

Propensity Towards Financial and Growth Prospects: Initial Public Offerings (IPO)

Thokozani Patmond Mbhele

School of Management, IT & Governance

University of Kwazulu-Natal

Westville Campus

Private Bag X54001

Durban 4000

Republic of South Africa

Abstract

The empirical analysis of the Initial Public Offering (IPO) process represents a transitional milestone from an entrepreneurial firm to a public corporation despite the liability of market newness. Initial Public Offering (IPO) is the critical stage of venture growth prospects under the development capital market (DCM) in South Africa. The study seeks to develop dimensional factors that influence the IPO transitional process towards potential growth prospects for venture capital-backed firms. Within the listing requirements and value-creating services of certifiers, this study further attempts to understand the challenges of the process costs implication and propensity towards raising sufficient capital within the development capital market. The process of IPO is discussed, including preparation and readiness, costs, proper pricing of shares and hegemony of members, listing requirements and the reputation of financial service providers for successful transition in wavy IPO. The study used questionnaires to collect empirical data and subsequently utilized both descriptive and inferential statistics, and factor analysis technique to analyze data.

The findings of the study revealed that the companies funded by more experienced venture capitalists are more likely to go public primarily due to their ability to source better investments. The inferences of the findings are tentatively described by two factors (costs and implications, and raising funds) that attempt to transform the financial paradigm of Small and Medium-sized Enterprises (SMEs). The purpose was to understand the effects of the transition process from the privately held venture capital-backed firm to the public arena. The managerial implications would assist managers, SMEs and venture capitalists (informal or formal) to acknowledge a grueling IPO process as the entrenchment of principles of governance under full disclosure, and the epitome of growth potential.

Keywords: IPOs, Cost of IPOs, Underpricing, Hegemony, Prestige and Reputation.

Introduction

Initial Public Offering (IPO) describes a firm in the development capital market that is transfigured from being privately held to being publicly held, and anyone can purchase its shares and sell them at will on the stock exchange in which it is listed. IPOs are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. Zimmerman and Scarborough (2005:393) define IPO as “a method of raising equity capital in which a company sells shares of its stock to the general public for the first time”. The process must be done under the compliance guidelines of the Securities and Exchange Commission (SEC) with the objective of selling shares of the firm to the public (Fuerst and Geiger 2003). Consequently, it is viewed as an advanced and professional process of raising capital for an IPO firm (Ritter, 2002). The exercise tends to be the ultimate mark of success for venture capitalists. Nevertheless, small businesses do fulfill the initial listing requirements, including having a track record of positive earnings and sufficient capitalisation and float.

The overwhelming preponderance of IPO firms use underwriters, auditors, and attorneys to assist in the IPO process. Brau and Johnson (2009), and Barondes, Nyce and Sanger (2007) suggest that prestigious third-party certifiers or the presence of venture capital backing (to obtain financing and guidance prior to the IPO) certifies the quality of the IPO.

Despite a contingent of certifiers, Smart, Thirumalai and Zutter (2008) find that firms with poor performance index scores underperform the market. Although Yung, Colak and Wang (2008) report that an exogenous positive shock to the economy leads to a greater number of firms going public, a wave of IPOs exhibits high underpricing. Pastor and Veronesi (2005) model IPO waves in an environment with fully rational investors and managers with neoclassical utility functions, whereby the authors make assumptions between time-varying equity premiums, and the time-varying average profitability of new investments. In other words, more firms go public when the equity premium drops or when the average profitability of new firms increases. The post-IPO challenge is to deliver the value that the firm promised to deliver in its business plan and offering memorandum. Kaplan (2003:453) adds that “delivering the value is a balancing act that involves meeting and exceeding the expectations of the market and all stakeholders while concurrently implementing the strategic initiatives on time and on budget”.

Problem statement and research objectives

The transition process has a propensity to disrupt the internal and external functions and routines of an IPO venture. Normally, IPOs comprise companies going through a transitory growth period, and they are therefore subject to additional uncertainty in the financial corporate league. Gregoriou (2006) argues that IPOs are almost invariably an opportunity for existing investors and participating venture capitalists to make big profits. The bottom line is that the first time issuance of shares will be given a market value reflecting expectations for the company's future growth. However, the venture capital firms develop long-term relationships with various participants in the IPO market (underwriters, institutional investors and analysts). These relationships attract greater participation by these market players in the IPOs they backed, as greater support from analysts and institutional investors is generally associated with better performance.

There are two significant purposes of this study: firstly, to assess IPO as a measuring tool for entrepreneurial growth within the listing requirements and value-creating services of certifiers. Secondly, to understand the challenges of the costs implication in the transition process with propensity towards raising sufficient capital within the development capital market. This study seeks to address challenges in the transition process by exploring why venture capital-based public offerings / exit lead to both costs (transition and listing processes) and benefits (raising stupendous capital, and growth and expansion) from the use of IPO. What are the essential requirements (initial listing requirements) driving IPO activity and enhancing performance in the market? It is also hypothetically tested whether there is relationship between the form of ownership and the intention to list on the JSE Securities Exchange under development capital market.

IPO process and Cost

The IPO process is generally very intensive with many regulatory hurdles to jump over. Investopedia Partners (2009) articulates a generic process that the company must go through in a three-part IPO transformation process. The first is the pre-IPO transformation phase known as the restructuring phase (that normally takes two years to complete) – a company starts the groundwork toward becoming a publicly-traded company, and the focus is to maximise shareholder value, enhance the company's corporate governance and transparency and develop an effective growth and business strategy. Secondly, the IPO transaction phase, that takes place right before the shares are sold and involves achieving goals that would enhance the optimal initial valuation of the firm. The focus is to maximise investor confidence and credibility and appoint reputable accounting and law firms to ensure the issue will be successful. Thirdly, the post-transaction phase – this involves the execution of the promises and business strategies the company committed to in the preceding stages, and the company focuses on beating its expectations (beat earnings estimates or guidance) rather than striving to meet expectations.

