
Macro- and microeconomic aspects of going public in the Czech Republic and Poland

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Abstract

The intent of this study is to explore macro- and microeconomic aspects of going public in the Czech Republic and in Poland. There are significant differences in the going public activity on both markets and we firstly aim to determine the influence of GDP growth rates, reference interest rates, industrial production growth rates and a main stock exchange index on numbers of IPOs. Secondly, we survey chief financial officers (CFOs) in the Czech and Polish enterprises to compare practice in the CEE region to findings in previous empirical studies and theoretical approaches in the area of initial public offering motivation.

Keywords: IPO; going public; macroeconomics; microeconomics; CEE countries.

1. Introduction

The past decade has witnessed a worldwide rise in the importance of financing corporate growth through ‘Initial Public Offerings’ (IPOs). Under the conditions of developed capital markets the finance theory of going public decision making has been extensively researched. Based on the literature review there are some key macroeconomic and microeconomic aspects that have significant effect on the financing choice of enterprises via IPOs.

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Relations between the number of IPOs and the macroeconomic factors (i.e., external conditions) have been investigated in a limited number of studies. Loughran et al. (1994) investigate the timing of IPOs in fifteen countries in relation to inflation-adjusted stock price indexes and GDP growth rates. The results suggest a positive relationship between the number of IPOs and stock price levels, however no positive correlation with the cycle movements. Rydqvist and Högholm (1995) compare the data for a sample of family-owned enterprises in Sweden (1970–1991) and eleven European countries (1980-1989). They find that “most going public activity took place after an exceptionally sharp stock price increase, and that going public activity is not related to the business cycle”. Ljungqvist (1995) suggests that high number of IPOs is positively correlated with both high stock index levels and good business conditions and tends to follow phases of extensive IPO underpricing. Breinlinger and Glogova (2002) investigate the explanatory power of selected macroeconomic factors influencing IPOs by analysing a data set of annual IPO volumes for six developed continental European countries over a time period of 18 years. The authors followed the question if there are stable indications that IPOs depend on stock index returns for what they termed consolidated periods. The results show that a “logarithmic transformation of IPO volumes (representing authors’ supposition of a nonlinear relationship between IPO volumes and stock index returns) leads to persistently significant estimates for both pooled and individual country regressions”. The hypothesis that percentage changes in savings, GDP growth and interest rates have explanatory power for IPO volumes could not be supported by empirical evidence.

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recruiting key employees as well as marketing products and services. Brau and Fawcett (2006) point out that the motivation for going public in the form of firm reputation enhancing and analysts’ attention attracting is significant for “smaller, younger, high-tech, and VC-backed firms”.

The Czech primary stock capital market is rather poorly developed. On the contrary, the Warsaw Stock Exchange belongs to the European stock exchanges with the highest number of completed IPOs (see Table 1).

The motivation of this study is to make a contribution to the academic literature by addressing the question if local macroeconomic factors have any influence on the number of IPOs in Poland and in the Czech Republic and what is the motivation of Czech and Polish enterprises to conduct an IPO. Both the theory and corporate practice grapple with insufficient empirical results for these markets apart from studies by Sejkora (2013), Jargot (2006) and Dudko – Kopczewska (2004).

This study is organized as follows. The second part represents the problem formulation and deals with research design, i.e. data and methodology. The third part presents the empirical research results. The last section summarizes and provides concluding remarks.

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2. Methods

The nature of this study is based on the theory, previous empirical research and original empirical data. The macroeconomic part of the paper is based on evidence from the Czech and Polish capital market. We take into account qualitative and quantitative features of the individual markets. Only the Polish capital market within CEE countries allows conducting a research based on hypotheses. We studied the influence of macroeconomic factors, consequently GDP growth rates, the reference interest rate, industrial production growth rates, Warsaw Stock Exchange Index (WIG) on the numbers of IPOs in an emerging market, Poland, over the period of 1992 to 2012. The Spearman correlation analysis is used to identify the relations between the macroeconomic (external) determinants and the number of IPOs.

The intent of the microeconomic part of our research required to collect primary data in Czech and Polish companies. Two techniques were employed while collecting primary data, a semi-structured interview and a questionnaire. In January 2010 we interviewed CFOs of selected companies that had gone public between 2002 and 2011. Two main steps were undertaken to analyse the qualitative data. After reading through the responses, the IPO motives were extracted from the records.

The “Polish” sample is composed of companies that had entered the Main Market of Warsaw Stock Exchange via an IPO in the years 2007-2009. The time limitation on the entry into the capital market was necessary to ensure that the source data would come from CFOs who had been personally involved in a recent IPO process. This group of respondents was drawn from the data published on the Warsaw Stock Exchange website. The entire list contained 107 companies, or possibly their CFOs or Chairmen of the Board of Directors. The data was collected in two main stages. In early 2010, the questionnaire accompanied by a personalized and signed cover letter was sent to all companies on the survey list. To increase the return rate, the questionnaire was put into an electronic form and, in April 2010, sent by an e-mail to the respondents who had not replied the first time around, with a request for completion.

The respondents were asked to indicate, on a five-point scale with two anchors (1-unimportant and 5-very important), “how important the individual reasons were/are for conducting an IPO?” Overall, 21 CFOs submitted usable answers (i.e. the response rate is 19.6 %). It should be pointed out that the return rates fall within the range
mentioned in other survey-based financial studies. The questionnaire-collected data was treated by statistical methods reflecting its nature and quantity. First of all, descriptive analysis of all the parameters studied was performed. A more detailed analysis of contingency tables was performed by correspondence analysis. The normality of the data was checked by the Kolmogorov–Smirnov test and its conversion to normality was performed by a logarithmic transformation. The data was evaluated at the significance level of $\alpha=5\%$.

