

CHAPTER I

INTRODUCTION

1.1 Research Background

We are now living in highly globalized and integrated world economy. The globalization encourages people to develop and increase their capability to get benefit and avoid having fallen behind. Globalization has become a common goal for almost any kind of business organization such as industrial, commerce or financial. It can be shown by the movement of peoples, goods, and services, capitals and information around the world (Council of foundation, 2002). According to the Research and Corporate Development Department of Hong Kong Exchange and Clearing Ltd (HKEx), one of the many things influenced by globalization is economic sectors and the characteristics of the world's economic globalization is the internalization of capital markets.

The globalization of capital markets has been on an enhanced path in the past twenty years. Rapid integration of international capital financial markets occurred in the 1980s and 1990s (Eun and Resnick, 2001). The globalization of financial markets itself actually has been driven by a number of factors including the policy choice made by an increasing number of countries to introduce financial liberalization, deregulation and open up capital flows, the development of electronic telecommunications that facilitate massive cross border movements of funds, the emergence of financial institutions and instruments and the collapse of the international fixed exchange rate system (Khor, 2000).

Discussing about opportunities abroad, it is related to the globalization of the marketplace. The globalization of the marketplace for capital has fostered tremendous competition among the major overseas stock exchanges to see the growing demand and supply for cross border equity flows (Karolyi, 1998). Nowadays, increasing numbers of companies have chosen to raise capital over equity issued beyond the borders of their home market as the response to this globalization trend and as apart from competing for the world's investment money, exchanges with an international perspective also compete for the listing of equities and other securities of issuers from all over the world because of that cross border listing or the listing of companies abroad has become increasingly popular.

There are many literatures which have been studied the decision to list shares outside the firm's home country. As realization of overseas listing, firms around the world often issues shares in many foreign markets and list their stock on major stock exchange in this world such as New York Exchange (NYSE), Tokyo Stock Exchange (TSE), American Stock Exchange (AMEX), Australian Stock Exchange Limited (AXS), Stock Exchange of Singapore Ltd, National Association of Securities Dealers Automated Quotations(NASDAQ),or London Stock Exchange (LSE).

Companies list their shares on foreign stock exchange have the opportunities to benefit from a global shareholder base, greater liquidity of their issuance, strategic matter for companies across the globe, carry out new investment program, access to knowledgeable investors and analysts from around

the world, international reputation and prestige. Other factors that may motivate the firms to cross list include the potential valuation gains for shareholders and the differences between the disclosure and governance standards between the countries (Staliński and Tuluca, 2006). Many of other business also seek funding for their next evolution (Hall, 2010). Besides, Staliński and Tuluca (2006) revealed that despite numerous possible benefits of foreign listing, many companies decide not to list abroad, the reason are the potential problems with foreign listings include a significant cost of trading shares on a foreign exchange, the cost of complying with accounting standards, and the risk of lawsuits and such issues may play significant role in the firm's decision to list abroad, especially for smaller company.

After improve knowledge about considering overseas listing, the decision to go public is one of the most important topics that arise to follow globalization trend. However not only list shares outside, there is important issue to explain global capital flow, that is Foreign IPO (Initial Public Offering), which is becoming an increasingly important issue for companies and stock exchanges similarly since increasing number of foreign IPO annually (www.world-exchange.org). The literature on the decision to go public is also relevant to the decision to list abroad since firms can do an IPO on a foreign exchange, bypassing the domestic exchange completely.

Many papers have examined the benefits of a foreign cross listing, for the result , most of the previous researcher did not distinguish between foreign initial public offerings (IPOs) and seasoned firm cross-listings. Where the firm is in its

lifecycle, it can affect the factors that determine a foreign listing because there are many aspects follow the operational of the firm can affect determination of foreign listing. Only few of papers examine going public abroad by issuing foreign IPOs. IPOs have no past trading history, have little track record and visibility than old company, seem smaller, younger, and more growth oriented than their cross-listing equivalents because of that the information is more needed and important for IPOs (Medeiros and Tiberio,2005) for the result investor need much information to get familiarity of the companies track record and its products. Realize about there are many constraint to go public abroad, this research will discuss about consideration of determinant of going public abroad.

According to Caglio, Hanley and Westberg, (2010) between IPOs that list abroad and a sample of cross-listings indicate significant differences in firm characteristics and country level information between both. Many factors can determine the decision to go public abroad, from previous research the authors argue many determinants and sometimes they found same result but in the other hand, sometimes what they have found contradicted with other researches.

