



# Acquiring financial resources from foreign equity capital markets: An examination of factors influencing foreign initial public offerings

Jani Hursti<sup>1</sup>, Markku V.J. Maula<sup>\*</sup>

*Helsinki University of Technology, Institute of Strategy and International Business,  
P.O. Box 5500, FIN-02015 HUT, Finland*

Received 1 March 2003; received in revised form 1 July 2006; accepted 1 September 2006

---

## Abstract

An increasing number of firms are making initial public offerings in foreign markets to circumvent constraints in the availability of capital and to provide an exit for their investors. However, previous research on foreign initial public offerings and their determinants is very limited. In this paper, we contribute to this literature by demonstrating that international experience of the management team and pre-IPO ownership by foreign investors are positively related to foreign initial public offerings. We test our hypotheses using data on initial public offerings of European companies from 1991–2001. The results support our hypotheses. The findings have important implications for entrepreneurs, investors, and public policy.

© 2006 Elsevier Inc. All rights reserved.

*Keywords:* Foreign initial public offerings; Cross-border venture capital

---

## 1. Executive summary

In the late 1990's, the opportunities for European companies to acquire equity financing either from venture capital organizations or from public markets improved considerably. Increasing numbers of firms also made their initial public offerings in a foreign market both

---

<sup>\*</sup> Corresponding author. Tel.: +358 40 556 0677; fax: +358 9 451 3095.

*E-mail addresses:* [Jani.Hursti@hut.fi](mailto:Jani.Hursti@hut.fi) (J. Hursti), [Markku.Maula@hut.fi](mailto:Markku.Maula@hut.fi) (M.V.J. Maula).

<sup>1</sup> Tel.: +358 40 521 9281; fax: +358 9 451 3095.

to circumvent constraints in the availability of capital and to provide an exit for their investors. However, previous empirical research on foreign initial public offerings, and particularly their inter-relationships with pre-IPO financing, is very limited.

In this paper, we contribute to the body of research on financing strategies of entrepreneurial ventures by demonstrating that foreign venture capitalists and corporate investors as well as international experience are positively related to foreign initial public offerings. We test our hypotheses by employing data on foreign and domestic initial public offerings by European companies from 1991–2001. The results support our hypotheses.

Our findings on the increasing share of foreign listings, and our results concerning the effect of foreign pre-IPO ownership and international experience on the likelihood of foreign listing, have important implications for public policy. Prior research on venture capital markets has argued that venture capital is likely to flourish only if venture capitalists can exit from a successful portfolio company through an initial public offering (IPO), which requires an active and liquid stock market. In Europe, political action has been taken to allow the flow of funds across borders as a way to stimulate the creation of pan-European exchanges and more diverse financing sources. Our findings suggest, however, that this approach is insufficient because of home bias. Before such cross-border flows can be created, an equivalent effort must be put into stimulating more cross-border venture capital.

Despite the increased share of foreign initial public offerings, we find evidence of home bias, which limits the usability of foreign stock exchanges as exit markets. However, our research also suggests that there is an important mechanism for lowering the boundaries for foreign initial public offerings. In our empirical research of European companies' listings in foreign stock exchanges, we find that pre-IPO ownership by foreign investors increases the likelihood of listing on a foreign stock exchange when making an initial public offering. This phenomenon can be interpreted as foreign venture capital investment opening up new foreign exit opportunities in response to domestic public markets that are illiquid or inefficient. By easing the barriers to cross-border venture capital and private equity investments and by encouraging entrepreneurs to operate abroad, Europe would not only be investing in future growth but also establishing a basis for better capital flows.

The results suggest that European exit markets have developed in a positive way for entrepreneurs and venture capitalists, and that cross-border exit markets are available in different European countries. One can only hope that the drop in cross-border investment in the early 2000's and subsequent closing of newly founded alternative exchanges is only a temporary reversal to the gains made in European investment environment. For companies "born global," the positive relationship between foreign listings and foreign ownership can provide comfort. Foreign venture capital and corporate investors may help lower the boundary for going public abroad, further enhancing the globalization strategy. However, entrepreneurs planning to reside in their home country need to consider the costs and benefits of foreign ownership at the outset. Reputable foreign venture capitalists can and do add value. But the benefit comes with the risk of driving company control abroad as the exit for investors approaches.

## **2. Introduction**

Up until the late 1990's, the availability of financing was one of the greatest obstacles for the expansion strategies of European growth companies. Compared to their American

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات