.31	-0.38		-0.57	0.00		-0.14	-0.67		0.29	-1.17	*	-0.08	-0.43		0.00	-0.44		-1.00	-0.13		-0.57	-0.22
o) To create "good relations" with government or local authorities	25.00	-0.31	-0.30	-0.33		-0.20	-0.60		-0.18	-1.00		0.17	-0.25		-0.33	-0.60		0.00	-0.36		-1.00	-0.15		-0.17	-0.67
q) To provide stockownership plans for employees	19.04	-0.14	-0.23	0.00		-0.21	0.00		0.14	-0.67		-0.14	0.00		0.25	-0.43		-0.40	-0.06		-1.00	0.13	**	-0.43	-0.22
h) To minimize the cost of the IPO	15.79	-0.79	-0.85	-0.67		-0.75	-1.00		-0.83	-0.67		-0.67	-0.67		-0.40	-1.14		-0.40	-0.93		-1.20	-0.64		-1.43	-0.63
s) Other reasons																									

Respondents are asked to rate on a scale of -2 (not important) to 2 (very important). We report the overall mean as well as the % of respondents that answered 1 and 2 (important and very important). We present the following variables: **Size** (= large firms if Market cap > 400 mil); **Hi-Tech** (=1 if the firm in Hi-Tech industry); **Age** (=1 if the firm was founded at least 19 years ago); **Initial Return**(= hot if IPO day stock return > 10%, = cold if IPO day stock return < 10%); **Ownership:** Family Control (=1 if the firm indicated being controlled by a family); **Foreign Listing** (=1 if the firm indicated being listed in a foreign country); **Raise Capital** (=1 if the firm indicated raising capital during IPO); **Change Lvrg** (=1 if the firm indicated changing leverage due to IPO)

***, **, * denote significance at 1%, 5%, 10%, respectively

Table 4

Survey response to the question: In your opinion, the IPO has allowed your company:

	Important or very important (%)	Mean	Size			Hi-Tech			Age			Initial Return			Ownership: Family Control			Foreign Listing			Rasing cap			Change lvrg		
			Small	Large		No	Yes		Young	Old		Cold	Hot		No	Yes		No	Yes		No	Yes		No	Yes	
d) To increase financial flexibility (generating new financing alternatives)	75.32	0.90	0.77	1.03		1.02	0.47	**	0.80	0.94		0.74	0.67		0.82	1.16		0.90	0.88		0.50	1.04	*	0.63	1.18	**
k) To make the firm's share more liquid and to increase the firm value	75.32	1.00	0.92	1.06		1.05	0.79		1.13	0.78		1.00	0.44		1.08	0.88		0.97	1.12		1.00	1.00		1.14	1.07	
a) To finance investment opportunities	73.33	1.04	1.41	0.61	***	0.91	1.37		1.05	0.94		1.04	0.94		1.04	1.08		0.98	1.25		0.15	1.39	***	0.57	1.48	***
i) To be monitored by outsiders (analysts, investors, etc.) in order to increase the firm value	69.74	0.79	0.49	1.09	**	0.95	0.32	**	0.75	0.81		0.67	0.78		0.80	0.79		0.75	0.94		1.15	0.64	*	0.97	0.63	
j) To compensate employees and managers (ability to provide stock options etc.)	59.74	0.49	0.46	0.54		0.46	0.63		0.55	0.59		0.22	0.61		0.57	0.48		0.57	0.24		0.35	0.54		0.57	0.61	
c) To reduce the cost of financing (debt and equity)	57.89	0.33	0.38	0.35		0.36	0.21		0.35	0.29		0.41	0.28		0.27	0.54		0.31	0.41		-0.20	0.50	**	-0.17	0.86	***
g) To sell the company to external shareholders	56.58	0.47	0.33	0.56		0.47	0.37		0.65	0.32		0.41	0.44		0.59	0.25		0.42	0.65		0.85	0.31		0.80	0.15	**
l) To estimate the market value of the firm	56.58	0.46	0.46	0.47		0.55	0.21		0.53	0.35		0.48	0.28		0.53	0.33		0.51	0.29		0.40	0.51		0.37	0.74	
e) To reinforce the firm's balance of power with bankers and other financial creditors	56.00	0.51	0.64	0.30		0.54	0.42		0.36	0.61		0.27	0.44		0.31	0.96	**	0.54	0.38		0.25	0.63		0.26	0.92	**
r) To pay for future acquisitions with the firm's shares	53.33	0.36	0.54	0.18		0.26	0.68		0.46	0.19		0.56	-0.17	*	0.35	0.46		0.44	0.06		-0.30	0.59	***	0.14	0.63	
h) To allow founding shareholder(s) to disengage as major shareholder	47.37	0.26	-0.13	0.65	**	0.33	0.16		0.41	0.03		0.15	0.18		0.60	-0.32	***	0.27	0.24		0.89	0.02	**	0.47	-0.14	*
s) To increase firm value by attracting diversified investors who value shares more than undiversified investors	40.54	0.05	-0.05	0.06		0.06	0.00		0.26	-0.32	**	0.07	-0.06		0.15	-0.21		0.03	0.13		0.21	-0.02		0.24	-0.19	
n) To benefit from favourable market conditions ("bullish" stock exchange/industry valuation)	39.47	0.14	0.26	-0.06		0.04	0.32		0.35	-0.16	*	0.22	0.28		0.10	0.21		0.15	0.12		0.25	0.13		0.06	0.26	
f) To "secure" relations with all stakeholders (suppliers, etc.)	38.67	0.13	0.31	-0.09		-0.02	0.53	*	0.15	-0.06		-0.11	0.22		0.06	0.25		0.02	0.56	*	0.01	0.19		0.02	0.26	
o) To benefit from a high level of cash-flows and the ability to present a favourable business plan	36.84	0.03	-0.03	0.03		0.15	-0.37	*	0.05	0.03		-0.37	0.44	**	-0.12	0.38	*	0.08	-0.18		0.30	-0.07		-0.11	0.30	
m) To benefit from outside investors who are willing to pay a higher price for the firm's risky cash-flows than the entrepreneur's own valuation of these flows	36.00	0.00	0.08	-0.18		-0.13	0.21		0.21	-0.35	*	0.04	-0.24		0.15	-0.33		0.03	-0.12		-0.16	0.07		0.01	0.22	
b) To reduce the firm leverage	35.53	0.08	0.31	-0.12		0.07	0.00		0.03	0.13		-0.22	0.11		0.02	0.32		0.00	0.38		-0.60	0.36	***	-0.63	1.04	***
p) To follow industry peers/ competitors (most of them are listed)	35.53	-0.14	-0.34	0.09		-0.18	-0.11		0.10	-0.44	*	-0.04	-0.06		-0.04	-0.32		-0.22	0.12		-0.16	-0.16		-0.18	0.04	
q) To list an entity/business separately and to achieve a better firm valuation	24.32	-0.70	-0.59	-0.81		-0.59	-1.11		-0.23	-1.35	***	-0.81	-0.29		-0.65	-0.96		-0.74	-0.56		-0.40	-0.79		-0.69	-0.88	

Respondents are asked to rate on a scale of -2 (not important) to 2 (very important). We report the overall mean as well as the % of respondents that answered 1 and 2 (important and very important). We present the following variables: **Size** (= large firms if Market cap > 400 mil); **Hi-Tech** (=1 if the firm in Hi-Tech industry); **Age** (=1 if the firm was founded at least 19 years ago); **Initial Return**(= hot if IPO day stock return > 10%, = cold if IPO day stock return < 10%); **Ownership:** Family Control (=1 if the firm indicated being controlled by a family); **Foreign Listing** (=1 if the firm indicated being listed in a foreign country); **Raise Capital** (=1 if the firm indicated raising capital during IPO); **Change Lvrg** (=1 if the firm indicated changing leverage due to IPO)

***, **, * denote significance at 1%, 5%, 10%, respectively

Table 5
Survey response to the question: Do these statements agree with your company's IPO decisions?

