CHAPTER – 7

SUMMARY AND CONCLUSIONS

An initial public offering marks an important landmark in the life cycle of a company. A company when outgrows the financial resources available internally jumps to the wider public domain through an IPO. It allays the issuing firm’s financial constraints putting it on a public platform where control and ownership fall into public hands which hitherto were vested with a few private people, the insiders. An IPO, where on one hand works as a significant source of funding, on the other involves certain complexities and peculiarities to which researchers have been attempting to find explanations. Important anomalies associated with IPO are short run underpricing and long run underperformance which have been widely researched and varied explanations to these have been documented. The short run underpricing of IPOs has been a globally prevalent phenomenon and intensive research efforts have been dedicated to finding suitable explanations to this mispricing. The fecund literature has found logical explanations to this mispricing phenomenon resulting in abnormal gains to first day investors through different theories and practices like information asymmetry, winners’ curse hypothesis, underwriter’s reputation, prestigious venture capitalists, strong financial indicators and many more. The quest for explanations seems far from being over and is focused on finding newer areas to which this underpricing can be attributed.

Corporate governance has emerged as a newer area for explanations to IPO pricing performance. The growing importance of governance in context of new issues lies in gradual shift towards qualitative explanations and growing global interest in corporate governance evidenced through plethora of norms and codes of governance sprouting across the globe. It has been noted that corporate governance presents the new area for IPO research and this area remains largely unexplored especially in developing economies. Indian markets being on the cusp of technological and financial revolution, present a fit case for this exploration. Indian IPO market is marked by its vibrancy and volumes and there also lies ample evidence of underpricing phenomenon. Instances of governance gaffes and resulting stringency with regards to preparedness on this account
calls for investigating contribution of corporate governance in performance of these IPOs. At the time of their public issue, firms make efforts to allure investors and their investment by putting in place their governance mechanisms and communicating these to investing community. How do these investors respond to the governance attributes and how far these practices are translated into returns is an interesting research question. Hence, the need for a comprehensive study in this regard is felt specifically in Indian context.

The present study, therefore, aims at finding explanations to underpricing of Indian IPOs through corporate governance mechanisms as put in place at the time of IPO. These corporate governance attributes also help to communicate firm quality by operating as signals. Checking their effectiveness as signals and influence on perceptions of investors is the focus of the present research effort.

The following specific objectives gave impetus to the study:

1. To analyze the corporate governance mechanisms in terms of board composition and ownership structures at the time of Initial Public Offerings in Indian firms listed on BSE.
2. To study the relationship of gender diversity on boards of Indian IPO firms with their listing day performance.
3. To examine the association and contribution of corporate governance mechanisms at the time of IPO in explaining the listing performance of Initial Public Offerings in India.

The study is based on a sample of 404 IPOs which were issued during April 2001 to March 2012, listed on BSE in the light of significant policy guidelines which were made operational during this time. SEBI implemented the recommendations of Birla Committee through enactment of Clause 49 of the Listing Agreements. They were initially applied to all newly listed companies, on March 31, 2001 in addition to other categories of companies specified. The refining of these rules and guidelines has been a continuous process thereon in the light of global and competitive developments. In finalizeing the sample, considerations like equity issue, initial issue, listing on BSE and
availability of information on governance, firm and market attributes has been considered. The source of information on corporate governance attributes in place at the time of public offering is the issue document, prospectus which is filed by the issuer with regulatory agencies. Prospectuses have been procured from websites of BSE, SEBI and of the respective company. For other control (firm and issue related) variables, market performance indicators and SENSEX values, sources of data have been databases of ACEEQUITY, Prowess and Capitaline.

For achieving the first objective corporate governance preparedness of firms at the time of IPO has been studied from prospectuses and governance differences across different control variables have also been analyzed for insights into variations. Significance of these differences has been studied using ANOVA tests and statistical descriptives. Gender diversity has emerged as an important dimension of corporate governance and board structures and in the light of present day debates on this moot issue second objective analyzes the effect of this dimension on performance of IPOs. Using independent sample t-test, ANOVA and multiple regression analysis the differences with presence and absence of women and contribution in explaining underpricing of IPOs has been studied. Two variants of measure of performance have been employed: one regarded as raw returns (RR) wherein difference in listing price and offer price is measured while when market movements (as measured through SENSEX values) are discounted for in these returns it is regarded as market adjusted excess returns (MAER).

