Ownership Concentration and Initial Public Offering Performance: Empirical Evidence from Thailand

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Abstract

This study examines the relation between ownership concentration and both short-term and long-term IPO performance of initial public offerings (IPOs) in Thailand during 1989-1993. The empirical evidence reveals a positive relation between ownership concentration and IPO initial returns, in support of the information asymmetry hypothesis and the agency framework. This result implies large, “informed” investors have the ability to identify underpriced IPOs, leaving “uninformed” investors with less underpriced issues. In contrast to evidence from US firms, the post-issue performance of Thai IPOs indicates that IPOs with high ownership concentration underperform offerings with low ownership concentration. Concentrated ownership does not imply effective monitoring but is consistent with the notion that large shareholders expropriate wealth from minority shareholders. Both these findings are significant because the degree of information asymmetry is typically very high in emerging markets.

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