	Important or very important (%)	Mean	Size			Hi-Tech			Age			Initial Return			Ownership: Family Control			Foreign Listing			Rasing cap			Change lvrg		
			Small	Large		No	Yes		Young	Old		Cold	Hot		No	Yes		No	Yes		No	Yes		No	Yes	
b) The IPO acts as advertising for the company and increases its reputation/image	83.11	0.90	0.85	0.97		0.96	0.74		0.82	1.06		0.93	0.78		0.88	0.92		0.90	0.88		0.85	0.91		0.83	1.00	
j) Making the IPO, we believed it was the best time to do it	72.73	0.96	0.97	0.91		0.98	0.84		1.10	0.85		0.74	1.06		1.00	1.04		1.03	0.69		0.60	1.07	*	0.97	1.07	
a) The IPO is a normal "stage" in the growth of a company	68.83	0.83	0.74	0.94		0.89	0.63		1.00	0.70		1.00	0.83		0.79	0.92		0.87	0.69		0.70	0.88		0.82	0.75	
d) Making an IPO, we had a clear vision of our capacity to give an acceptable return to shareholders	58.11	0.65	0.50	0.79		0.69	0.53		0.62	0.56		0.50	0.35		0.78	0.48		0.74	0.31		0.42	0.74		0.62	0.65	
g) The cost of the IPO was not a real issue because it does not significantly impact the EPS (the cost of the IPO can be deducted from the issue premium, etc.)	42.11	0.08	0.13	0.03		0.16	-0.11		0.03	0.18		0.07	0.12		0.13	-0.04		0.03	0.24		0.26	-0.02		0.18	0.22	
c) We analyse the IPO as a trade off between diversification gains and private benefits of control	40.00	0.03	0.21	-0.12		0.00	0.16		-0.08	0.09		-0.22	0.29		-0.02	0.20		0.07	-0.13		-0.26	0.11		-0.03	0.15	
e) When we made the IPO, the asymmetry of information between external investors and the company (comprehension of our business by financial analysts) was a major problem	37.18	0.05	-0.13	0.25		0.12	-0.11		-0.10	0.30		-0.19	0.33	*	-0.06	0.31		0.03	0.12		0.10	0.01		0.14	0.07	
h) The IPO has obliged us to disclose information that was crucial for our competitive advantage	22.37	-0.38	-0.37	-0.40		-0.39	-0.28		-0.39	-0.42		-0.31	0.24		-0.54	-0.16		-0.46	-0.12		0.01	-0.50	*	-0.12	-0.64	*
f) The high cost of the IPO (underwriting fees, etc.) was a major problem for our company	14.10	-0.62	-0.21	-1.11	***	-0.75	-0.26	*	-0.45	-0.79		-0.70	-0.28		-0.61	-0.62		-0.66	-0.47		-0.82	-0.51		-0.60	-0.57	
i) Making an IPO, we knew our firm had the option to take the firm private again in a second stage	12.16	-0.82	-0.74	-1.00		-0.94	-0.47	*	-0.84	-0.78		-1.27	-0.41	***	-0.94	-0.58		-0.83	-0.81		-0.89	-0.78		-0.91	-0.63	

Respondents are asked to rate on a scale of -2 (not important) to 2 (very important). We report the overall mean as well as the % of respondents that answered 1 and 2 (important and very important). We present the following variables: **Size** (= large firms if Market cap > 400 mil); **Hi-Tech** (=1 if the firm in Hi-Tech industry); **Age** (=1 if the firm was founded at least 19 years ago); **Initial Return**(= hot if IPO day stock return > 10%, = cold if IPO day stock return < 10%); **Ownership:** Family Control (=1 if the firm indicated being controlled by a family); **Foreign Listing** (=1 if the firm indicated being listed in a foreign country); **Raise Capital** (=1 if the firm indicated raising capital during IPO); **Change Lvrg** (=1 if the firm indicated changing leverage due to IPO)

***, **, * denote significance at 1%, 5%, 10%, respectively

Table 6
Spearman Correlations between Survey Responses and Issuer and Offering Characteristics

Variable Definition:

Q4 a **FIN** : to finance investment opportunities; Q4 b **LVRG**: to reduce the firm leverage; Q4 c **COST**: to reduce the cost of financing (debt and equity); Q4 d **FLEX** to increase financial flexibility; Q4 e **POW BAL**: To reinforce the firm's balance of power with bankers and other financial creditors; Q4 f **RLTN**: To "secure" relations with all stakeholders (suppliers, etc.); Q4 g **SELL**: To sell the company to external shareholders;Q4 h **DISENGG**: To allow founding shareholder(s) to disengage as major shareholder;Q4 i **MNTR**: To be monitored by outsiders (analysts, investors, etc.) to increase the firm value;Q4 j **COMP**: To compensate employees and managers (stock options etc.);Q4 k **LIQ**: To make the firm's share more liquid and to increase the firm value; Q4 m **IVSTR**: To benefit from outside investors who are willing to pay a higher price for the firm's risky cash-flows than the entrepreneur's own valuation;Q4 n **MKT CNDT**: To benefit from favourable market conditions ("bullish" stock exchange/industry valuation);

Q5 a **NRML**: The IPO is a normal "stage" in the growth of a company; Q5 b **ADVTS**: The IPO acts as advertising for the company and increases its reputation/image;Q5 c **TRD OFF**: We analyse the IPO as a trade off between diversification gains and private benefits of control;Q5 e **ASM INF** When we made the IPO, the asymmetry of information between external investors and the company (comprehension of our business by financial analysts) was a major problem;Q5 g **EPS**: The cost of the IPO was not a real issue because it does not significantly impact the EPS (the cost of the IPO can be deducted from the issue premium, etc.);Q5 j **BST TIME**: Making the IPO, we believed it was the best time to do it;

Q3 a **HM VISB**: (Home exchange listing) To enhance the company's prestige, image and visibility;Q3 d **HM SHLD**: To increase shareholder base;Q3 f **HM PEER**: To follow competitors/peers that are listed on this exchange;Q3 p **HM P/E**: To trade at a better price/earning multiple;Q3 f FRN PEER: (Foreign exchange listing) to follow competitors/peers;

Ben1 VISB: visibility or signaling; **Ben2 RSCAP**: raise capital, financial or financing flexibility; **Ben3 MNTR**: External monitoring or employees SO plan; **Ben4 LIQ**: Liquidity for shareholders; **Cost1 FEE**: all type of fees associate with IPO in general; **MKT CAP**: =1 if market cap > 400 mil Euros, median = 400; **OWN FMLY**: =1 if company is owned by individual or a family;