The IPO as a complex process, it requires the services of a broker to be the lead underwriter, a prospectus to be prepared, and the marketing of the IPO to determine the amount of interest in these securities. Lyons (1999:54) describes the process as “roadshow” because it provides an opportunity to showcase the firm and to establish the promise of the firm and its potential to provide valuable products and services. The critical decision on the offer price and the number of shares should be taken to make shares available for sale upon agreement of final terms. The proper execution of this decision will increase the probability of a smooth transition to transcend the expected target, while poor execution will epitomise failure with hefty cost implications. Jain and Kini (2000:123) note that firms that receive venture capitalist (VC) backing are more likely to survive than non-venture capital backed firms in the IPO process. In same underpinning viewpoint, Moon (2001) finds that venture capital firms may have personal commitments to see the firm succeed that goes beyond just their financial interest in IPO process.

If the firm can survive the initial transition periods by successfully managing disruptive effects, then transformation may ultimately be considered adaptive and may enhance the firm's competitive capabilities. According to Barnett and Carroll (1995:93), "the significant transformational events during the life cycle whether old or better-established firm make the firm struggle to adapt strategies, operational and relationships".

StasBekman (2009) outlines the IPO costs and expense components under Regulation A (where SEC allows the public issuance of securities without registration with the SEC – only the offering statement has to be filed with the SEC). These are summarised as legal due diligence fees (preparation and selling agreement with the underwriter), preparation of a offering statement and/or registration of the securities in one or more states, travel expenses, SEC filing fee and accounting and attorneys' fees. IPOs require a core group of highly skilled professionals who must literally work around-the-clock for one year in a grueling process to enhance success probabilities and surpass expectations. A great IPO team and proper planning are expensive but the formation of a seasoned and experienced team of professionals helps to ameliorate the effects of staff changes, new financial systems and implementation of new controls, procedures and systems (Smart *et al.*, 2008). These costs and expenses are bound to escalate in the multinational IPOs with as many as three syndicates to deal with differing legal requirements in both the issuer's domestic market and other regions.

A firm that undertakes an IPO incurs several costs associated with issuing the shares. These costs include: The fee charged by the underwriter, the out-of-pocket costs of the issuer and the effective cost of underpricing. Underpricing tends to be greater for smaller and riskier issues. Booth and Smith (1986) suggest that there are significant fixed costs (preparing the prospectus) associated with underwriting a new issue. Fixed costs contribute to the observed negative relationship between issue size and underwriter's fee percentage. Choe, Masulis and Nanda (1993) suggest that, all else being equal, the closer to expected market value the offering price is set, the more precautions the underwriter must take to discover information that could adversely affect value, and the more likely a price decline after the offering will result in litigation. While Ruud (1993) stresses the need for a small offering, it can be less expensive to underprice and save some of the costs of due diligence and marketing.

Under Pricing

Unlike the offer price, the decision to determine the number of shares to be sold is not complex. The onus rests with the underwriter to advocate the offering price with or without underpricing (Dalton, Certo and Daily, 2003). The underwriter is referred to as a firm's broker and he/she is charged with selling the firm's shares. Mpofo, van der Venter and Nortje (2006:23) note that "a broker as a member of South African Institute of Stockbrokers (SAIS) has to qualify for membership, with at least 21 years of age, has passed the membership examination, is fit and proper in terms of criteria entrenched by institution and has been continuously employed by a member of the JSE Securities for at least six months". Jenkinson and Ljungqvist (2001) stress that a key decision in the public offering will clearly be the issue price, and during the initial information-gathering stage, the analysts from the lead manager will form some initial views as to the likely market value of the firm using a variety of techniques. The most commonly employed valuation techniques are discounted cash flow analysis and peer group analysis. Ritter and Welsh (2002) argue that some techniques for taking companies public essentially fix the price before formally inviting investors to bid for the shares. Consequently, it may not be necessary to produce an initial prospectus and then a final prospectus, as the price is fixed earlier in the process.

The varying degrees of underpricing observed in different countries suggest that there may be some unique, market-specific features that influence IPO underpricing. Moshirian *et al.* (2010) report that listing standards are generally higher in more developed stock markets, resulting in the lower levels of underperformance observed. Underpricing, typically calculated as the difference between the first-day closing price minus the offer price divided by the offer price (Loughran and Ritter, 2001; Arthurs, Busenitz, Hoskisson and Johanson, 2009), represents money left on the table and valuable capital that the venture foregoes (Daily, Certo, Dalton and Roengpitya, 2003). Underpricing means that there is actually substantially more money in the process.

The extent to which the share prices are higher than the offer price at the end of the first day of the IPO is referred to as underpricing (Ritter, 2001). Most models of underpricing based on asymmetric information share the prediction that underpricing is positively related to the degree of information asymmetry. However, Ritter and Welch (2002) point out that these models have been overemphasised; there is no single dominant theoretical explanation for underpricing.

Normally, firms prefer to go public precisely when they are least able to obtain full pricing. Brau and Johnson (2009) report that third-party certifiers provide certification while simultaneously, decreasing initial IPO underpricing and increasing IPO long-run returns.

The objectives of a firm float are not only to maximise the funds raised by the firm and the amount receivable by the vendors, but also to ensure that the firm is actively traded in the market after its flotation at a price appropriate to its existing value (Hawkey, 2002). The pricing of the initial issue becomes crucial and there needs to be a demand for the firm shares in the market once it has been listed. In effect, the underwriter may underestimate the value of the shares (Krigman, Shaw and Wowack, 1999). Arguably, underpricing is needed to tempt investors to buy shares and to reduce the cost of marketing the issue to customers (Brealey, Myers and Marcus, 2006). The emphasis will revolve around the IPO launch and process with the influence of the venture capital firms. Ritter (2002) argues that underpricing proceeds that flow to the venture capitalists do not constitute a conflict of interest. Despite venture capitalists not having fiduciary relationship with IPO clients, the benefits for the venture capitalist that holds equity in the firm would not exceed the benefits of anyone else with similar holdings (Dalton, Certo and Daily, 2003).

Agency Theory

Agency relationship is the relationship between shareholders and management and it can exist whenever someone (the principal) hires another (the agent) to represent his/her interest (Daily, *et al.*, 2003). Although there might be a possibility of conflict of interest between the principal and agent, that is, agency problem, Crowther (2004:65) describes agency theory as ‘a suggestion that the management of a firm is undertaken on behalf of the owners of that firm - in other words the shareholders of the firm’. Consequently, the only concern surrounding the creation of value within a firm is that it should accrue to the shareholders of the firm, and that the purpose of the managers of the firm is to find ways to increase that value. Managers can be expected to benefit from the value created by means of the executive reward scheme. Copeland, Koller and Murrin (1996) state that it is an approach to management whereby the firm’s overall aspirations, analytical techniques and management processes are all aligned to help the firm maximise its value by focusing on the key drivers of value. Although managers act as agents of the shareholders in the management of the assets of the business, there is no reason to believe that managers consider only their own interests at the expense of the shareholders (McLney 2003).

Hegemony and Prestige

Venture capitalists provide financing to entrepreneurial firms and also exercise some pre-IPO control through board seats and participation in the selection of top management (Smart *et al.*, 2008). However, the IPO presents venture capitalists with an exit opportunity, and presumably they have incentives to maximise the value of their claims at exit. Barringer and Ireland (2006) report that venture capital firms can add value with key personnel selection (chief executive officers (CEOs), and members of the board who represent the venture capital firm), identify essential supply chain networks (suppliers and customers) and provide strategic planning (Jain and Kini, 1999). Zingales (1995) argues that going public is actually the first stage in the sale of the firm where an entrepreneur can relinquish the locus of control and independence. In this regard, venture capitalists may be helpful in identifying and courting potential buyers with their networking savvy and reputable profile. It is consistent with the underlying assumptions of agency theory that when executives face decisions that place their own interests in conflict with those of shareholders, self-interest will tend to dominate, leading to failure to optimise shareholders’ interest (Certo, Daily, CannellarJr and Dalton, 2003).

The executive power and underwriters’ attitude can also have a substantial influence on the pricing of shares. However, appropriate incentive structures may reassure investors that executives will operate in their best interest, even when decisions involve significant risk (Bealty and Zajac, 1994). The prestige-based weights provide value and edge for venture capital-backed IPO firms towards higher returns than those IPO firms without venture capital (Brav and Gompers, 1997). The preferred outcome for the venture capital firm is for the companies in which it has equity to go public (Certo, 2003).

The symbolic role for prestigious members of the board is pertinent in the IPO context, since IPO performance primarily depends on the perceptions of potential investors. D’Aveni (1990:121) defines prestige as the “property of having status”.

Daily and Johnson (1997) further suggest that board prestige is the aggregation of each director's skills, experiences and social connections. The firms undertaking IPOs are typically unknown to potential investors, and the firms are bound to suffer from a liability of market newness (Daily and Dalton, 1993). Consequently, a firm's ability to complete a successful IPO process may influence long-term measures of firm performance as well as the firm's survival capabilities (Jain and Kini, 2000). A liability of market newness refers to "the discount that investors place on IPO firms because these firms have not demonstrated an ability to cope effectively with demands of public trading" (Daily, Roengpitya and Dalton, 2003:271). Regarding valuation difficulties for potential investors, these difficulties are evidenced by a great deal of research demonstrating how the equity values of IPO firms fluctuate in the initial days of public trading (Ritter and Welch, 2002).

Reputation and Image

The reputation of financial services providers and the cost-benefit analyses of association with reputed actors are important considerations for companies interested in raising capital. Nahata (2008) reports that, in the absence of credible and adequate information about the companies, external investors tend to rely on the reputation of the companies' associates as certifiers of the companies' own quality. In improving the prospects for a successful IPO, Goergen, Khurshed and Mudambi (2007) accentuate that companies should assess and take action to improve the company's image, which will be scrutinised by investors when the time comes for an IPO.

Kaplan and Schoar (2005); and Krishnan, Masulis and Singh (2006) argue that venture capital firms enjoying continuing success create a greater visibility and reputation for themselves in the long-run performance of IPOs, although the cumulative nature of the measure of venture capital's reputation captures this effect. Hsu (2004) shows that start-ups are often willing to turn down higher valuation offers in favour of more reputable venture capitalists even if valuation offers are lower. Nahata (2008) finds that in successful exits, IPOs are associated with more reputable venture capitalists, even relative to acquisitions. The reputation measures pertaining to individual venture capital firms are based on venture capital connectedness or how networked the venture capital firm is (Hochberg, Ljungqvist and Lu, 2007). Similarly, syndicated venture capital deals have higher returns (Brander, Amit and Antweiler, 2002), and corporate backing is beneficial to the performance of venture capital-backed companies (Gompers and Lerner, 2000).

JSE Securities Exchange and Development Capital Market (DCM)

The Johannesburg Stock Exchange, now called the JSE Securities Exchange, is the largest exchange in Africa with new developments that can lure ambitious ventures for listing (*SA Financial Planning Handbook*, 2004), namely, the new computer screen based trading system (JET) where traders can now be miles apart or even countries apart but can trade instantaneously by means of linked computer systems. Secondly, "dual trading": stockbrokers are now allowed to act as principals (trading for themselves) as well as agents for their clients. Thirdly, SENS is used by the Listings Division of the JSE as a means of communicating all relevant company information and information.

Finally, the latest project of the JSE is STRATE that aims to achieve a secure electronic environment for transactions on the JSE. This process of changing from paper certificates to a computer data system is called Dematerialization. These changes have created a platform where the development capital market can be accessible to smaller firms. The DCM is designed to encourage the growth of small to medium size businesses and companies which are not able to list on the Main Board. This market (DCM) was established in 1984. Investing in Development Capital shares is also done through the JSE. The table below shows the differences between DCM entry requirements and full JSE listing requirements in South Africa:

Table 1. Requirements for DCM and JSE Listing

Requirements for DCM listing	Requirements for JSE listing
Share capital and reserves – R1 million and VCM – R0.5 million	Share capital and reserves – R2 million Alt-X and Main Board – R25 million
Minimum issue of 1 000 000 shares	Minimum issue of 1 000 000 shares
At least 2 years of profitable trading and VCM -none	At least 3 years of profitable trading Main Board and Alt-X – None
Minimum pre-tax profits of R500 000	Minimum pre-tax profits of R1 000 000
Minimum number of shareholders – 75 and VCM - 75	Minimum number of shareholders – 500 and Alt-X – 100
Must be a public limited liability company	Must be a public limited liability company
At least 10% of shares must be held by the public and VCM – 10%	At least 20% of 1 million shares issued must be held by the public and Alt-X – 10%

