Why do European firms go public? Implications for Corporate Governance

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Speaker biography: Prof. Mittoo is the Stuart Clark Professor of Financial Management at the University of Manitoba, and is an internationally recognized expert in conducting surveys to understand the practice of corporate finance. A detailed biography of the speaker is available here : http://umanitoba.ca/faculties/management/faculty_staff/academic_professors/usha-mittoo.html

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Abstract: Corporate governance practices vary widely across countries as well as across firms within a country with different ownership structures. In particular, public firms face different corporate governance issues than private firms. This presentation focuses on the costs and benefits as well as governance issues faced by private firms when they go public. It draws on the Mittoo and Bancel (2009) survey of chief financial officers (CFOs) from 12 European countries about their main reasons for going public and listing on exchanges. We find that enhanced visibility and prestige, and financing for growth are common and most important benefits across all countries. However, CFOs also mention several other reasons for going public, such as IPO as an exit strategy, to increase balance of power with creditors, and to facilitate merger and acquisitions, that differ across firms with different ownership structures and characteristics. Most importantly, we find that while European CFOs' have similar views as their US peers on major benefits of going public (Brau and Fawcett (2006)), the differences are striking on corporate governance and external monitoring of managers by analysts and investors. European CFOs consider external monitoring as a major benefit whereas U.S. CFOs view it as a major cost of going public. These differences could be driven by the U.S.'s stringent accounting disclosure and regulatory requirements, close scrutiny by stock analysts, and ownership differences in publicly listed firms compared to European countries. Several recent papers argue that public firms continuously trade-off their costs and benefits of staying public versus going private, and decide to go private when costs outweigh the benefits of going public. Studies also suggest that corporate governance issues(especially, alignment of interest of managers and shareholders) play a major role in firms' decision to go from public-to- private (PPT). Our findings suggest that the decision to go public is very complex because firms seek multiple benefits in going public and their motivations are influenced by the firm's ownership structure, corporate governance, size and age as well as by the home country's institutional and regulatory environment.