To fulfill the third objective, the dependent variables are studied against governance attributes of both board composition and ownership and their effectiveness as signals and contributions in justifying the pervasive underpricing practices are explored using multiple regression analysis and employing different models. Salient findings of present research have been summarized in the following sections.

### 7.1 CORPORATE GOVERNANCE CHARACTERISTICS OF INDIAN IPO FIRMS

IPO is a time when issuing firm reaches out to the general investing public for funding its future growth plans and thus prepares and presents itself in the best manner. Firms put in place systems and mechanisms to convince investors about their financial viability and
technical expertise to conduct future operations in most efficient manner. Preparedness of these IPO firms on account of corporate governance, thus, holds eminence and is expected to be most ardently done in the light of expectations of potential investors and regulatory regimes. An attempt has therefore, been made to study the governance mechanisms in place from the issue document to have insights into governance preparedness of these new issue firms. Various attributes of governance on broad parameters of board structures and ownership control have been studied to explore the existent governance practices and look into differences amongst firms.

At the outset, it is found that on an average mean board size for these firms is 8 indicating a trend of neither very small nor too large boards in light of limitations and complexities associated with both. Wide variations, however, on this account are noticed as board size of 20 has also been noticed for a few firms. Moving further to understand the composition of board size, the highest numbers are seen for non-executive directors due to the tendency to have family members as directors and keeping number of executive directors limited due to associated costs and required expertise and time on the part of incumbent. The proportion of independent directors is governed more or less by the rules in place (prior to the implementation of New Companies Act, 2013) showing less room for flexibility which is though possible on the higher side. With regards to women directors, homogeneity on account of low and negligible representation is seen. Highest number of women directors, as against the largest board size of 20, is noted to be just three with a large portion of sample operating without a woman director on the board. Regarded commonly as a measure of board reputation, other directorships stand high (mean value of 26) indicating the preference of having individuals with interlocking directorates as members of board possibly due to skills and prestige which directors with interlocks bring in. Effective monitoring is also ensured through experienced and mature directors who purportedly provide knowledge and skill base required for effective monitoring, as evidenced by the minimum and maximum values of 33 and 66 years for average age of directors. Another dimension adding to efficiency of board decisions is constitution of board committees. Indian IPO firms are found to have board committees in place over and above the mandatory committees of 2 as the mean, median and mode values stand at 3.5 and 3 while the maximum number observed is 10. Firms constitute
board committees to comply with the guidelines of Clause 49 and also to convince investors about effective monitoring mechanism put in place. Common practice of having family members as directors has also been noticed with firms having two members from the same family on the board on an average while number goes as high as 7 and many firms have been found to be not disclosing information on this account.

With regards to ownership, data represents high concentration of ownership in a few hands being the promoters primarily. Though post issue this concentration ratio dilutes, as it ought to, but is not seen to happen very significantly as reflected by mean shareholding of promoters which stands at almost 60% while ownership concentration ratio is as high as 32%. The phenomenon of concentrated family ownership is also confirmed with more than 90% shareholding in the hands of top 10 owners and mean number of block shareholders standing at more than 2. The preliminary data on ownership variables thus paints a picture of high holdings in hands of directors, promoters and a few block holders. The companies are also found not to be disclosing their post-ownership patterns which imposed challenges in evaluating results on this dimension for the complete sample.

Corporate governance characteristics of IPO firms have been found to exhibit variations and so further an investigation into these differences has been done using IPO characteristics as a base. Against these issue characteristics how do IPO firms differ with regards to governance measures is attempted to be checked. From the analysis, it is found that subscription ratio is a statistically significant differentiator among firms when studied from the view of board characteristics and ownership variables. Firms with higher subscription ratio have been found to have on an average a larger board, higher percentage of independent directors, higher board reputation, larger number of board committees, lower number of related board members, less shareholdings in hands of directors and promoters. This finding makes it apparent that the issue which is over subscribed by investors draws its credibility from these parameters of governance which investors incorporate in their investment decisions. Structuring of boards and ownership patterns have been found to behave differently across issue size categorizations as becomes evident from the statistical significance at 1% level observed for all variables.
except independent directors, women directors and share ownership of top 10 owners. This clarifies that structuring of boards and decision on ownership patterns are finalized in the light of issue size and it is an important determinant of governance mechanisms of IPO firms. Patterns observed for issue price in respect of board size clarify that mean board size differs significantly with issue price. These significant differences among firms on the basis of issue price are also observed across other governance variables namely proportion of executive and non-executive directors, other directorships, board committees, ownership percentage of promoters and largest shareholder. Clues of curvilinear pattern of relationships are found for the variables of board size, percentage of executive directors and percentage of non-executive directors. While other variables which show significant difference with respect to issue price, there exists a positive relationship. It can, however, be concluded that issue price of securities does influence governance patterns and forms important decision criteria in structuring governance systems in case of IPO concerns. Listing delay, the issue characteristic studied next, brings about significant changes in percentage of independent directors, executive directors, non-executive directors, other directorships of board members, number of board committees and ownership concentration levels proving thereby that lapse in listing on part of the firm affects the board structures and can provide a good feed to corporate decision makers regarding structuring issues.

Realizing that characteristics of firm also affect performance, organization and structures of IPO firm and also the behavioral patterns of issue, issuers and investors in the market place these have been analyzed next. Firm age is included with the belief that higher age denotes maturity and experience of the firms and talks about their potential and market standing which definitely should contribute to credibility and fortitude of companies operating in midst of pervasive risk. Companies which are of longer standing in terms of years, do not structure themselves for reflecting board prestige or reputation of directors as these are more needed when credibility eludes due to less number of years of incorporation. This is highlighted through statistically significant differences that exist among number of outside board positions held by directors within young, growing and mature firms. Average age of the board members
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is found to show an increase with increase in age of issue firm and this is a significant increase at 1% level. The number of board committees and related members exhibit more or less constant values across different age groups showing indifference of these variables to the age parameter. On ownership front, the patterns observed do show differences across age classifications which show uniformity in behavior and the mean differences are found to be significant for promoter ownership (post-issue), ownership concentration (both pre and post issue) and director ownership. The results highlight that as firms get mature their experience and reputation tend to influence investors’ perceptions rather than assurance of safeguarding interests, younger firms need to establish and communicate their potential and hence ownership needs to be accordingly patterned. It becomes very clear that acceptability of younger firms takes time while older firms are expected to have established their credibility. The preparation on governance front needs to be more intensive and flawless for relatively young firms while mature firms can go a little easy as far as proving their potential through governance mechanisms is concerned as their maturity is expected to reflect their wisdom and monitoring efficiency.

Total assets representing the size of firm have been checked out next for variations in corporate governance. Bigger firms portray a stronger potential than firms with smaller asset base. The affordability on governance aspect of big sized firms is believed to be greater than firms struggling with lower asset base and this on analyzing for differences using ANOVA was found to be true for all governance measures except proportion of independent directors and women directors which are supposedly governed by legal and conventional considerations respectively.

Overall, the exploration of IPO firms for their governance features indicates many differences being broadly homogeneous on adhering to statutory requirement with respect to percentage of board independence, meagre and powerless representation of women on boards and concentration of ownership and control in a few hands, primarily the founders and their families. Significant variability is found with respect to other characteristics and explanations to these differences has been traced in firm and issue characteristics which
show that across these variables the governance characteristics show statistically significant mean differences.

7.2 GENDER DIVERSITY ON INDIAN IPO BOARDS AND RELATIONSHIP TO LISTING PERFORMANCE

The under representation of women on boards of directors continues to be an issue of importance for shareholders, society, government and researchers. At the time of financial crisis and corporate governance failures, this lack of equality is considered especially problematic because the talents of half the workforce are not being utilized fully. The numbers globally with respect to women directors are not very encouraging and pinpoint the need for correction of these differences. The increasing awareness about and spotlight on importance of corporate governance reforms globally, stemming from devastating corporate upheavals have made gender diversity a moot issue. Building on theoretical perspectives of agency, resource dependency and signaling and highlighting women as a pertinent and indispensable resource for board rooms the study attempts to explore the numbers and nature of presence of women directors in the board rooms of Indian IPO firms and also their relationship to performance of these IPOs.

In terms of number of companies only 127 companies (a mere 31%) have place for woman talent, the rest almost 70% of IPO firms go public with only males as directors and monitors of the affairs. The maximum board size is 20 standing in stark contrast to the maximum number of women directors which is only three while for males it is as high as 19. Figures in the initial exploration indicate a clear lack of women directors and India being no exception to global numbers; rather it lies on the lower edge.

Another clear indication is that only 6% of IPO firms have more than one woman and that highest number of women on boards of these IPO firms is only 3 with a single company having 3 female directors. On the basis of board attributes, analysis of these few women shows not very encouraging facts. Women directors do not enjoy substantial powers in terms of either type of directorships, or designation as chairperson or MD - the seats of significant control or even as members and chairpersons of board committees. Other directorships held by these females on boards portray the same story. With regards
to age and qualifications of these board members, though women occupying board positions are well qualified but the details give hints of tokenism and dominance of convenience in the garb of gender diversity.

Initial returns of these IPO firms do not show any difference on account of women presence on the boards, which probably corroborates the low numbers of women on the boards of IPO companies. In other words, the presence of women on boards does not assure IPO firms of higher returns and thus companies are not very keen on having women on their boards. The differences, however, are significant on board parameters of size, independent directors and director ownership. Where the presence or absence of female directors does not make a difference in returns, the returns also do not differ significantly with no, one and more women. Here again, gender diversity on the boards does not bring a statistically significant difference in initial returns regarded as level of underpricing on listing day. The sub-groups of sample created on the basis of gender diversity do, however, vary on parameters like board size, proportion of independent directors, director ownership and number of related members on the board.

With women directors in their firms, the extent to which, if at all, the IPO firms are able to influence the investment decision of investors, is explored next. Towards this objective, multiple regression analysis has been performed after checking and correcting for assumptions of multicollinearity and heteroscedasticity. For gauging the IPO performance in terms of underpricing, two measures have been employed. As a first measure, raw return (RR) has been employed wherein underpricing is measured using initial returns, calculated as closing price on first trading day in the secondary market minus the offer price, divided by the offer price. Secondly, market adjusted excess return (MAER), regarded as adjusted underpricing is used. To adjust for market movements between the prospectus date and first trading day of IPO, MAER is calculated by subtracting the market return (as measured by the BSE’s sensitive index) from the initial raw return. The variable of interest, independent variable is board gender diversity which has been measured through the percentage of women on board of directors of the company. In addition to this, other variables for IPO issuance, board structure and
ownership have been included to provide for their potential influence on initial performance of IPO securities as drawn from literature.

Three different models have been built for both dependent variables. In Model 1 only issue specific control variables have been included. Model 2 addresses the issue specific and board specific governance variables which have been controlled for their potential influence on the dependent variable. Model 3 reports complete results after including the variable of interest, i.e., gender diversity measured through percentage of female directors on the boards of IPO issuing firms. In terms of control variables as presented in Model 1, subscription ratio, IPO age and inverse of issue price are found to positively influence the level of underpricing, though only subscription ratio has a statistically significant relationship indicating that the investors perceive the extent of subscription as a signal of good quality of IPO firm. In contrast, issue size (logarithmic transformation), listing delay and total assets have been found to have a negative association with the initial returns though amongst these, only listing delay is statistically significant determinant of underpricing. These issue specific variables are primarily quantitative variables which explain almost 43% (adjusted R² of 0.4295) of the total variation in dependent variable and 44% with adjusted underpricing as dependent variable. In Model 2, the association between governance variables and initial returns of the listing day is found to be positive though low, suggesting a negligible contribution of governance attributes in dispelling uncertainties about firm value though their role in signaling firm quality cannot be disregarded. Overall, the explanatory power of governance variables w.r.t. underpricing is weak (only 2%, adjusted R² being 0.4432 for Model 2) and they do not seem to affect underpricing levels of Indian IPO firms. In the final model, the influence of variable of interest, women directors on underpricing of Indian IPOs listed on BSE is analyzed controlling for the issue and board variables of Model 1 and 2. The results clearly show that women directors on the boards of IPO firms have no explanatory power with regards to initial returns of IPOs. The negative coefficient, however, indicates that presence of women tends to reduce the extent of underpricing, signaling the firms’ commitment towards effective governance through balanced boards and respect for talent and ethical considerations. In addition, it may be believed that more number of females on the board enable firms to better deal with the complexity of business and reduce uncertainties about
firm value though this contribution lacks statistical significance. However, the presence of women directors are not commonly used as signals by high value firms.

The reasons for non-existence of explanatory power of gender diversity of boards in spite of theoretical support may be because the absolute number of women directors are too low (maximum being two) to bring out any contribution significantly reflecting tendency of ‘tokenism’ and lacking critical mass. Also, women directors supposedly create a mediating effect wherein they do not directly affect performance but affect other variables which in turn bring about enhancement in firm value (Miller and Tirana, 2009). To capture these interactive efforts, more comprehensive efforts in this direction are needed. Another explanation to this can be conjectured in the light of the fact that Indian markets and investment decisions are taken largely by males wherein women presence is not regarded important enough to be incorporated in investment decisions. So male dominated investors and market participants fail to give the women talent their due recognition and hence indifference of returns to women presence.

7.3 RELATIONSHIP BETWEEN CORPORATE GOVERNANCE VARIABLES AND LISTING PERFORMANCE OF INDIAN IPOs

In this section, the results of relationship between corporate governance measures (as measured through board structures and ownership variables) and listing day performance of newly issued securities are presented. Signaling power of these attributes and how far are they incorporated and relied on in taking the investment decisions is attempted to be studied.

Sample for this purpose is the firms which issued new equity securities between the time period April 1, 2001 and March 31, 2012 and got them listed on the Bombay Stock Exchange (BSE). IPO prospectuses prepared and submitted for the purpose of issue is the source of culling data on corporate governance attributes of these IPO firms. For information on market prices of securities and SENSEX values the ACEEQUITY database and BSE website (www.bseindia.com) have been relied on. Additional information about firm attributes and issue variables has been collected using above sources as well as PROWESS and Capitaline database. To analyze relationship between
IPO’s initial returns and corporate governance mechanisms multiple regression analysis has been employed. As a precursor to regression analysis relationships between underpricing and governance variables have been explored using ANOVA and t-tests to investigate if the board structures and ownership patterns differ across the return continuum.

Analysis of the initial returns with respect to their statistical descriptives clearly establishes the existence of underpricing wherein average of both the raw returns and market returns comes to a substantial 22% (approx.). Maximum values stand at a high of 323% but negative returns bring down the average initial returns to 22.90% (for raw returns) and 21.6% (for market adjusted returns) pointing out that Indian IPOs exhibit quite a variation in their initial returns but are consistent with regards to the phenomenon of underpricing implying positive initial returns. When sample companies are split as per year of their issue and their descriptives are studied, it is found that of the total 404 IPO companies 263 across all years are underpriced giving positive returns to investors on the listing day while 141 result in negative returns and none of the IPOs is fairly priced. Initial unadjusted returns of these IPOs are found to be positive on an average for all years of sample except for the year 2008 wherein these returns are recorded at -16.83 percent which coincide with the global downturn which did not leave even the Indian capital market unaffected. Another distinct pattern which emerges is the decreasing initial returns over time which can be conjectured to the legislative initiatives aiming at normalizing returns to ensure efficient market mechanisms. Same observations have been made for market adjusted measure of underpricing regarded as MAER. It can, therefore be concluded that although quantum of underpricing in Indian markets is declining but it is miles away from being non-existent and thus remains a prolific research area. Fairly priced IPOs are a distant dream (no IPOs in this category) retaining contentiousness of the issue of IPO pricing.

To get deeper insights into behavior of initial returns, they have been segregated as positive returns (underpriced IPOs) and as IPOs with negative returns to find out if these two types of firms vary with respect to governance characteristics and firm variables. Do these two categories of firms differ from each other on the basis of variables of interest.
when measured using raw returns and market adjusted returns is investigated comparing the statistical descriptive and employing independent sample t-test to compare means. The results show that when comparing firms with positive and negative returns the mean differences are significant only for subscription ratio and total assets (in case of raw returns) getting to the conclusion that firms do differ on account of this parameter. For corporate governance variables, differences on various parameters are not found to be significant except for promoter and block holder ownership. The differences among underpriced and overpriced firms on account of governance mechanisms are not found to be significant implying that these mechanisms do not bring about significant changes in returns. Underpriced firms are not found to be governance wise different from those with negative returns and the reasons for differences in returns lie in factors other than these. Corporate governance preparedness of IPO firms is not responsible for concrete and substantial differences in these firms when compared for means on the basis of listing day returns.

