A Study on the Impact of Corporate Governance Practices on the Underpricing of Initial Public Offers in China

by

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Declaration

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I hereby certify that the work embodied in this Thesis is the result of original research, the greater part of which was completed subsequent to admission to candidature for the degree.”

(Signed)________________________________________
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June 3, 2013
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All errors are mine.
Abstract

This study examines the impact of corporate governance on the underpricing of Chinese initial public offers (IPO) for the years 2005 to 2007. Underpricing refers to the situation where the IPO share price jumps substantially higher on the first day of trading. Previous studies of Chinese IPO underpricing focus on one or two corporate governance mechanisms with a few controlled variables. This study examines six groups of corporate governance variables: ownership structure, the board, the CEO, the strategic investor, ownership concentration and the underwriter. The relationship between corporate governance variables and IPO underpricing is examined by the winner’s curse theory, the ex-ante uncertainty theory, the signaling theory and the underwriter’s reputation theory which have been developed from the asymmetric information theory.

This study contributes to the literature by identifying from the extant literature and investigating the impact of six groups of corporate governance variables on IPO underpricing. By using multivariate regression analysis, this study performs sub-models and full models test under the sub-sample and full sample cases for determining the impact of corporate governance on Chinese IPO underpricing. The performance of proxy variables of the corporate governance variables are compared between sub-models and the full model.

Considering the sub-models only, the findings reveal that four corporate governance variables including ownership, board, CEO and ownership
concentration show their impacts on Chinese IPO underpricing under full sample and sub-sample cases. Considering the full model only, similar results are obtained. If one considers the sub-models and the full model together, the findings reveal state ownership induces higher IPO underpricing (Signaling hypothesis), board supervision induces lower IPO underpricing (Signaling hypothesis) and CEO-Chairman duality induces lower IPO underpricing (Asymmetric Information and signaling hypothesis) for the research period from 2005 to 2007. The impact of board supervision on Chinese IPO underpricing has been neglected in most previous studies. Nevertheless, the board supervision performed well in hypotheses tests in this study. It follows that the role of board supervision may be considered to be an important corporate governance parameter in any future research of Chinese IPO underpricing.

JEL classification: G1; G3

Keywords: IPO Underpricing; Corporate Governance; China
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