Spearman correlations between survey responses are reported. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	Managers' views on IPO Benefits (Q4)													Managers' views on IPO decision (Q5)						Home/Foreign Exchg Listing Decision (Q3)					IPO BENEFIT & COST Open-end Q					
	FIN	LVRG	COST	FLEX	POW BAL	RLTN	SELL	DIS-ENGG	MNTR	COMP	LIQ	IVSTR	MKT CNDT	NRML	ADVTS	TRD OFF	ASM INF	EPS	BST TIME	HM VISB	HM SHLD	HM PEER	HM P/E	FRN PEER	Ben1 VISB	Ben2 RSCAP	Ben3 MNTR	Ben4 LIQ	Cost1 FEE	MKT CAP
Panel A																														
LVRG	.420(**)																													
COST	.478(**)	.591(**)																												
FLEX	.411(**)	.415(**)	.512(**)																											
POW BAL	.248(*)	.393(**)	.412(**)	.563(**)																										
RLTN	.279(*)	.248(*)	0.207	.391(**)	.608(**)																									
SELL	-0.146	-0.079	-0.089	-0.040	-0.056	0.004																								
DIS-ENGG	-0.109	-0.017	-0.003	0.125	-0.025	0.092	.307(**)																							
MNTR	-0.015	0.001	0.080	0.171	-0.021	.267(*)	0.130	.230(*)																						
COMP	0.020	0.123	0.197	.372(**)	.268(*)	.275(*)	0.218	0.193	.252(*)																					
LIQ	0.103	0.146	0.100	.290(*)	0.138	.376(**)	0.128	0.080	.639(**)	.425(**)																				
IVSTR	0.119	.355(**)	.246(*)	0.141	0.201	.327(**)	0.102	0.153	0.201	0.111	.407(**)																			
MKT CNDT	0.176	0.219	.270(*)	0.162	.238(*)	.363(**)	0.061	0.017	.253(*)	.240(*)	.340(**)	.626(**)																		
NRML	-0.038	-0.103	0.041	0.183	-0.027	-0.048	0.132	0.053	.246(*)	.234(*)	0.193	0.097	.245(*)																	
ADVTS	-0.071	0.204	.238(*)	0.070	0.135	0.074	-0.149	0.048	.263(*)	0.220	0.180	0.203	0.152	0.153																
TRD OFF	0.148	0.208	0.212	0.161	0.157	0.174	-0.090	-0.089	-0.111	0.144	-0.034	0.152	0.161	-0.117	0.188															
ASM INF	-0.188	-0.183	-0.055	0.162	-0.006	0.052	0.024	-0.120	0.124	0.194	0.127	-0.216	-0.035	.225(*)	0.053	-0.013														
EPS	-0.050	0.125	0.038	0.190	0.115	0.126	0.136	0.088	0.149	.240(*)	0.206	-0.038	0.062	0.173	0.058	-0.059	0.215													
BST TIME	0.030	0.184	0.123	.302(**)	0.028	0.034	0.142	0.011	0.142	.283(*)	.250(*)	0.124	0.145	0.210	-0.062	0.114	.258(*)	0.115												
HM VISB	-0.103	-0.024	0.048	-0.030	-0.108	0.100	-0.062	.267(*)	0.086	0.000	-0.085	0.216	0.140	0.110	.321(**)	0.076	-0.085	0.098	-0.084											
HM SHLD	-0.053	0.022	0.155	0.140	0.038	0.159	0.090	0.113	.342(**)	.312(**)	.234(*)	0.217	0.201	.242(*)	0.015	0.043	0.131	0.002	0.178	-0.077										
HM PEER	0.006	.260(*)	.334(**)	0.230	0.064	0.073	-0.168	0.037	0.151	0.105	0.071	.253(*)	.391(**)	0.158	0.093	0.101	-0.014	0.180	.267(*)	.319(**)	0.115									
HM P/E	0.084	.242(*)	.302(*)	.290(*)	0.094	.249(*)	0.129	0.156	0.083	0.212	.261(*)	.507(**)	.365(**)	0.139	-0.090	0.175	-0.111	0.136	.252(*)	0.160	0.153	.330(**)								
FRN PEER	0.067	.469(*)	0.336	0.193	.476(*)	0.414	-0.029	0.053	0.048	0.219	0.306	.505(*)	0.443	0.402	0.068	0.132	-0.109	0.335	.569(*)	0.013	-0.065	0.367	0.116							
Panel B																														
Ben1 V ISB	-0.080	0.002	-0.011	-0.060	-0.010	0.111	0.041	-0.022	0.080	0.130	0.100	-0.091	-0.020	0.135	.401(**)	0.090	0.050	0.020	-0.061	0.165	-0.088	-0.085	-0.081	0.022						
Ben2 RS CAP	.395(**)	0.182	0.188	0.193	0.003	-0.198	-0.162	0.084	-0.153	0.073	-0.040	-0.015	-0.007	0.115	-0.121	-0.056	-0.039	0.142	0.106	0.042	-0.111	0.159	0.181	0.000	-0.184					
Ben3 M NTR	-.371(**)	0.096	-0.131	-0.102	-0.152	-0.170	0.063	-0.009	0.149	0.122	0.208	0.041	0.036	0.014	0.226	0.035	0.153	0.183	-0.076	-0.041	-0.047	-0.045	0.039	0.015	0.073	-0.231				
Ben4 LIQ	-0.112	0.031	0.006	-0.065	-0.020	0.221	0.231	.321(**)	.284(*)	0.091	.241(*)	0.112	0.000	0.142	0.095	-0.032	-0.126	0.089	-0.068	0.185	.284(*)	0.181	0.196	-0.247	0.145	-0.184	-0.004			
Cost1 FEE	0.067	.313(*)	0.041	.325(**)	0.054	0.014	-0.161	0.020	-0.005	-0.164	0.069	0.189	0.028	-0.068	-0.032	-0.166	0.121	0.039	0.235	0.064	-0.041	0.127	-0.005	-0.063	-.251(*)	0.075	-0.033	-0.079		
MKT CAP	-.394(**)	-0.224	-0.025	0.138	-0.162	-0.163	0.071	0.219	.242(*)	0.050	-0.014	-0.139	-0.137	0.106	0.055	-0.080	.254(*)	-0.077	-0.046	-0.076	0.121	-0.014	-0.089	-0.059	-0.036	-0.212	0.212	0.014	0.014	
OWN FMLY	0.018	0.114	0.115	0.184	.272(*)	0.077	-0.116	-.327(**)	-0.002	-0.047	-0.087	-0.180	0.040	0.076	0.028	0.100	0.169	-0.070	0.023	-0.127	-0.152	0.025	-0.100	0.023	-0.031	-0.059	0.167	-.367(**)	0.198	0.062