This paper research focuses observe firms in several countries involve in Asia area with active listing markets. Active listing markets in this research can be seen from active domestic IPO market and / or attract a substantial number of foreign IPOs (caglio, Hanley and Westberg, 2010), we can see from the amount of the foreign IPO and domestic IPO from that countries or listed in that country from overseas. The countries in Asia area that have active market are China,

Hong Kong, India, Indonesia, Japan Malaysia, Philippines, Singapore, South Korea, Taiwan (Caglio, Hanley, Westberg (2010)).

This research will conduct the same topic as the previous studies done for examining the determinants that influence going public abroad decision in China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan. This research investigate the firm's specific determinants of going public abroad by distinguishing between two groups of firms (firms issued foreign IPO (going public abroad) and issued domestic IPO (going public domestically) to identify the factors that have the most power in predicting the firm's decision.

1.2 Problem Statements

- a. What are determinants of going public abroad?
- b. How are that determinant affect to go public abroad decision?
- c. What is the primary factor that determines going public abroad decision?

1.3 Problem Limitation:

- a. This research examines about determinants of going public abroad by using literature review that taken from Caglio, Hanley, Westberg (2010) research.
- b. This research only uses four from seven determinants suggested by Caglio, Hanley, Westberg (2010), they are firm size, profitability and growth, foreign sales, size of stock, bond market.

- c. This research also provides the examination about how the determinant affect going public abroad decision and what is the primary factor that may influence the decision to go public abroad.
- d. This paper focuses on the determinant for going public abroad decision and not necessarily where proceeds are allocated.
- e. The data will be taken from the non-U.S. listed companies in China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan in many capital stock market.

1.4 Objectives of the study

The purpose of this research is in order to understand determinants of the decision to go public abroad. Further, this thesis is observing the determinants taken from literature review so this research would like to determine whether the findings reported in previous studies can be confirmed with the selection of variables, also how that determinants affect to go public abroad decision and what the primary driver may influence the decision to go public abroad.

1.5 Benefit of the research

- a. Researcher

It will help to understand about the determinants of going public abroad decision, how that determinant affect to go public abroad decision and what the primary driver may influence the decision to go public abroad.

b. Investor

To help giving additional information to make decision to invest and factors that have to be determined before make decision to go public abroad. Before decide upon diversifying internationally, the investor should research about the investments closely so that investor can make a well informed decision after all , especially to go public abroad where does not has track record before.

c. Reader

To contribute broadening the knowledge and deeper concept surrounding the topic to the reader and become one of the references for conducting investment as well as helping them in assessing their investment strategy and going public abroad.

d. Company

This research give information about many factors that have to be considered by the company who want to go public abroad, so the company can provide those factors to prepare the company in order to be ready to join the international capital market.

e. Development of theory

There are many papers examine about the determinants to cross listing but few papers examine about the factors which determine foreign initial public offering decision especially for Asia region (China, Hong Kong, India, Indonesia, Japan Malaysia, Philippines, Singapore, South Korea, Taiwan) and the expectation to do this research is to explore more

information about the factors determining foreign initial public offering decision.

Our study makes important contributions to the literature. First we broaden the scope of the existing literature on IPOs and foreign IPOs. Then, we compare the sample of issuers that list abroad from the largest emerging market of the world. By examining the going public abroad decisions of countries involve in Asia region (China, Hong Kong, India, Indonesia, Japan Malaysia, Philippines, Singapore, South Korea, Taiwan), we are able to provide important parts of evidence in the decision to go public abroad. In particular, no longer limited to exploring the benefits of foreign firms listing on major exchanges around the world and based on this research, it can be explored to further research about the decision to go public abroad based on the location decision and timing for going public abroad and other methods such as neural network and backward step method in regression.

1.6 Research Report Outline

Chapter 1. Introduction

Consist of background of the study, problem statement, the scope of the study, objectives of the study, benefits for the study, and research report outline.

Chapter 2. Theoretical Background:

This chapter describes the theoretical background relevant to this research. It is divided into three parts, which are the review of literature, review on related studied and the hypothesis. The review of literature discusses the theory employed in the research study to analyze the problem. The review on related studies provides some findings from research studies on the same area of concern by other researchers. The last part will be the hypothesis of this research.

Chapter 3: Methodology

These chapters describe the research design and divided into 5 parts. It consists of the type, population and sampling, research data, data gathering, data source, research variables and method analysis.

Chapter 4: Data Analysis

This chapter describes the analysis of the collected data and interpretation of data. It is divided into 3 parts which are the image of research data, descriptive statistics and data analysis.

Chapter 5: Conclusion and Recommendation

This chapter concludes the research study, managerial implications and presents the limitation and further research, which provides some points for improvements in future research.