3. Results

The findings obtained in the macroeconomic part of our research can be summarized as follows: the differences in the IPO activity on the Czech and Polish capital market are based on the different size of surveyed economies, historic development of the capital market regulation in the 1990s and a strong segment of domestic investors in Poland.

In Poland, using the Spearman correlation analysis a significant difference was found to exist between the number of IPOs and GDP growth rates at the 5% level of significance ($Rs=0.547; p=0.015$). Next, the Spearman correlation analysis shows a significant positive relationship between the number of IPOs and industrial production growth rates at the 5% level of significance ($Rs=0.504; p=0.028$). The findings from the Polish market also imply that there exist no statistically significant relationships between other macroeconomic indicators and the number of IPOs in Poland. The hypothesis that the reference interest rate, the Warsaw Stock Exchange Index and the private equity investments have explanatory power for IPO numbers in the Polish capital market could not be supported by empirical evidence.

Under conditions of the Czech capital market we found that the main motive for going public is predominantly to raise capital before undergoing a considerable growth process after listing. An IPO is perceived as an appropriate way of capital structure optimization both from the costs minimizing and liquidity improvement point of view. The interviewed CFOs suggest that an IPO improved their creditworthiness with the positive impact on the willingness of banks to provide loans with lower interest rates and longer payback periods. Other empirical findings indicate that the cushioning effect motivation is noteworthy only in the case of venture capital backed firms. The listing of these companies on the public stock market was a long-term financial goal of investors and going public was defined as an integral part of their harvest strategy. Non-financial motivations for going public related to financial motivations less attention. However, the CFOs point out that “enhancing firm reputation and publicity” helps enterprises to increase their bargaining position against all groups of stakeholders with a positive effect on the company goodwill. The CFOs share the opinion that listed companies are viewed as the best in their business branch. The CFOs viewed the company listing as an important milestone in its life cycle. In this context, an IPO is perceived as an attribute of a successful management of the listed company first of all.

In Poland a questionnaire based survey approach was used. Main findings are expressed as an arithmetic mean ± standard deviation followed by the relative frequency of answers 4 and 5.

It is obvious that the raising of external capital is the most important reason for a great majority of respondents (4.86 ± 0.48; 95.24%). The second most important reason for completing an IPO is the availability of publicly traded shares for use in future mergers and acquisitions (3.81 ± 1.08; 76.19%). It means that newly issued shares allow the issuer to become either an acquirer or a target, particularly in stock-financed transactions. Other important reasons for conducting an IPO include publicity and corporate image enhancement (4.00 ± 1.10; 66.67%), greater attractiveness of the company as an employer (3.71 ± 1.06; 61.91%), and the establishment of company market value (3.71 ± 1.06; 61.91%). The issuing companies do not typically see the IPO as a tool for the direct reduction of company debt (2.38 ± 1.40; 19.05%), but rather as an instrument for strengthening its bargaining position in dealing with prospective providers of external capital (3.71 ± 1.10; 66.67%). The survey results further indicate that the exit of venture capitalists is not among the major reasons for conducting an IPO on the Polish capital market (1.95 ± 1.56; 19.05%). The respondents have the same attitude towards the problem of succession (1.38 ± 0.67 and 0.00%).

4. Discussion/Conclusions

In Poland, a statistically significant difference was found to exist between firstly the number of IPOs and GDP growth rates and secondly between the number of IPOs and industrial production growth rates. On the other hand, the hypothesis that the reference interest rate have explanatory power for the number of IPOs could not be supported
by empirical evidence; neither two other factors, i.e. Warsaw Stock Exchange Index and the volume of private equity investments. These findings are similar to those of existing studies on the one hand (e.g. La Porta et al., 1997); however, at the same time, it differs from other studies on the other hand (e.g. Rydqvist and Högholm, 1995; Loughran et al., 1994; Breinlinger and Glogova, 2002). A further research on the macroeconomic issues addressed in this paper assumes, firstly, a modification of the dependent variable (IPO volumes) and explanatory variables (government bond yields, stock index returns, changes in savings deposits, secondly, a modification of the methodology outlined in studies by Ameer (2012) and Breinlinger and Glogova (2002).

Based on empirical findings we can conclude that the main motivation of Czech and Polish firms why to conduct an IPO is financial in its character. Raising external capital for future investments as the most important motivation for an IPO received a strong support from a majority of respondents in both groups of companies (Czech and Polish). Regarding this reason, our empirical findings are consistent with some previous questionnaire based surveys and theoretical approaches formulated for conditions of well-developed U.S. and western European markets (e.g. Chemmanur and Fulghieri, 1999; Ritter and Welch, 2012). Surveyed companies tend to conduct an IPO in the expansion stage of their life cycle, which is perceived as a positive signal, especially for the investors. In contrast to Pagano et al. (1998), Czech and Polish companies do not consider an IPO as a strategy how to “rebalance their balance sheets after large investments and growth”.

Regarding the non-financial, i.e. marketing, motivation, our findings show that more than 50% of respondents in both subsamples believe that the company listing on the capital market will have a positive effect on its image and publicity. The ability to trade shares on the capital market is one of the signs of competent corporate management. Most of the respondents also believe that an IPO will improve the company valuation, strengthen the management’s bargaining position in negotiations with providers of external capital, and increase the attractiveness of the company as an employer.

A comparison of the theoretical approaches with the survey results demonstrates that the theoretical models of the IPO motives explanation is, in principle, applicable to the conditions in the Czech and Polish capital markets. However, our empirical findings must be seen in light of the market specifics wherein the survey was conducted (e.g. a short modern history of the CEE capital markets). Results of this survey made it possible to formulate new insights as contributions towards a better understanding of corporate financing strategies, particularly in the conditions of the CEE region.

References