Table 7
Managers' Views: Cross-Country Comparisons

	English VS. Civil		French VS. German		Across French System		Italy VS. Other	
	UK & Ire	Civil Countries	Fr & Bel	Gr & Aus	It & Pr & Sp (Hi Family Own)	Fr & Bel (Lo Family Own)	Italy	Other Civil
	Mean (Median) N=20	Mean (Median) N=57	Mean (Median) N=20	Mean (Median) N=15	Mean (Median) N=12	Mean (Median) N=20	Mean (Median) N=5	Mean (Median) N=52
Panel A: Managers Views on IPO								
Q4 Stock liquid & increase firm value	1.40	0.84**	0.65	1.13	0.55	0.65	0.20	0.90
Reduce cost of financing	0.15	0.40	0.20	0.40	0.45	0.20	1.20	0.32**
Sell company	1.15	0.2**	-0.11	0.20	0.73	-0.11	0.00	0.22
Power balance w/t bankers	0.20	0.59	0.89	0.00**	0.27	0.89	-0.20	0.16
Future acquisition w/t the shares	0.55	0.30	0.37	0.73	-0.55	0.37*	0.00	0.33
Allow founder to disengage	0.00	0.33	0.30	0.40	0.30	0.30	-0.75	0.41**
High cash flows to present business plan	-0.20	0.07	-0.32	0.33**	0.55	-0.32	0.40	0.04
List as a separate entity & better firm valuation	-0.50	-0.79	-1.18	-0.40**	-0.45	-1.18*	0.20	-0.90*
Q5 IPO is a normal stage in company growth	1.10	0.71*	0.80	0.53	0.92	0.80	1.00	0.69
Trade off b/t diversification gains & control	-0.10	0.11	0.11	-0.07	0.36	0.11	1.25	0.02**
Q3 Enhance prestige, image and visibility	0.83	1.06	0.90	1.21	1.09	0.90	1.75	1.00
Recognized as a major player	0.00	0.75**	0.74	0.71	0.64	0.74	0.25	0.80
Facilitate M&A	0.50	0.53	0.58	0.64	-0.18	0.58*	-0.25	0.59
Open-end Q Cost Fees in general	0.39	0.7**	0.63	1.00**	0.29	0.63	0.33	0.72
Panel B: Firm and Offering Characteristics at time of IPO								
Mkt cap IPO (Mil €)	145	3,280***	4,600	4,150	1,830	4,600	724	3,490**
Age IPO	8	24***	26	35	27	26	18	32
IPO AF 2000	85%	55%***	53%	53%	25%	53%	0%	55%***
Tech IPO	37.0%	21.0%	21.0%	27.0%	0.0%	21%*	0.0%	24.0%
Raise capital IPO	90%	70%*	75%	71%	42%	75%*	80%	69%
New shares as % of Shares O/S	39%	27.7%*	20%	28%	N/A	N/A	46%	25%
Change Leverage IPO	33%	50%	47%	55%	40%	47%	80%	46%
Leverage BF IPO	2.13	2.39	2.47	2.22	2.30	2.47	2.50	2.38
Leverage AF IPO	1.27	2.17***	2.20	2.11	2.10	2.20	2.00	2.10
First day stock return	8.1%	17.7%	8.7%	9.3%	16.9%	8.7%	15.8%	18.0%
Panel C: Change in Ownership Structure at IPO								
Q2 Family Own	5.3%	43.9%	40.0%	28.6%	72.7%	40.0%	80.0%	40.2%
change % contl	87%	79%	74%	91%	80%	74%	100%	76%**
% largest shareholder BF	50% (36%)	80.3%*** (90.5%)	70.3% (77.9%)	88.5%** (97.5%)	91.5% (100%)	70.3%** (77.9%)	100% (100%)	78%** (80%)
% largest shareholder AF	27% (15%)	55.4%*** (60%)	54% (53%)	54% (50%)	59% (60%)	54% (53%)	65% (60%)	53% (52%)
% founder shareholding BF	50.5% (51%)	74.2%** (88.5%)	64.6% (78.5%)	80.8% (89%)	84.7% (100%)	64.6% (78.5%)	100% (100%)	71%** (77.5%)
% founder shareholding AF	29.6% (30%)	52.5%*** (58%)	50.4% (55%)	48.3% (48%)	60% (60%)	50.4% (55%)	71.25% (72.5%)	50.5%* (50.7%)
% institution shareholding BF	42.8% (44%)	34.8% (30%)	43.3% (44.8%)	31.7% (25.5%)	N/A	N/A	N/A	N/A
% institution shareholding AF	47.2% (45%)	26.3% (22.2%)	28.3% (24.2%)	28.5% (22.5%)	28.3% (20%)	28.3% (24.2%)	23.2% (21.4%)	26.6% (22.2%)
% other shareholding BF	31.9% (20%)	50.2% (40%)	51.9% (60%)	52% (53%)	60% (54%)	51.9% (60%)	N/A	N/A
% other shareholding AF	25.8% (15.5%)	30.3% (21%)	36% (28.5%)	35.4% (32%)	18.8% (12%)	36% (28.5%)	N/A	N/A

Note: 1. Ire = Ireland, Fr = France, Bel = Belgium, Gr = Germany, Aus = Austria, It = Italy, Pr = Portugal, Sp = Spain; O/S = Outstanding, BF = before, AF = after, w/t = with, b/t = between.

2. Firms were not included in analysis for countries with low number of observations (n<10) - Swizerland and Netherland, and countries with very different firm characteristics at IPO - Greece firms are all very small, high tech firms.

3. Leverage = 1 if D/E <20%, 2 if 20% < D/E < 50%, 3 if 50% < D/E <100%, 4 if D/E >100%.

4. Variables with low respondance in Shareholder own questions were reported as N/A, such as in % founder shareholding BF, % of other shareholding BF and AF

5. Institution largest shareholders are banks, mutual funds, or holding companies; Other largest shareholders are state, private equity, venture capital, or foundations, total number of firms indicating largest shareholder being other = 16.

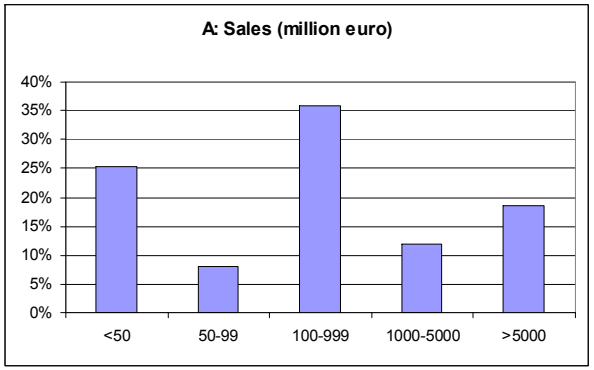
6. T-test for equality of mean and Wilcoxon rank sum test for equality of median were used.

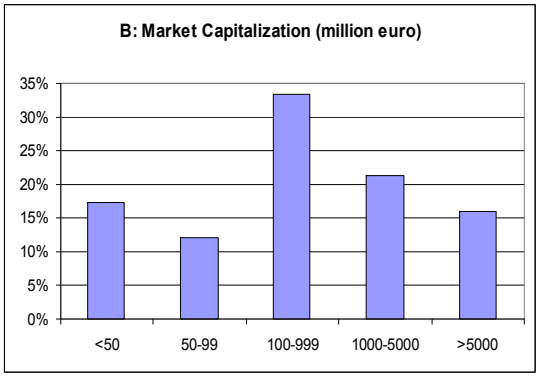
*7. ***,**,* denote significance at the 1%, 5%, and 10% levels, respectively. Special cautions for significant testing for Italian firms and other civil country firms, because of number of Italian firms = 5.*

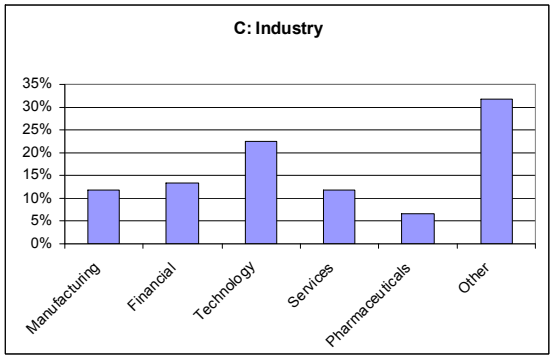
Table 8
US vs. Europe: IPO Benefit and IPO Decision - Survey Evidence

