

Presenting a Model of Factors Affecting Underpricing in IPOs Emphasizing Accounting Information Role¹

Yasin Amini², Bita Mashayekhi³

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Research Paper

INTRODUCTION

One of the financing instruments for firms is the initial public offering (IPO) that it is along with some challenges. One of the most challenging phenomena related to IPOs, and many studies have provided evidence for it, is the unusual yield of IPOs in the days after the offering, which somehow indicates the offering of shares at a price lower than its intrinsic value.

This phenomenon is universal and has been observed in most of the capital markets of the world, and it has also been observed in the Tehran Stock Exchange in the period of four weeks after the IPO.

Many different theories have been presented to explain abnormal return and some researchers generally emphasize on the assumptions of information asymmetry theory and others emphasize on the assumptions of behavioral finance to explain underpricing in IPO.

On the other hand, some researchers consider the diversity of these theories due to having a different economic, social, political and cultural environment in different countries and they believe that not all of them have examples in different countries and they do not have the power to explain the underpricing in IPO.

Therefore, considering the existence of competing theories and the existence of differences in the economic environment and the special conditions governing the capital market of each country, it is important to explore this phenomenon using qualitative methods.

In Iran, the researches carried out in connection with this issue have mainly used quantitative methods, and this is despite the fact that in most

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2. Ph.D. of Accounting, Faculty of Management, Department of Accounting, University of Tehran, Tehran, Iran. (yasin.amini@gmail.com)

3. Associate Professor, Faculty of Management, Department of Accounting, University of Tehran, Tehran, Iran. (Corresponding Author). (mashaykhi@ut.ac.ir)

of these researches, the specific conditions of supply have not been studied due to the qualitative nature of the variables, and they haven't been identified in the category of reasons for underpricing in IPO.

Therefore, the proposal of a qualitative method which under the model can be discovered the reasons for the underpricing in IPO will help to future researches in explaining statistical models.

Another important issue is paying less attention to the role of accounting information. Most of the researches in accounting that have been done in the field of capital market are looking at the relationship between accounting information and stock price after the IPO, and less has been done on the role of accounting information in determining the first stock price.

Also, the conducted researches have addressed the role of non-accounting factors in explaining the IPO more than accounting factors. Therefore, extracting reasons for the underpricing in IPO in the form of existing theories by using a qualitative approach and using the theme analysis method is one of the aims of this paper, and then we investigated the role of accounting information in comparison to other information in explaining this issue.

MATERIALS AND METHODS

This research according to the purpose is the applied research type, and in terms of the research method, it belongs to the category of descriptive research. In addition, this research is qualitative research due to the nature of data and analysis methods.

According to the purpose of this research regarding the discovery of factors affecting the underpricing of stocks in IPO, the paradigm of this research is interpretive.

Therefore, this research aims to discover the factors affecting the phenomenon of underpricing of IPO in the capital market of Iran by using the qualitative approach and theme analysis method and by using the interview tool.

Under this approach, we used conceptual structures instead of variables, and tried to use the originality of people's mentality and perspective through studying reality from the inside.

In this process, by engaging in the research field, the researcher aims to describe the phenomenon. According to the results of the review of various research literature in this field, each of which has named different factors as influencing variables on the phenomenon of underpricing in IPO, the main question of this research is:

- What factors are effective in determining the stock offering price?
- What factors cause underpricing of stocks in IPO?

The approach that will be used in this research is theme analysis, which is one of the simple and efficient methods of qualitative analysis. This method is a process for analyzing textual data and transforms scattered and diverse data into rich and detailed data. Thematic analysis analyzes

quantitative data through careful coding to extract themes. In this research, coding is done based on English letters and numbers, as follows:

- Text (T)
- Exploratory Interview (EI)
- Main Interview (MI)
- Each unit of analysis (that is, each text or interview) is numbered from 01 to up.
- The codes available in each analysis unit, starting from 01, have been increased by one unit to the number of codes available in that analysis unit within the framework of natural numbers.

The statistical population of this research consists of activists and stakeholders in the IPO process, which includes managers, investors, analysts, investment managers and as well as academic societies. In order to select a statistical sample, a) in the first stage, some experts were identified by the researcher and based on their expertise in the research topic (underpricing in IPO), they were subjected to exploratory interviews. b) For the main interviews, the sample includes individuals from the statistical community who were introduced to the researcher by the previous interviewees based on the snowball method. The general rule in qualitative research is to continue collecting data until the categories are saturated. In this research, based on theoretical saturation, 17 interviews were conducted, 3 of which were exploratory and 14 of which were original. To conduct the interviews, the researcher attended the interviewee's workplace and the interview was conducted.

RESULTS AND DISCUSSION

In this research, by using the theme analysis method, we studied the reasons for underpricing of the IPO in the Iranian capital market that we identified four main themes for that.

The first main theme: shortcomings of the IPO process: in response to this question, three factors were identified, including wrong pricing methods, specific market conditions, and the motivations of supply players, including supervisors, issuers, underwriters, and auditors.

The second main theme: Fundamental factors: The fundamental information of the firm includes a set of fundamental factors that can be effective in preventing the underpricing in IPO. This theme means that the conditions that exist in each offering and in each firm are the main reason for underpricing. In this research and for Iran's capital market, this set of factors based on the conducted interviews includes company-specific factors, capital market conditions, and macroeconomic factors affecting the IPO .

The third main theme: Behavioral biases: Based on the analysis of the results extracted from the interviews, the behavioral biases affected by four

factors, including the expectation of repeated returns, mass or herd behavior, investors' naive behavior and speculation in the IPO.

The fourth main theme: Accounting information content: The information content theme deals with the effect of accounting and non-accounting information on underpricing. Based on what we obtained from the interviews, (1) information asymmetry, (2) presentation of brief information at the time of IPO, (3) lack of comprehensibility of published information, (4) lack of presentation of non-accounting information such as budgeting information, prospects 5 years of the firm, strategies and short-term, medium-term and long-term goals of the firm, etc., (5) lack of forecast information including information on alternative values such as net incoming cash flows, (6) Inefficiency or lack of effectiveness of the audited information published in the IPO from the perspective of the shareholders, (7) Lack of uniformity in the presentation of information, (8) Inadequacy of accounting standards in publishing the information required for the IPO, (9) Access to the confidential information of the firm for a certain group of shareholders, (10) the use of retrospective information in pricing, which sometimes leads to the wrong pricing in IPO. Also, based on what we extracted from the interviews, the set of these factors has created the necessity for (11) providing guidelines for disclosure at a higher level in Iran's capital market in IPO.

CONCLUSION

The general result of the findings of the research shows that pricing models are not used in pricing, and with the intervention of bodies in the supply and demand mechanism of the market, mistakes occur in pricing. Finally, the collection of these mistakes leads to underpricing in IPO. Meanwhile, up-to-date pricing models by using accounting information have the ability to determine the real value of the share. In such a situation, those shareholders who analyze the accounting information with assuming wrong pricing and they are able to determine the initial share price before the IPO by using up-to-date models, can get additional returns.

Keyword: Underpricing in Initial Public Offerings, Information Asymmetry, Behavioral Biases, Accounting Information Content

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