Analyzing further, raw returns and market adjusted returns on the listing day are segregated as positive and negative returns and how they respond to each of the governance attributes is studied. Each of the governance variables included in the study have been studied for their association with positive and negative returns and overall returns and confirmation to this association has been done using chi-square test of association. Returns across different ranges of board structure components and ownership variables definitely vary but variation patterns for most of the variables are seen to be a mix of increasing and decreasing trends. It is found that for board structure variables which include board size, percentage of independent directors, board committees, proportion of women directors, age of board, related board members and board reputation, the relationship stands more specific and discernible with regards to underpriced firms, i.e. where the returns are positive. For companies with negative returns, there definitely lies responsiveness to the board structure components but pattern observed indicates that it is not a straight line relationship. Three ownership variables though show consistency in patterns highlighting the fact that higher ownership concentration results in higher underpricing whether measured through block holders or cumulative ownership by top 10 owners. For overall returns and overpriced firms, the
relationship is governed both by convergence and divergence of interests hypothesis each operating at different levels. With regards to statistical significance as checked through chi-square test, of all variables only the ownership levels of top 10 owners, which measures concentration levels, is found to be significant. To conclude this relationship of returns to board and ownership variables though indicates existence of relationship but for more concrete conclusions need for a deeper and comprehensive analysis becomes evident.

Based on the signaling theory wherein IPO firms resort to diverse signals to fend off the information asymmetry challenges and communicate their credibility to investing public, further investigation is done. In the IPO context, decreasing significance of financial information and emergence of corporate governance concerns and evidence of gaffes have seen governance mechanisms being adopted as signals for prospective investors. Qualifying as credible signals as advocated by signaling theory, corporate governance variables are being studied as explanations to underpricing. It is attempted to gauge the explanatory power of corporate governance mechanisms in context of listing day returns and how far understand these signals find place in the investment decisions of Indian investors. Towards this objective multiple regression analysis has been employed using both raw returns and market adjusted excess returns as dependent variables. In order to explore the contribution of corporate governance variables in explaining initial returns and to segregate this effect from contribution of firm and issue specific variables four separate regression models have been built. Model 1 includes only the control variables. Model 2 combines the control variables with the board structure components of corporate governance while Model 3 replaces board composition with ownership variables. These help to bring out the effects of two broad dimensions of governance and thus compare their explanatory power. Model 4, the final model, integrates all the control and governance variables together with the quadratic forms of variables for their plausible non-linear relationship with dependent variable. All of these models, for both RR and MAER, are found to be robust across all models as suggested by the statistically significant F-values. Control variables, which have been included in the study for their ability to influence initial day listing returns which derive support from past literature, overall explain 32% of the total variations in dependent variable with subscription ratio,
issue size and issue price being significant in all four models. Model 2 including board structure variables is a statistically significant model and explains almost 33 percent of the quantum of underpricing. Board size, introduced as an important component of board structures is found to be significant and positive in Model 2 and in the cumulative Model 4 signifying that board size is an important consideration for investors in India. In Indian markets, therefore, larger board size is used as a signal and is perceived as a positive signal by investors thus drawing them towards the new issue. Board committees constituted for effective decision making and enhancing the effectiveness of boards are also found to have a highly significant (at 1% level of significance) and positive association with the dependent variables (both raw returns and market adjusted excess returns). From signaling perspective, the number of board committees does work as signal for new issue firms however it can also lead one to conclude that establishment of committees is deemed superfluous and tends to lack in genuine independence. The coefficient for related members is negative though only loosely significant (in Model 3 at 20%) signifying that larger number of relatives on boards tends to reduce quantum of underpricing providing support for alignment of interests hypothesis in contrast to entrenchment tendencies. Hence, amongst board variables board size and board committees are found to be significant providing support to the behavior of this pricing anomaly with the help of signaling theory and related agency and information asymmetry hypotheses. The contribution of board variables to the model when compared with the adjusted $R^2$ is very negligible (0.44 percent increase in adjusted $R^2$) indicating that to Indian investor board composition does not seem to matter much and that board variables do not qualify as significant explainers to underpricing phenomenon and also conveys negligible consideration by investors in making their investment decision.