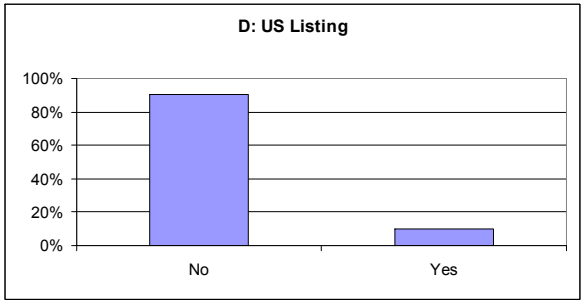
	Europe		US (Brau and Fawcett, JF)		US (Brau and al., FR)		UK	
	Important or very important (%)	Mean	Important or very important (%)	Mean (Rescaled)	Important or very important (%)	Mean (Rescaled)	Important or very important (%)	Mean
Panel A: Q4 IPO Benefit								
d) To increase financial flexibility (generating new financing alternatives)	75.32	0.90					70.00	0.65
k) To make the firm's share more liquid and to increase the firm value	75.32	1.00			82.5	1.21	90.00	1.41
a) To finance investment opportunities	73.33	1.04	66.47	0.82	82.6	1.33	85.00	1.24
i) To be monitored by outsiders (analysts, investors, etc.) in order to increase the firm value	69.74	0.79	29.76	-0.29	68.9	0.8	65.00	0.59
j) To compensate employees and managers (ability to provide stock options etc.)	59.74	0.49					80.00	0.59
c) To reduce the cost of financing (debt and equity)	57.89	0.33	42.51	0.12	38.2	-0.02	50.00	0.24
g) To sell the company to external shareholders	56.58	0.47			30.2	-0.54	75.00	1.18
l) To estimate the market value of the firm	56.58	0.46	51.17	0.39			55.00	0.76
e) To reinforce the firm's balance of power with bankers and other financial creditors	56.00	0.51			44.4	0.03	45.00	0.18
r) To pay for future acquisitions with the firm's shares	53.33	0.36	59.41	0.56			60.00	0.59
h) To allow founding shareholder(s) to disengage as major shareholder	47.37	0.26				-0.49	40.00	-0.12
s) To increase firm value by attracting diversified investors who value shares more than undiversified investors	40.54	0.05			3.8	-1.55	50.00	0.24
n) To benefit from favourable market conditions ("bullish" stock exchange/industry valuation)	39.47	0.14	82.94	1.21			40.00	0.35
f) To "secure" relations with all stakeholders (suppliers, etc.)	38.67	0.13					50.00	0.00
o) To benefit from a high level of cash-flows and the ability to present a favourable business plan	36.84	0.03					25.00	-0.18
m) To benefit from outside investors who are willing to pay a higher price for the firm's risky cash-flows than the entrepreneur's own valuation of these flows	36.00						55.00	0.53
b) To reduce the firm leverage	35.53	0.08					25.00	0.00
p) To follow industry peers/ competitors (most of them are listed)	35.53	-0.14	24.26	-0.47			30.00	-0.53
q) To list an entity/business separately and to achieve a better firm valuation	24.32	-0.70					35.00	-0.65
Panel B: Q5 IPO Decision								
b) The IPO acts as advertising for the company and increases its reputation/image	83.11	0.90	49.11	0.27			85.00	0.65
j) Making the IPO, we believed it was the best time to do it	72.73	0.96			59.2	0.44	75.00	1.05
a) The IPO is a normal "stage" in the growth of a company	68.83	0.83					85.00	1.18
d) Making an IPO, we had a clear vision of our capacity to give an acceptable return to shareholders	58.11	0.65					68.42	0.81
g) The cost of the IPO was not a real issue because it does not significantly impact the EPS (the cost of the IPO can be deducted from the issue premium, etc.)	42.11	0.08					50.00	1.15
c) We analyse the IPO as a trade off between diversification gains and private benefits of control	40.00	0.03					45.00	-0.24
e) When we made the IPO, the asymmetry of information between external investors and the company (comprehension of our business by financial analysts) was a major problem	37.18	0.05					25.00	-0.29
h) The IPO has obliged us to disclose information that was crucial for our competitive advantage	22.37	-0.38			63.5	0.73	20.00	-0.82
f) The high cost of the IPO (underwriting fees, etc.) was a major problem for our company	14.10	-0.62			59.6	0.57	30.00	-0.41
i) Making an IPO, we knew our firm had the option to take the firm private again in a second stage	12.16	-0.82					0.00	-0.94

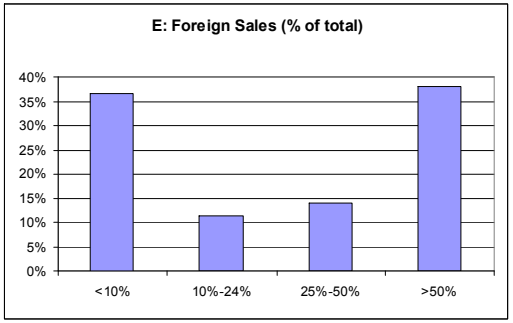
Figure 1: Characteristics of Responding Firms











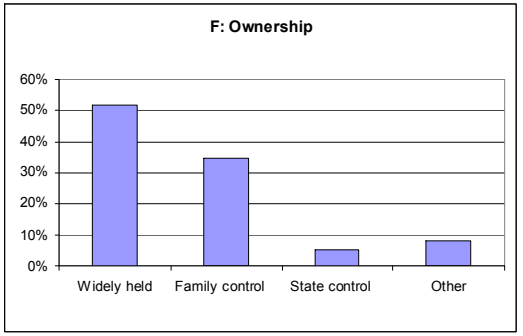
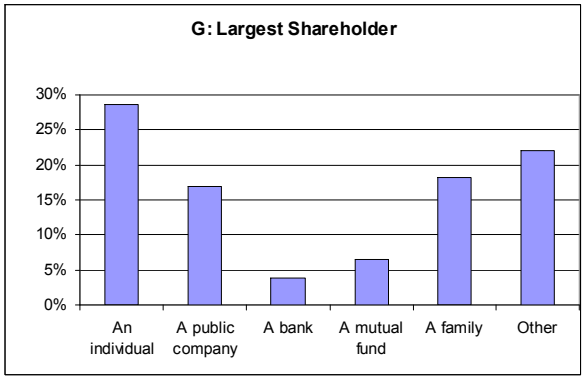
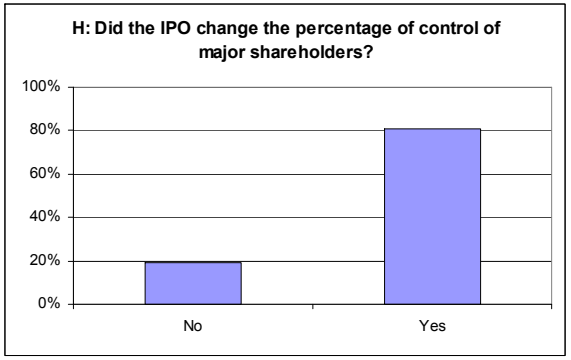
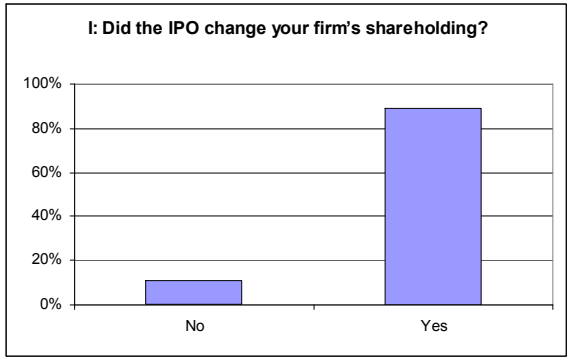
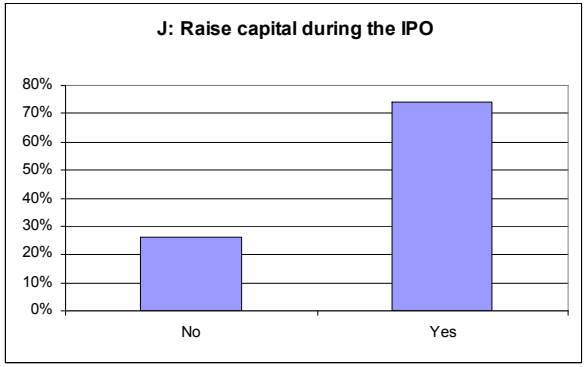


