UNIVERSITI TEKNOLOGI MARA

MACROECONOMIC DETERMINANTS AND THE ISSUANCE OF INITIAL PUBLIC OFFERINGS: EVIDENCE FROM ASIA-PACIFIC REGION

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ABSTRACT

IPO is one of the alternatives in the acquisition of funds besides debt financing. However, the decision to go public is significant for a firm as it dilutes the ownership and involves a full restructuring of the management and operations. Thus, a careful research on various factors must be conducted by firms in order to ensure the right timing to issue IPOs in accordance to macroeconomic situation. This paper aimed to address the question of whether macroeconomic variables have an impact on the number of IPOs issued. The study utilized gross domestic production growth rate (GDP), interest rate (INT), inflation rate (INF), foreign direct investment (FDI), index of industrial production (IIP) and bank credit (BC). It covered eleven (11) stock markets across the Asia-Pacific region over the period of 2010-2015 as they are dominating the global IPO market. Specifically, it focused on Australia, Bangladesh, China, India, Japan, Malaysia, Pakistan, Philippines, Singapore, Thailand and United States. The highlights of the findings ascertained are as follows; INT, INF, FDI and CREDIT showed an inverse relationship with the number of IPOs whereas GDP and IIP have no impact on the dependent variable. Researcher hopes that this research will guide firms on the suitable timing and economic condition for going public in reference of historical trends of IPOs issuance.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Going public is one of the most crucial decision for a firm as part of its life cycle in business. Although some opt for a less risky alternative of acquiring funds by applying for bank loans and other interest-bearing debt instruments, some are still optimistic by issuing initial shares in order to attract a larger pool of funds.

Initial Public Offering or commonly referred to as IPO, is a primary public offering of shares to the stock market. The term "going public" is derived from the activity of selling initial shares to public and opening doors to individuals as shareholders to the company. Firms that are willing to go public does not necessarily have to be big in size but must be ready to share information that is considered confidential before. Besides, firms issuing IPOs must employ a transparent operational structure, professional and effective management, clearly defined goals and following international accounting standards (Ellis, Michaely, & O'Hara, 1999).

As stated by Breinlinger & Glogova (2002), firms tend to see a decline in its debt level after going public thus IPOs is perceived as an ultimate way to reduce bankruptcy risk in European countries. In return, banks could comfortably operate in a lower credit risk while firms could opt for expansion and growth with the utilization of funds raised

However, through various studies, macroeconomic determinants were found to be a significant factor to be considered before firms go public or issue IPOs. Lowry (1999) asserted that the number of IPOs issued fluctuates gradually over time and outlined three possible factors that may contribute to this event which are changing demands for capital in private firms, adverse selection costs and investors' optimism. Investors' optimism towards IPOs returns are heavily related to macroeconomic variables since it affects the cash flow of a firm hence affecting firms' stock return.