

The Reasons And Consequences of IPO Withdrawals in Turkey

İbrahim Emre KARAA

Celal Bayar University
School of Applied Sciences
Muradiye Kampüsü, Manisa, Turkey
orcid.org/0000-0001-7893-5701
emrekaraa@cbu.edu.tr

Güler AKAKÇE

Celal Bayar University
Institute of Social Sciences
Muradiye Kampüsü, Manisa, Turkey
orcid.org/0000-0002-4601-8455
guler_akakce_89@hotmail.com

Extensive Summary

Changing the capital structure by selling shares via going to public is one of the most important decisions that firms made in their lifetime. The relationship between firm and financial markets continue after deriving funds with exchange commission liabilities and relatively excessive costs. The incentives for going to public decisions are documented by Brau (2012) as follows; increasing credibility, lowering the average weight of cost of capital, expensive debt, running out of private equity, venture capitalist cash-outs, broadening the base of ownership, allowing founders to diversify personal holdings, enhances the reputation. Taking a place in the process of IPO (Initial Public Offerings) requires hiring an underwriter firm to offer prices to potential investors and advising on the IPO methods at the time of IPO.

Why do firms decide to withdraw from IPO has received little attention in Turkish academic literature compared to underpricing, first day abnormalities, short-run and long-run performances. In Turkey, going to public is associated with selling shares mostly not the other securities. To our knowledge, there is no research on withdrawals from IPO in Turkish financial markets. The withdrawal decisions are equally important to going public decisions. Deriving the responses from the firm managers / owners directly would be valuable to determine why firms withdraw.

Withdrawals transform public firms to private or let firms stay private. Forced withdrawals are out of the subject because there is no decision making and control of management thus, the scope of this paper is limited to volunteer withdrawals including initial public offerings and secondary or seasonal public offerings.

The aim of this paper is to explore the withdrawals with its causes or reasons, effective factors and facts and to determine the relationship between factors. Besides to environmental factors, firm attitudes or facts such as the probability of successful IPO in resubmissions, and organizational restructurings (Mergers & Acquisitions) are affect firm's withdrawal decisions.

The IPO withdrawal literature suggests causes for withdrawals such as; (a) experiencing bad economic conditions and crisis (b) financial market conditions and market timing (c) inadequate investor demand (d) underpricing of shares (e) the probability of success in resubmitting (f) the high costs of going to public (g) the probability of mergers and acquisitions.

Ritter & Welch (2002) concluded that the most important factor for going public is market conditions. The good economic and market conditions in the world and in the countries particularly, encourages firms for IPO submissions and the number of IPO's increase. By using the same logical reasoning, the opposite could be valid for withdrawals as well. During the exuberance periods, investors are much more optimistic on their expectations in relation to future cash flows and earnings. As a result, irrational expectations might lead to over-pricing (Karaa, 2016). Hot and cold markets define the market conditions and under hot market conditions firms mostly consider going to public, and conversely under cold market conditions firms withdraw regards to delaying or withdraw completely.

In the IPO process firms work with underwriters and show effort to determine a fair share price. Underwriters organize roadshows and large shareholders negotiate the share price and terms and the process is called pre-IPO pricing. The money left on the table might cause firms to withdraw. Conversely, if the proposed share price is far from the determined price, firm withdrawals occur (Busaba, et al., 2001). High ask prices obstruct the settlements and increase the probability of withdrawals. High levels of asymmetric information and negative information increase the probability of withdrawals because the instinct price becomes uncertain.

The withdrawals itself does not mean firms are unsuccessful, but underwriters. Having not any difference between firms regards to scale and earnings, previously experienced withdrawal firms, hire reputational successful underwriter firms. Investment banks are better to solve the information asymmetry problem as Benevista, et al (2002) suggested.

The probability of resubmission after withdrawal, encourage firms to wait for better economic and market conditions. Another effect on withdrawal decisions is the probability of mergers and acquisitions which is referred as an incentive to go public at the same time. However that is not a dilemma because, firm founders' intentions play role behind the decision. The intention might be capturing the attention and trying to determine better price. IPO submission might itself can be assumed as window dressing. The acquirers might propose withdrawal to avoid SPK(equivalent for SEC) rules and requirements especially independent board members. Moreover the costs of going to public is considered costly in every sense, especially independent accountant reports, required announcements and establishing investor relations department.

The effecting factors are determined as firms age, the purpose of using funds, and intermediary institutions like underwriter related issues in general. The success of underwriter firms revealed only if they accomplish all the tasks especially selling all the shares that are contracted before between firms and underwriters. Firms mostly hire successful underwriters in their consequent submissions without differing neither in scale nor earnings.

This research surveys the firms decided to withdrawal by a conducted survey that constructed 27 questions under the inspiration of chapters from Robert Bishop's (1990) book "Consolidated Sri Lanka Securities Regulations". The Borsa Istanbul Exchange bulletins are scan in 1991-2013 periods and found 100 withdrawals. 10 of them are sold someone who does not have any information about the process. We sent our questionnaire to 90 firms and 40 are responded (return rate: 0.44). The responses are analysed with IBM SPSS Statistics 21 software. We declared 23 research questions therefore hypothesis. We used cross tables, Chi-square, Mann-Whitney U tests to determine the relationships.

We find only 4 hypothesis alternatives accepted and 19 of them are rejected or null hypothesis are accepted. Our findings indicate that the frequency of withdrawals increase substantially in economic crisis periods. The withdrawals are not common among family business but corporations. Having been a family business has no effect on withdrawal decisions. Firms heavily make long term plans which can be interpreted as preparing capital budgets that contain average cost of capital calculations. Thus, firms calculated and labelled cost of equity as expensive, perhaps.

The going to public incentives are asked and found increasing credibility as the most important one. This shows us, firms that value increasing credibility could explain that the intention is to strengthen credit lines and having better bargain position across commercial banks. Most of the firms' capital resource is capital markets which can be translated only stock markets and more, the firms are familiar with stock exchanges and IPO's. Having been experienced and sophisticated, they might consider the probability of successful resubmission and then withdrawal. The age of firms are significantly related with withdrawal decisions is documented.

The firms find underwriter firms unsuccessful, mostly. The highest frequency of selling method is fixed ask price methodology which obstruct the efforts and policy of underwriter firms. However the firms state that the ask prices were not important on their withdrawal decisions. Interestingly, when analysed, decision of withdrawal and selling methods are found related. The underwriters' previous success and the resubmission's success are significantly related. Firms probably hire the underwriters whom show intense attention and focus on the process, preferred to collaborate on the resubmission process. Further research could focus on withdrawal effects on stock prices in Borsa Istanbul traded firm stocks.