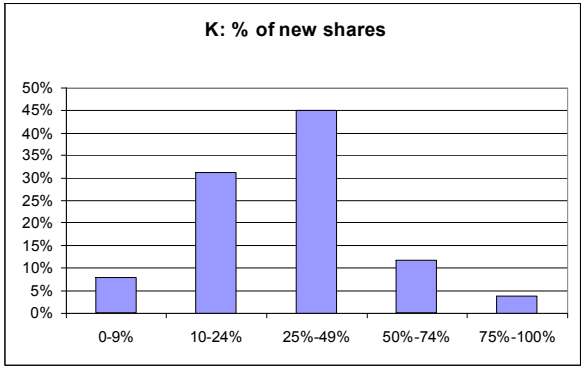
Figure 1: Characteristics of Responding Firms (cont.)











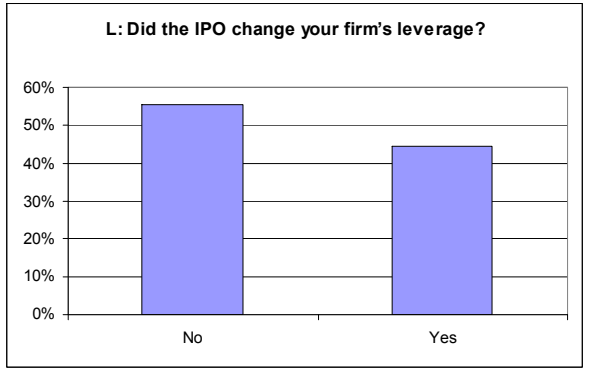


Figure 2-4: Open-end Question Responds: Major Benefit and Costs of IPO

Figure 2: Major benefits of the IPO

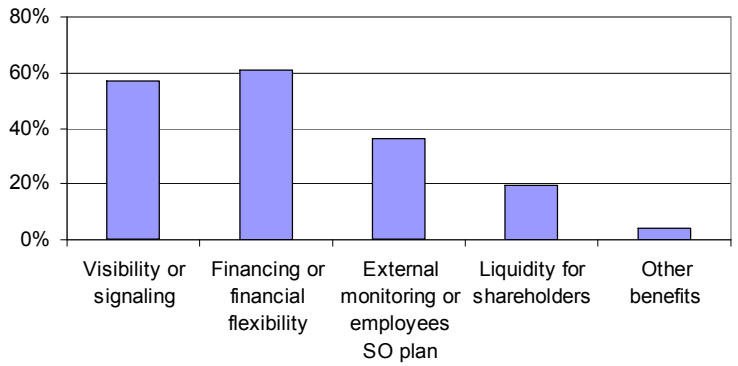


Figure 3: Major costs of the IPO

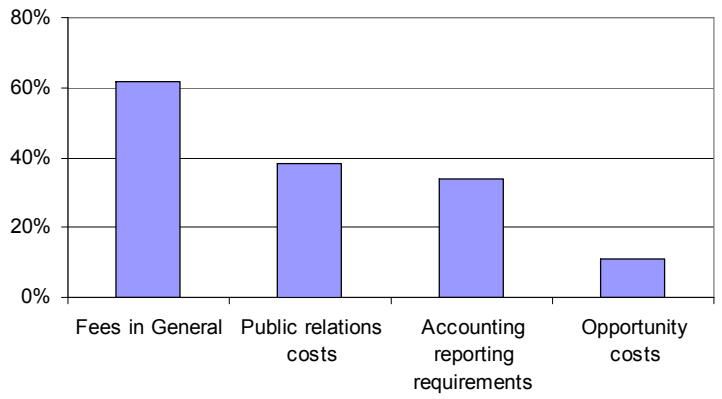
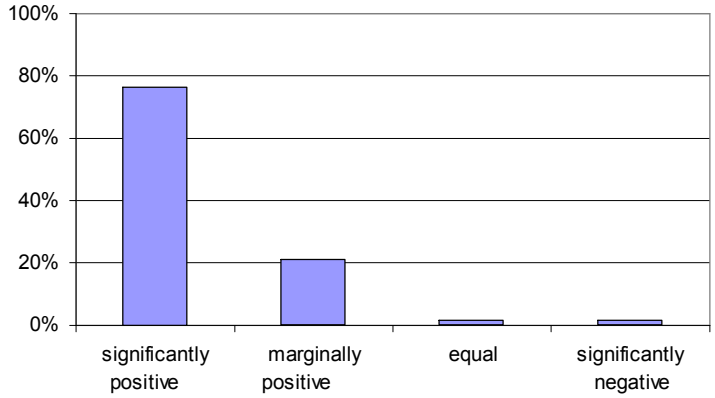