Model 3 introduces the ownership variables, other component of governance methods together with the control variables. Total shareholding of the top 10 shareholders of the IPO firm, a reflection of extent of concentrated ownership levels, and promoter ownership share a large, and statistically significant relationship at 99% confidence level. The relationship remains strongly significant for the square term as well confirming the existence of non-linear relationship. The results confirm the role of ownership patterns in mitigating information asymmetry and diluting the concerns of uncertainty dominant
among potential investors. Model 3 and its variables, i.e. the control and ownership variables together account for 33.18% variations (with both RR and MAER) which is higher than the explanatory power of model with board structure variables (which was 32.7%). When analyzed for individual effects, the influence of ownership variables is higher and stronger than board structure variables though the difference lies of a few basis points only.

The adjusted R² value for Model 4, where all corporate governance variables together with the controls identified, of 0.34 (for both RR and MAER) shows that the variables explain 34% of variations. The model is found to be a good fit at 99% confidence and qualifies the tests of robustness with board size, board committees, promoter ownership and ownership by top 10 owners emerging as significant governance explainers. Overall conclusion which resonates in majority of the past findings remains that the explanatory power of governance mechanisms with regards to initial pricing performance remains low. Reasons for this miniscule contribution need to be further explored for different market set ups and to arrive at concrete inferences. The limited power of governance variables in explaining the underpricing anomaly can lead to the conclusion that investors do not assign high significance to these mechanisms at the time of making investment in IPOs which may be because relying on regulatory regimes in place investors are not concerned about the possibility of weak governance practices.

7.4 SCOPe FOR FURTHER RESEARCH

Present study is a comprehensive attempt and one of the initial efforts in explaining the initial returns of IPOs through governance practices of Indian firms. Relying largely on the signaling theory, present research investigates the effectiveness of board structures and ownership variables as signals in communicating credibility of issuing firm and mitigating information asymmetry. This study contributes both theoretically and practically to the understanding of listing performance of IPOs and influence of governance attributes on this performance. The results of this study provide an important foundation for future research in the area of IPOs and corporate governance.
First, the study incorporates only listing day pricing performance as a measure of underpricing. Future research can analyze the governance phenomenon in IPO context using other time variants of underpricing recording returns at time gaps of say a week, one month, three months and so on which may bring out different contributions of corporate governance in these explanations. Larger time may result in investors incorporating these signals in a different way and translation into returns may be more evident. Also this research area can be extended to include long-run performance of IPOs as influenced by governance mechanisms.

Another area, where this research can be extended is the inclusion of all types of IPOs. This study remained focused on analysis of equity IPOs only. The examination of debt IPOs may provide more comprehensive and valid conclusions. Also, in the context of FPOs, these governance matters may assume greater significance where investors have more attributes to count upon before investing their money.

Corporate governance being a qualitative phenomenon is attempted to be captured through various proxies. Two broad measures included here are board structure and ownership variables but these are not exhaustive. Exploring further dimensions of these two attributes and covering other measures like managerial remuneration, board qualifications, institutional and other ownerships can lend new perspectives to this broad area of research.

Governance structures change over time and these changes may be affecting performance on the notion that it is the change of governance that determines performance, rather than the level of governance. Future researchers can aim to measure governance over time and changes in these measures may have more prominent and noticeable impact on performance rather than governance mechanisms as they exist at a particular point of time.

There are vague clues as to governance attributes creating a mediating effect wherein they do not directly affect performance but affect other variables which in turn bring about enhancement in firm value, which is regarded as endogeneity. This remains an
unaddressed issue in present research and can be a prominent research approach in times to come.

Significant changes on account of corporate governance have been introduced in the New Companies Act, 2013 relating to independent directors, women directors, auditors and other related issues. The systems in place and approach of the corporate world have been targeted and this is expected to bring revolutionary changes in preparedness and response of companies. The governance practices in this changed regime and their effects on performance will open new vistas for researchers.