Figure 4: Costs and benefits of the IPO



Appendix 1: Summary of Theories and Survey findings

Theory or Concept		Survey evidence (Strong Support-SS; Medium Support-MS; Low Support-LS; Non Support-NS)	Cross-Country Comparison
Cost and Benefits of going public and exchange listings			
A. Benefits			
a. Investor Recognition, Reputation and Credibility		**Strong Support**	
Theory	*Merton (1987) Investor recognition;*	SS- 83% agree, IPO benefit, mean = 0.9, advertising and reputation; no difference across firms with all characteristics;	**Across Europe**: SS- 83% agree, IPO benefit, advertising and reputation;
	Maksimovic and Pichler (2001) reputation and credibility;	SS- 2nd most freq. cited benefit in open-end Q (57%);	No difference accross country/ firm characteristics
		SS- Corr : Advertising & Reduce cost (0.24)*; Visibility & Mjr Player (0.44)**;	**US vs. Europe:** MS- 49% agree,IPO benefit, advertising and reputation;
		NS- Corr: follow peers & visibility, home (forgn), 0.27*, (0.57)*;	Different in US; Firm chracteristics don't influence views on visibility in Europe,
Empirical	*Kadlec and McConnell (1994) (home), Foerster and Karolyi (1999) (Foreign listing); Baker et al. (2003) (foreing exchanges); Bradley, Jordan and Ritter (2003) Analyst; Analyst coverage, Media attention;*	SS- 78%(76%) agree home (foreign) listing, mean = 1.0 (1.0), visibility;	Firm charcterstics (size, age, hi-tech, ownership) do in US -Brau (BF);
		SS- 70%(81%) agree home (foreign) listing, mean = 0.75 (1.14), shrhld base; Family own firms agree less, foreign, mean 0.71 vs. 1.42;	
		MS- 60%(75%) agree home (foreign) listing, mean = 0.56 (0.9), mjr player; Older firms agree less, home, mean -0.29 vs. 0.43; Hi tech firms agree more, foreign, mean 1.67 vs. 0.62;	
		MS- 39%(71%) agree home (foreign) listing, mean = 0.09 (0.67), analyst; Larger firms agree less, foreign, mean -0.13 vs. 1.15; Hi tech firms agree more, foreign, 1.5 vs. o.29;	
Survey	*Burton et al. (2007) (home UK); Brau et al. (2006); Bancel and Mittoo (2001) (foreign);*		
b. Funding for Growth oppotunity		**Strong Support**	
Theory	*Chemmanur and Fulghieri (1999) , Brau et al. (2003)*	SS- 76%(66%) agree for home (foreign) listing, mean = 1.11(0.90), raise cap;	Across Europe:
		SS- 73% agree, IPO benefit, HIGHEST mean = 1.04, finance invst ; Small firms agree more, mean 1.41 vs. 0.61;	SS- 73% agree, IPO benefit, HIGHEST mean = 1.04, finance invst; small firms agree more;
		SS- 75% indicate raised capital during IPO;	No difference across countries;
		SS- 1st most freq. cited benefit in open-end Q(61%);	
		SS- Corr: finance invst and flexibility (0.41)**; finance invst and size (-0.39)**; finance invst and reduce leverage (0.42)**; finance invst and pow bal (0.25)*	US vs. Europe: MS- 66% agree, need capital to grow - Brau (BF) US; Small firms agree more;
		LS- 37% agree, IPO decision, mean = 0.05, asymmetric info;raisng capital not one of the main criteria for foreign listing	Similar between US & Europe;
Empirical	*Ritter and Welch (2002), Kim and Weisbach (2007);*	SS to MS- Capital raising firms have higher annual growth in Asset 51% vs. 3%**;	
		market cap 34% vs. 14%;	
Survey		Employee 18% vs. 12%;	
		SS- 75% agree, financial flexibility, mean 0.90, increase flexibility; Hi-tech firms agree less, mean 0.47 vs. 1.02; strong corr. between finance invst and M&A	
Survey	*Burton et al. (2007) (home UK); Brau et al. (2006);*		

Appendix 1: Summary of Theories and Survey findings (cont.)

Theory or Concept		Survey evidence (Strong Support-SS; Medium Support-MS; Low Support-LS; Non Support-NS)	Cross-Country Comparison
c. Financial Flexibility and Greater Bargaining Power with Banks		**Medium to Strong Support**	
Theory	*Rajan (1992) increase power; from other sources: lower credit cost; l:Huyghebaert and Hulle, (2005);Albornoz and Pope(2004)*	MS- 56% agree, IPO benefit, mean = 0.51, bank power balance; Family controlled firms agree more, mean 0.96 vs. 0.31; firms change leverage agree more, mean 0.92 vs. 0.26; SS- 75% agree, IPO benefit, mean = 0.90, increases financial flexibility; Hi-Tech agree less; mean 0.47 vs. 1.02; firms raise capital agree more, mean 1.04 vs. 0.50; firms change leverage agree more, mean 1.18 vs. 0.63; SS- Corr: power bal and reduce lev (0.39)**, power bal and flex (0.56)**; power bal and reduce cost (0.41)*;	**Across Europe:** MS to SS: 56% agree, IPO benefit, mean = 0.51, bank power balance; French firms agree more vs. German firms, mean 0.89 vs. 0.00; German bank based sytem- banks are owners; **US vs. Europe:** LS- 14.29% agree - debt is becoming too expensive, Brau (BF) US; LS- 40% agree - reduce debt/ reduce bank loan, Brau et al. US; Different from US & Europe;
Empirical	*Pagano (1998) (Italy) rebalan.leverage, reduce debt cost;*	LS- 35% agree, IPO benefit, mean= 0.08, reduce leverage; firms raise capital agree more, mean 0.36 vs. -0.60; firms leverage change agree more, home, mean 1.04 vs. -0.63;	
Survey	*Burton et al. (2007) (home UK); Brau et al. (2006); Bancel and Mittoo (2004) (Europe); Graham and Harvey (2002) (US); report financial flexibility - Most imp determinants of debt policy;*		
d. Lower Cost of Capital		**Medium to Low Support**	
Theory	*Scott (1976); Modigliani and Miller (1963); trade-off debt vs. equity; Diamond (1991); Holmstrom and Tirole (1993); cheap financing direct from market; Myers (1984), Myers and Majluf (1984);*	MS- 58% agree, IPO benefit, mean = 0.33, reduce cost of financing; LS- 35% agree, IPO benefit, mean= 0.08, reduce leverage; firms raise capital agree more, mean 0.36 vs. -0.60; firms leverage change agree more, mean 1.04 vs. -0.63; LS- Not mentioned in open-end Q. SS- Corr: reduce leverage& finance invst (0.42)**; reduce leverage & reduce cost (0.59)**; finance invst & reduce cost (0.48)**; finance invst & mkt condition (0.18);	**Across Europe:** MS to LS- 58% agree, IPO benefit, mean = 0.33, reduce cost; Italian firms agree more, mean 0.32 vs. 1.20; **US vs. Europe:** LS- 38% agree - decrease cost of capital, Brau et al US; MS to LS: 42% agree - minimize cost, Brau (BF) US; Similar between US & Europe;
Empirical	*Ritter and Welch (2002); (US) LS*	LS- 45% (28%) agree, home (foreign) listing, mean = 0.04 (-0.33), reduce cost; firms leverage change agree more, mean 0.5 vs -0.39; firms in hot mkt agree more, foreign, mean 0.29 vs. -1.17;	
Survey	*Brau and Fawcett (2006); LS-US*		

Appendix 1: Summary of Theories and Survey findings (cont.)

Theory or Concept		Survey evidence (Strong Support-SS; Medium Support-MS; Low Support-LS; Non Support-NS)	Cross-Country Comparison
e. External Monitoring and Better Corporate Governance		**Strong Support**	
Theory	*Pagano and Roell (1998) overmonitoring in private - implies less monitoring : Coffee (2002) , Stulz (1998) reputational bonding enhances value;*	SS- 70% agree, IPO benefit, mean = 0.79, external monitoring; firms raise capital agree less, mean 0.64 vs 1.15; Large firms agree more, mean 1.09 vs. 0.49; Hi tech firms agree less, mean 0.32 vs. 0.95; MS- 60% agree, IPO benefit, mean = 0.49, compensation; SS- Corr: monitoring & disengage (0.23)*; monitoring & compensation (0.25)*; More support for reputational bonding, less for legal bonding	**Across Europe:** SS- 70% agree, IPO benefit, mean = 0.79, external monitoring; No difference across Europe incl. UK; **US vs. Europe:** NS- 70% agree, public scrunity a disadvantage, Brau et al US; Strongly different from US & Europe;
Empirical	*Ritter (2003); Empirical Doidge et al. (2004); foreign firms value monitoring more to raise cap ;*	NS- Corr: Monitoring & raising capital (-0.21); Monitoring & finance invst (-0.01);	
Survey	*Burton et al. (2004) (UK) ; SS for monitoring and better corp governance , compensation for employees stock options; Brau et al. (US) Monitoring is a cost;*		
f. Exit Strategy (Change of Ownership Control)		**Medium Support but limited to UK firms**	**MS but limited to UK firms, large agree more than small and family owned**
Theory	*Zingales (1995) sell company;* *Mello and Parsons (1998) change control;* *Black and Gilson (1998) opp for Venture cap to cash out;* *Zingales (1995) also predicts "-ve" corr with sell company and m&a;*	MS- 57% agree, IPO benefit, mean = 0.47, sell; firms change leverage agree less, mean 0.15 vs 0.80; SS- Table 1 and 7 show change in major shareholders before and after IPO; MS- 47% agree, IPO benefit, mean = 0.26, disengage; NOT necessary disengage, largest shareholder/ founder maintain Majority control except in UK; Large firms agree more, mean 0.65 vs. -0.13; Family controlled agree less, mean -0.32 vs. 0.60; firms raise capital agree less, mean 0.02 vs 0.89; firms change leverage agree less, mean -0.14 vs. 0.47; Corr: Sell & M&A (q4 r -0.19, q3 i -0.25); Sell & change shareholding (0.31)*; Sell & institution holding BF (0.27)*;	**Across Europe:** MS- 57% agree, IPO benefit, mean = 0.47, sell; English firms agree more, mean 1.18 vs. 0.24; Change control_founder < 30% , More institutional investor; English firms are smaller, younger, non family owned; (table 7); MS- 47% agree, IPO benefit, mean = 0.26, disengage; Italian firms disagree more, mean -0.75 vs. 0.41; Italian firms are more family controlled; 80% vs. 33.8%; **US vs. Europe:** MS- 60% agree, M&A, Brau (JF) US; LS- 22% agree,change control, Brau et al US; LS- 30% agree, owner sell, Brau et al US; Different from US & Europe;
Empirical	*Ritter and Welsch ( ) LS for change in control ; Brau et al. (2003) support for M&A in US ,*		
Survey	*Burton et al. (2004)(UK) , Brau (JF) - strong support for M&A - low for control*		

Appendix 1: Summary of Theories and Survey findings (cont.)

Theory or Concept		Survey evidence (Strong Support-SS; Medium Support-MS; Low Support-LS; Non Support-NS)	Cross-Country Comparison
g.Windows of Opportunity		**Medium to Low Support - mostly for high-tech and foreign exchanges**	
Theory	*Ritter (1991); Loughran and Ritter (1995); Dharan and Iken berry (1995) (Listing);*	SS- 73% agree, IPO decision, mean = 0.96, best time; firms raising capital agree more, mean 1.07 vs. 0.60; Corr:Mkt condition & follow peers home (foreign) 0.39** (0.44); Mkt condition & trade at high P/E (0.37)**; Mkt condition &investor pay hi (0.64)**; Mkt condition & sell (0.06);	**Across Europe:** SS- 73% agree, IPO decision, mean = 0.96, best time; No difference across Europe; **US vs Europe:** SS- 83% agree, timing mkt condition; Brau (JF) US; Similar between US & Europe; consistent with Kim and Weisbach (2007), support for all countries;
Empirical	*Ritter (2003) IPO underperformance, Clustering of IPOs by industry and Mkt - all countries,* *, Bancel, Kalimpialli, Mittoo (2007) European IPOs (US Exch)* *Choe, Masulis, and Nanda (1993); growth cycle, Lowery and Schwert (2002);follow peers;*	LS- 39% agree, IPO benefit, mean = 0.14, market condition; LS- 31% (50) agree home (foreign), mean = -0.11 (0.5), better p/e; Younger firms (home) value more, mean 0.23 vs. -0.58; Younger firms (foreign) value more, mean 0.91 vs. -0.17; High tech firms (foreign) value more, mean 1.33 vs. 0.00; LS- 21% (55%) agree home (foreign), mean = -0.57 (0.55), follow peers; Older firms (home) disagree more, mean -1.0 vs. -0.22;	
Survey	*Burton et al. (2004) (UK), Brau (JF);*		
i. Stock Liquidity		**Medium Support - more important for foreign listing, and UK**	
Theory	*Amihud and Mendelson (1986) Liquidity;* *Maug (1998) predicts "+ve" with monitoring and liquidity;*	SS- 75% agree,IPO benefit, mean = 1.0, liquidity and increase value; SS- Corr: Monitoring & Liq (0.64)** ;LIQ & Compen (0.43)**, LIQ & RLtn (0.38)**	**Across Europe:** SS- 75% agree,IPO benefit, mean = 1.0, liquidity and increase value; English firms agree more, mean 1.40 vs. 0.84; **US vs. Europe:** SS- 83% agree, increase liquidity, Brau et al. US; Similar between US & Europe;
Empirical	*Booth and Chua (1996);* *Bolton and Von Thadden (1998). (US)*	SS- 62.5% (75%) agree home (foreign), mean = 0.6 (1.05), Liquidity; Non family owned firms value more, home, mean 0.82 vs. 0.24; Non family owned firms value more, foreign, mean 1.55 vs. 0.43;	
Survey	*Brau et al. (2006) US ,*		

Appendix 1: Summary of Theories and Survey findings (cont.)

Theory or Concept		Survey evidence (Strong Support-SS; Medium Support-MS; Low Support-LS; Non Support-NS)	Cross-Country Comparison
B. Costs			
a. Information Asymmetry and Adverse Selection Costs		**Low Support**	
Theory	*Leland and Pyle (1977); high corr between low capital raised and capital raised later* *Chemmanur and Fulgheri (1999) Asymmetric information ;*	LS- 37% agree, IPO decision, mean = 0.05, asymmetric info; IPO in hot market agree more, mean 0.33 vs. -0.19; Corr: raise cap & size (-.25);	**Across Europe:** LS- 37% agree, IPO decision, mean = 0.05, asymmetric info; No difference across countries. **US vs. Europe:** US- N/A;
Empirical	*Ritter and Welsch ( ) less support for asymmetric information based models*		
Survey			
b. Loss of confidentiality (Increased Monitoring)		**Low Support**	
Theory	*Campbell (1979); Yosha (1995); Maksimovic andPichler (2001).*	LS- 22% agree, IPO decision, mean = -0.38, disclose info; firm raise capital agree less, mean -0.5 vs 0.01; firm change leverage agree less, mean -0.64 vs -0.12;	**Across Europe:** LS- 22% agree, IPO decision, mean = -0.38, disclose info; No difference across countries. **US vs. Europe:** SS- 63% agree, loss confidentiality; Brau et al. US; Different from US & Europe;
Empirical			
Survey	*Brau et al;*		
c. Initial and subsequent expenses		**Medium Support**	
Theory	*Ritter (1987);*	SS- 1st most cited cost of IPO in open-end Q, 62%; Family owned firms agree less, mean 0.29 vs. 0.77; MS- 42% agree, IPO decision, mean = 0.08, cost is not real issue; Corr: fees & net benefit (-0.2)	**Across Europe:** SS- 1st most cited cost of IPO in open-end Q, 62%; English firms agree less, mean 0.39 vs. 0.70; French firms agree less, mean 0.63 vs. 1.00;
Empirical	*Ritter (2003);*	LS-38% agree, cost public relation, open-end Q; LS-34% agree, cost Accounting reporting, open-end Q;	**US vs. Europe:** MS- about 60% agree underwriting or reporting fees; Similar between US & Europe;
Survey	*Brau et al.; Burton et al. (2004);*		
C. Net Benefit		SS- Q6 net benefit; 77% significantly positive, 21% marginally positive; SS- NO CORRELATION with any firms/ issue country characteristics	**Across Europe:** SS- 98% positive, net benefit; No difference across countries. **US vs. Europe:** US- N/A;
Survey	*Burton et al. (2004);*		