Sources: The South African Financial Planning Handbook, 2004:379 and www.psgonline.co.za/wiki (chapter 2 - requirements for listing a company) (Accessed: 6/9/2010)

Researchers assume that a firm listed on the DCM carries more investment risk than one with a main board listing because of the more lenient requirements. Such information is vital to the potential investor as the risks are high, but so is the potential for above average returns. Empirical evidence by Ehlers and Lazenby (2006) shows that there is a correlation between the position of the IPO firm and its life style and its leadership style. Rothschild (1996) proposes that a firm in its start-up or embryonic phase needs a risk-taker as leader. Risk-takers are highly intuitive, aggressive visionaries with an entrepreneurial leadership style. Thus, leaders in IPO firms need to build on strengths and create evolving change with commitment to the long-term (Ehlers and Lazenby, 2006). The King II Report (2002) states that the leadership for probity is important as it assures investors that the management of a firm will behave honestly and with integrity towards its shareholders, venture capitalists and others.

Mpofuet *al.*, (2006:25) explain that arbitrage is the possibility of making a riskless profit by simultaneously buying a security in one market and selling it in another market at a higher price without making a capital commitment or investment. The uncertainty and risk related to investing in this kind of market are overcome to a certain extent by the expertise that the private equity partnerships develop in accessing and evaluating potential investments. Generally an investment into a new venture by a successful private equity partnership or shrewd individual investor is a signal to other potential investors that a highly sophisticated investor believes in this new company and its technology (Westerfield, 2004:65).

Research Methodology

The researcher intends to assess the IPO transition and its implications and to develop a set of new composite factors that will influence the process of IPO. Interaction was essential with Chamber of Commerce, enterprise agencies and venture capitalists to suggest potential respondents.

Sampling Technique

The study was conducted using both primary data collected through questionnaires as a measuring instrument and secondary data acquired from accessible companies' records, archives, books and websites with the intention of gaining insight into the industry as a whole. The combination of convenience (entrepreneurs who understand venture capital market) and snowball sampling (venture capital-backed entrepreneurs and/or those who dealt with venture capital firms) were selected as the sampling techniques. Snowball uses individuals as informants to identify a further set of relevant individuals so that the sample grows in size till saturated (Welman, Kruger and Mitchell, 2005). A cross-sectional self-administered survey in the KwaZulu-Natal, Durban region in South Africa was used for data collection. The target sample frame consisted of entrepreneurs and venture capital-based entrepreneurs. The sample size of 160 respondents was conveniently drawn from the target population of the eThekweni Municipality SMME Fair participants, and subsequently snowballing venture capital financed SMEs among the percentage of venture capital financed businesses. A wide population of 200 was chosen to establish the representativeness of the sample for generalisation.

The questionnaires were delivered to the respondents and a total of 160 questionnaires were returned with an 80% total response rate. Sekaran (2003) provides a generalized scientific guideline for sample size decision with a sample size of 132 for a given population size of 200. All responses were carefully scrutinized for completeness, consistency and errors, and to eliminate questionable data. The responses included nominal data (biographical data and general experience with venture capital firms), as well as ordinal data on a five-point Likert-type scale with end points of “strongly disagree” and “strongly agree” to measure the items. The processing of the data was done by means of the SPSS programme to retrieve both univariate, bivariate and multivariate results. Respondents also completed the comparative listing requirements; an abridged-type scale developed by *South African Financial Planning Handbook* (2004). The IPO was measured with an additional scale using five-point Likert scales with ends points of “least important” and “most important”, and “strongly against” and “strongly in favour”.

Methods

The univariate technique was used to summarise and examine the distribution of cases on one variable at a time namely: biographical data, and factual aspects of general experience of venture capital. Factor analysis as a multivariate technique addressed the problem of analysing the structure of the interrelationships (correlations) among a large number of variables by defining a set of common underlying dimensions, known as factors (Hair, *et al.*, 1995). The interpretation of factor analysis is inclined to an underlying view of how strongly each variable is correlated with other variables in an attempt to identify clusters of variables and/or search for structure among a set of variables. The overriding application of factor analysis in the study is to understand the complex relationships of scores (multidimensional statistics) on entrepreneur funding dynamics for each underlying dimension and substitute them for the original variables. Cooper and Schindler (2008) underpin the objective application of this method by clarifying that the predictor-criterion relationship (found in the dependence situation) is replaced by a matrix of inter-correlations among several variables, none of which is viewed as being dependent on another; rather, there is interdependence.

Validity

The study looks at validity as the extent to which a scale or set of measures accurately represents the concept of the venture capital industry. Bryman and Bell (2007) report that there are a number of ways of investigating the merit of measures (validity and reliability), that are devised to represent social scientific concepts. The researcher intends to identify theoretically supported relationships from prior research or accepted principles and then assess whether the scale has corresponding relationships. Nomological validity is utilised for this study. It refers to the degree that the summated scale makes accurate predictions of other concepts in a theoretically based model (Hair 1998). Convergent validity is demonstrated when a set of alternative measures accurately represent the construct of interest (Churchill, 1979). For this study, convergent validity was assessed by reviewing the level of significance for the factor loadings. If all the individual item’s factor loadings are significant, then the indicators are effectively converging to measure the same construct (Anderson and Gerbing, 1988). The constructs are significant at level $p = 0.000$, providing satisfactory evidence of convergent validity and unidimensionality of each construct.

Results and interpretation

Factors describing perceptions towards Initial Public Offerings

Reliability assessment

The Cronbach Alpha test is applied to the research results to test the internal consistency and reliability of the measurement tool used for the empirical study (Cooper and Schindler, 2003). The seven items were subjected to an internal reliability analysis, and reliability analysis of the questionnaire’s continuous variables reveals a Cronbach alpha value of 0.7356. This value is slightly above 0.7 and therefore indicates that this study’s research instrument’s continuous variables have internal consistency and reliability. This figure concurs with the minimum of 0.7 suggested by Nunnally (1978) and confirms the reliability of the instrument.

Table 3: Perceptions towards IPO - Descriptive statistics

	Mean	Std. Deviation	Analysis N
Company image (Prestige)	3.12	1.151	160
Expenses/costs effects	3.10	1.245	160
Disclosure policy	3.10	0.877	160
Succession plan	2.97	0.956	160
Share value	2.88	0.976	160
Liquidity	2.58	1.239	160
Securities sales	2.38	1.209	160

Table 3 indicates descriptive statistics on seven items relating to perceptions towards the IPO process. The variables were measured using a 5-point scale with 1 = 'Strongly disagree' and 5 = 'Strongly agree'. The descriptive statistics show that the image of a publicly traded IPO firm should be strong in the eyes of suppliers, financiers and customers. Company image seems relatively high (3.12) on a 5-point scale while the companies acknowledged that the expenses involved with an IPO are significantly higher than for other sources of capital. The hegemony and prestige of board members will normally enhance the image and positioning of a firm despite it suffering from the liability of newness. The presence of a venture capital firm will also dispel the doubts of potential investors and uphold the image of a firm. However, new venture capital firms have a propensity to limit disclosure of the company's affairs. This suggests that new venture capital firms need to recognise the huge costs when going public and they need to improve on disclosure of the company's affairs.

The prospectus can provide reliable information to the public regarding securities that will soon be for sale in the IPO process. A strong locus of control can definitely enable the founders to hold on to the firm with a premeditated succession plan. Discretionary acts by the underwriter on critical aspects like the offer price and the number of shares to be sold reflect the extrapolated scores for share value, liquidity and securities sales.

Chi-square and Cross-tabulation

Cross-tabulation is a technique for comparing two classification variables (Cooper, 2001:470) while the Chi-square statistic is used to test the statistical significance between the frequency distribution of two or more groups (Hair, Jr, 2003:263). The statistic tests the "goodness of fit" of the observed distribution with the expected distribution.

Table 4 indicates the number of responses on the forms of ownership and the intention to list on the JSE Securities Exchange. The null hypothesis, H_0 , states that there is no relationship between the form of ownership and the intention to list on the JSE Securities Exchange. The probability is 0.05 that a true null hypothesis will be rejected. The critical value for three degree of freedom, and 0.05, level of significance is 7.815 with p-value (0.041) less than the level of significance (0.05). The value of chi-square (χ^2) test (8.230) is beyond the critical value (7.815), and the decision is reject H_0 at the 0.05 level of significance, and accept the alternative hypothesis, H_1 . The decision denotes that there is a relationship between the forms of ownership and the intention to list on the JSE Securities Exchange. The respondents (55%) acknowledge that it is critical to list on a stock exchange as a wealth creation exercise. The listing intentions are underpinned by 52% of the respondents that find the requirements applicable for the Development Capital Market in the JSE Securities Exchange.

Comparatively, the observed counts on the partnerships and companies (Table 4) evince strong intentions while the sole traders (17.5 against 18.5) and close corporations (16.5 against 22.5) do not intend listing on a stock exchange. The emphatic relationship might result in increased participation in the market, and subsequently, sway the intentions of sole traders and close corporations to list on the JSE Securities Exchange. Carpentier *et al.*, (2008) note that a greater support from analysts and institutional investors is generally associated with better performance.

Table 4: Form of ownership by intention to list on JSE Securities Exchange - Cross-tabulation

		Listing in JSE		Total	
		Yes	No		
Form of ownership	Sole Trader	Count (observed)	17.5	18.5	36
		Expected count	18.6	17.4	36
	Partnership	Count (observed)	22.5	19.5	42
		Expected count	21.8	20.2	42
	Close Corporation	Count (observed)	16.5	22.5	39
		Expected	20.2	18.8	39
	Company	Count (observed)	26.5	16.5	43
		Expected	22.4	20.6	43
Total	Count	83	77	160	
	Expected count	83	77	160	
Chi-square test	Value	df	Asymp.Sig. (2-sided)		
Pearson Chi-square	8.230	3	.041		
Likelihood ratio	8.563	3	.036		
N of valid Cases	160				
Minimum Expected	4.95				
Frequency	<51cell (12.5%)				
Cells with expected					
Frequency					

Factor Analysis

Reliability assessment

The reliability of the instrument was operationalised using the internal consistency method that is estimated using Cronbach' Alpha (Cronbach, 1951; Nunnaly, 1978). Cronbach's Alpha values show that the constructs are measured with sufficient reliability and the Cronbach alpha of the instrument is 0.7356. This figure accords with the minimum of 0.7 suggested by Nunnaly (1978) as a rule of thumb and it also confirms the reliability of the instrument, as factor analysis is used to reduce the total number of items to manageable factors. Factor analysis was performed on the seven items that constitute the dimensions. Tabachnick and Fidell (2001) maintain that a smaller sample size of 150 cases should be sufficient despite the comforting 300 cases for factor analysis, and solutions should have high loading marker variables. The reliability of factor structures and the sample size requirements is congruent with major factor loading above 0.80. However, Dancey and Reidy (2002) note that when performing factor analysis, at least 100 participants should exist as variables. Both of these criteria were met by the present study, with six and ten item measures and 160 respondents. The statistical measures have assisted to assess the factorability of the data with Bartlett's test of Sphericity (Bartlett, 1954), and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1970, 1974). The measure indicates that the Kaiser-Meyer-Olkin (KMO) score of 0.684 (indicates sampling adequacy) obtained in this factor analysis is suitable with Bartlett's Test of Sphericity (171.129) at degree of freedom (21). The factor model indicates two distinct factor loadings without any misclassifications (a total of seven items are reduced to two underlying factor loadings).

Table 5: Rotated Component Matrix

Factor	1	2
Expenses / costs effect	0.833	
Company image (Prestige)	0.764	
Disclosure policy	0.746	
Share value	0.718	
Succession plan	0.608	
Security sale		0.886
Liquidity		0.853

Table 6: Total Variance Explained

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	2.733	39.046	39.046
2	2.044	29.199	68.244

The principal component methods of factor extraction and Varimax methods of rotation generated two factors that account for 68.244% of the variance. Principal components analysis is used to extract factors with eigenvalues greater than one (Podsakoff and Organ, 1986), while varimax rotation is used to facilitate interpretation of the factor matrix. Factor 1 accounts for 39.046% of the variance, and factor 2 for 29.199%. Table 5 indicates that these two factors accounted for 68.244% of the variance in the original seven variables. The percentage exceeds the minimum amount of variance of 60% and the original variables have been reduced from seven to two. All two factors have Eigenvalues above the customary cut-off point of one and the factors are set out in Table 5. Table 6 shows the names of the five variables analysed in column one. It is easier to interpret the factor solution if factor loadings under < 0.50 in the factor matrix are not reflected. There are only two factors retained in this analysis with eigenvalues > 1.

Naming of the Factors

The logic of naming the factors has been more easily supportable and theoretically sound. One creates an artificial dimension that would highly correlate empirically with each of the items measuring prejudice (Babbie and Mouton, 2001). However, the ultimate goal is to derive a set of factors that are theoretically meaningful, relatively easy to interpret, and account for as much of the original variable as possible. The process is subjective and it combines logic and intuition with an assessment of the variables within the context (IPO) that have high loadings on each factor. Therefore, factor one is related to **“Costs and implications (Going public)”** and factor two is related to **“Raising finance”**.

The factors are described as follows

Factor 1

Table 5 shows that the variables loaded onto this factor describe the high expenses incurred by new ventures. The variables loaded onto this factor describe the implications of going public. The new venture's IPO is expected to improve the image of a publicly traded firm in the eyes of suppliers, financiers/investors and customers and strengthen the value of the company's share which in turn allows value to be placed on the company. However, there is a perception that going public will eventually be the end of any succession strategy in building family businesses from generation to generation. The factor is labeled as **“Costs and implications (going public)”**.

Factor 2

The variables that loaded onto this factor described the sale of securities as one of the fastest ways to raise large sums of capital in a short period of time, which will eventually provide liquidity for owners (since they can readily sell their stock). The factor is labeled as **“Raising finance”**.

The following diagram depicts the names of the factors:

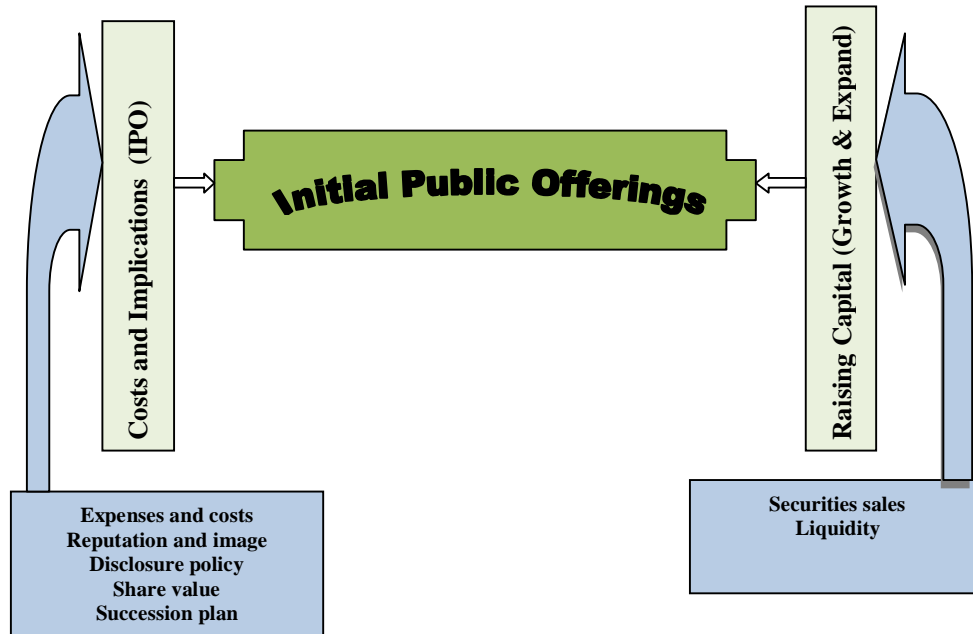


Figure 1: Factors influencing the IPO

Dimensionality

The factor analysis in this study has produced multiple dimensions where each dimension is reflected by a separate factor, and ultimately naming those factors. It means that items are strongly associated with one another and represent a single concept. Table 6 has produced two dimensions, namely costs and implications, and raising capital. The test of unidimensionality is that each summated scale consists of items loading highly on a single factor because it facilitates the naming of factors. Table 5 shows highly loaded items on each scale and each item is summated on the basis of high loadings.

Homoscedasticity and Heteroscedasticity

Heterogeneity of the respondents has shown a share variance among variables as the underlying component factor models in Table 5. The first factors have represented those variables that are more homogeneous across the entire sample in the factor analysis. Furthermore, the higher loadings and rotation of the factors have improved interpretation and naming of factors.

The IPO dichotomy of dimensionality

Part A: Costs and implications for going public

Firstly, expenses (it absorbs financial and human resources from the firm through coverage of the liability of market newness in terms of ‘roadshow’ campaign and marketing. Secondly, image (it addresses the reputability of a firm to uplift its market positioning, whereby the board members’ prestige needs to enhance the image and credibility of the firm). Thirdly, disclosure (it refers to the extent to which the firm in good faith reveals its financial performance, information and governance). Fourthly, share value (it refers to a notional value of benefit after issuing shares for the first time). Fifthly, succession plan (succession is a process through which the founders / owners of the firm transfer (or dilute) leadership and ownership to subsequent investors).

Part B: Raising Capital

Firstly, securities sales (the IPO process should raise large amounts from the share issuance after underwriting costs. Underwriting costs do influence underpricing decisions with the aim of curbing increasing interest rates). Secondly, liquidity (it is the ability of a firm to pay its bills and also being able to meet its liabilities. Liquidity can be impeded by higher interest rates where the South African Reserve Bank has had to intervene to abate the intractable inflation rate. The effects of interest rate cuts have an impact on SMEs’ shares under the DCM, and these firms will always experience slower growth.

Discussion and conclusion

Growth generates a phenomenal consumption of resources, forcing companies that espouse growth into chronic capital shortages. To maintain these high growth rates, regular fund injection is needed and IPOs may be the notional source of funds for such firms. The liquidity associated with publicly traded shares also provides an opportunity for early investors to diversify their portfolio holdings. This will provide a basis for rewarding crucial employees and executives through various forms of share-based reward programmes. The perceptions on the requirements regarding Development Capital Market and JSE Securities listing was confined on 5 Likert scale ranging from “Strongly in favour” to “Strongly against”. The criteria were based on requirements (table 1). It is not necessary for the purposes of this study to investigate why it is important to list only those firms with reasonable size. Size can be measured, amongst other criteria, by share capital, level of profit and number of shareholders. However, the respondents appeared to acknowledge the importance of size. The analysis shows that, without exception, respondents did not agree with the JSE listing requirements. The combined percentages of “Strongly in favour” and “favour” range from 36% to 48%. Logic dictates that JSE listing requirements should be stringent, firstly, for the protection of the investing public, and secondly, for prestige to the listed company. The current listing requirements discourage firms under the DCM while South African capital market policies condone accessibility. It is unlikely that the respondents were unable to comprehend this elementary fact. The responses were rather a reflection of unhappiness about their own inadequacies. It is prudent to concede that for a meaningful response to these questions, a certain degree of understanding and insight is desirable.

The study indicates that the majority of the respondents (61.1%) agreed that a company listed on the DCM is carrying more investment risk than one with a main board listing. The DCM is considered an easier and quicker alternative to accumulating local funding. The literature and this study acknowledge that an IPO on the stock exchange has many positive implications, ranging from negotiability of shares, giving the company a high profile and accessibility to capital, but there are numerous indications of ignorance with regard to small firms.

The study also discovered a considerable (33%) “neutral” on issues relating to 10% of shares which must be held by the public, minimum number of shareholders (75) and two years of profitable trading. The stringent regulations and policies guiding the stock exchange complicate the processes of IPOs. Accessibility and information dissemination should be reviewed to inspire SMEs. The information flow will guard firms against the euphoria of a rising stock market and a sudden rush on the IPO to catch the wave of the rising market. The current freedom from day-to-day scrutiny and continuously updated valuation as unlimited disclosure are impeded by agents.

The factor analytic technique, in this study, is to find a way to condense the information contained in a number of original variables into a smaller set of new, composite dimensions with a minimum loss of information. The new, labeled dimensions have accomplished the research objectives for this study. Therefore, the transition process in IPO describes the dimensional factors that influence the IPO process, this is, “costs and implications” and “raising capital”. The essence of transition for SMEs in South Africa should conceive that trading on the stock market helps to ensure that funds are allocated to the most suitable projects. The investors who are looking for good returns are attracted to projects that are expected to be productive and profitable. The IPO should be regarded as a measuring stick for growth and transition in the financial paradigm from being a small venture to a large, financially viable company in the South African context. Nevertheless, these firms are confronted with the task of adapting their goals, and constrained by new disclosure policies, as well as the risks associated with newness and the intricacies of ergonomics. In this regard, the venture capital firms recommend a management team to improve performance and enhance the long term viability of the firm. A sound management team is considered one of the selection attributes/ criteria for venture capital-backed firms.

The element of hegemony is more important than the size of the firm. The considerable ownership stakes for the management team may result in a greater interest in making sure that the resources of their firm are used prudently and efficiently. However, there is no guarantee that the ownership stakes will necessarily result in brilliance and shrewdness on the part of the management team in a SME. It should be understood that venture capital cannot influence internal operations. Arguably, venture capital is more instrumental in establishing the prestigious management board teams that will be in place at the time a company goes public. The highest value of mean (3.12) indicates the importance of prestige to overcome external pressures for significant short-term improvements in performance. The value seems to be vested in the ability of venture capitalists to earn high returns on investment, which is an understandable rationale.

Venture capitalists are investing huge amounts in risky ventures without substantial tangibles. The venture capitalists are incurring costs by building intangibles such as company image, share value and prestige prior to tangibles like returns and liquidity.

Recommendations

- The findings tentatively recommend that the image of a publicly traded IPO firm should be stronger in the eyes of suppliers, financiers and customers. The hegemony and prestige of board members normally enhance the image and positioning of the IPO firm.
- A public offering is perceived as an effective method of raising sufficient amounts of capital in this study, but it can be an expensive and time-consuming process filled with regulatory ramifications.
- The IPO process is significantly expensive and the IPO firm should institute a complete disclosure of the company's affairs (day-to-day and updated valuation)
- There is a relationship between the forms of ownership and the intention to list on the JSE Securities Exchange. Despite the high costs implications of the IPO process, the forms of business (partnerships and companies) depict stronger intent as a wealth creation exercise.

Limitations

The factor analysis is a single method used in the study, and the conclusion and interpretation cannot be drawn solely on condensing the items into factors. To provide more than one outcome within the factor, regression analysis will be an appropriate method to use after developing the factors, and the method will assess the relationship between these factor loadings. The study has locus coverage of the Durban region, and the sampling techniques do not claim to statistically represent the entire population. It is acknowledged that only tentative conclusions can be obtained from the analyses. However, the objectives have been attained through the development of optimal dimensions and the conjoint venture capital market framework in both formal and informal venture capital firms. It is found to be an anomaly, but further research can expand and conceptualise these dimensions.

Future research

A comparative study into formal and informal venture capital firms would enlighten the entrepreneurs in deciding on the viability of adopting one over the other. Future research could gainfully be directed towards exploring the effects of perceived graduation in the corporate league with extreme public scrutiny. It will also be interesting to establish the ratios of listed firms under the DCM from the perspective of forms of ownership and the size of the enterprise.

References

- Amit, R, Brander, J. and Zott, C. (1998), 'Why do venture capital firms exist? Theory and Canadian evidence', *Journal of Business Venturing*, **13**(6) 441-466.
- Arthurs, J.A., Busenitz, L.W., Hoskisson, R.E. and Johnson, R.A. (2009). 'Signaling and initial public offerings: The use and impact of the lockup period'. *Journal of Business Venturing*, **24**360-372.
- Answers.com (2010) 'Initial public offering' (Available; <http://www.answers.com/topic/initial-public-offering>, accessed: 6/9/2010).
- Babbie, E. & Mouton, J. (2001) *The practice of social research*. South Africa: Oxford.
- Barringer, B.R. & Scarborough, N.M. 2006. *Entrepreneurship: Successfully launching new venture*. New Jersey: Pearson.
- Barnett, W.P. & Carroll, G.R. 1995. "Modelling internal organizational change". *Annual review of Sociology*, **21**: 217-236. Palo Alto, CA: Annual Review.
- Barondes, R.D.R., Nyce, C. and Sanger, G.C. (2007). 'Underwriters' counsel as gatekeeper or turnstile: an empirical analysis of law firm prestige and performance in IPOs'. *Capital Markets Law Journal*, **2** 164-190.
- Bartlett, M.S. (1954). "A note on the multiplying factors for various chi square approximations". *Journal of the Royal Statistical Society*, 16 (Series B), 296 – 298
- Blowers, S.C. 2001. 'The Ernst and Young Guide to the IPO'. *Value Journal*, New York: John Wiley and Sons.
- Booth, J.R. & Smith, R.L. 1986. "Capital raising, underwriting and the certification Hypothesis." *Journal of Financial Economics*, **24**: 343-361.
- Brander, J, Amit, R. and Antweiler, W. (2002) 'Venture capital syndication: Improved venture selection versus the value-added hypothesis', *Journal of Economics and Management Strategy*, **11** 423-452.

- Brau, J.C. and Johnson, P.M. (2009). 'Earnings management in IPOs: Post-engagement third-party mitigation or issuer signaling?' *Advances in Accounting, incorporating Advances in International Accounting*, **25** 125-135.
- Carpantier, C., L'Her, J. and Suret, J. (2008). 'Stock exchange markets for new ventures', *Journal of Business Venturing*, Article in Press, 1-20.
- Chemmanur, T.J. and Loutskina, E. (2006), 'The role of Venture Capital Backing in Initial Public Offerings: Certification, Screening, or Market Power?' *SSRN Working Paper*.
- Choe, H., Masulis, R.W. & Nanda, V. 1993. "Common Stock offerings across the business cycle." *Journal of Empirical Finance*, **1**: 3-31.
- Chun, H. and Smith, S.C. (2003). 'New issues in emerging markets: determinants, effects, and stock market performance of IPOs in Korea', *Journal. Emerg. Market Finance*, **2**(3) 253-285.
- Churchill, G.A. Jr (1979) 'A paradigm for developing better measures of marketing constructs', *Journal of Marketing Research*, **16**(1) 64 – 73.
- Copeland, T., Koller, T. & Murrin, J. 1996. *Valuation: Measuring and Managing the value of companies*. New York: John Wiley & Sons.
- Cronbach, I.J. (1951) 'Coefficient Alpha and the Internal Structure of Tests,' *Psychometrika*, **16**: 297 – 334.
- Crowther, D. 2004. *Managing Finance: A socially responsible approach*. New York: Butterworth.
- Cumming, D. and Johan, S. (2007). 'Advice and monitoring in venture finance', *Financial markets and Portfolio Management* **21**(1) 3-43.
- Dancey, C.P. & Reidy, J. (2002). *Statistics without Maths for Psychology*. 2nd Ed., Hemel Hempstead: Prentice-Hall.
- Dalton, D.R, Certo, S.T. & Daily, C.M. 2003. 'IPO as a web of conflicts of interest: An empirical assessment'. *Business Ethics Quarterly*, **13** (3): 289-314).
- Daily, C.M. & Dalton, D.R. 1994. "Bankruptcy and Corporate governance: The Impact of Board composition and structure". *Academy of Management Journal*, **37**:1603-1617.
- Daily, C.M, Certo, S.T, Dalton, D.R & Roengpitya, R. 2003. "IPO underpricing: A Meta-Analysis and Research Synthesis". *Entrepreneurship theory and practice*, 271-295.
- Davis, M. M. & Heineke, J. 2005. *Operations management: Integrating manufacturing and services*. Boston, USA: McGraw-Hill.
- Ehlers, T. & Lazenby, K. 2006: *Strategic Management*. Pretoria: Van Schaik Publishers.
- Fuerst, O. and Geiger, U. 2003. *From concept to Wall Street*. New York: Prentice Hall.
- Geach, W, Botha, M, Goodall, B. & Rossini, L. 2004. *The South African Financial Planning Handbook*.
- Goergen, M., Khurshed, A. and Mudambi, R. (2007). 'The long run performance of UK IPOs: Can it be predicted?' *Managerial Finance*, **33**(6), 401 – 419.
- Gompers, P.A. and Lerner, J. (2000). 'Money chasing deals? The impact of fund inflows on private equity evaluations' *Journal of Financial Economics*, **55** 281-325.
- Gregoriou, G. (2006). *Initial Public Offerings (IPOs)*. Butterworth: Heineman.
- Haveman, H.A. 1992. 'Between a rock and a hard place: Organizational change and performance under conditions of fundamental environmental transformation'. *Administrative Science Quarterly*, **37**:48-75.
- Hawkey, J. 2002. *Exit strategy planning*. England: Gower, Hampshire.
- Hochberg, Y., Ljungqvist, A. and Lu, Y. (2007). 'Venture capital networks and investment performance'. *Journal of Finance*, **62** 251-301.
- Hsu, D. (2004). 'What do entrepreneurs pay for venture capital affiliation?' *Journal of Finance*, **59** 1805-1844.
- Investopedia Partners (2010). 'What are the three phases of a completed initial public offering (IPO) transformation process?', (Available: <http://www.investopedia.com/ask/answers/06/ipoprocess.asp>, Accessed: 6/9/2010)
- Ireland, R.D. & Hitt, M.A. 2003. 'A model of strategic entrepreneurship'. *Journal of management*, **29**:963 – 89.
- Jain, B.A. & Kini, O. 1999. 'The life cycle of IPO firms'. *Journal of Business Finance and Accounting*, **26**:1281-1317
- Jain, B.A. & Kini, O. 2000. 'Does the presence of venture capitalists improve the survival profile of IPO firms?' *Journal of Business Finance and Accounting*, **27**:1139-1176.
- Jenkinson, N.J. 1990. 'Initial Public Offerings in the UK, the USA and Japan.' *Journal of Japanese and International economics*, **4**: 428-449.
- Jenkinson, T. & Ljungqvist, A. 2001. *Going Public: The Theory and Evidence on how companies raise equity finance*. New York: Oxford University Press Inc., 2nd Edition.
- Kaiser, H. (1970). "A second generation Little Jiffy". *Psychometrika*, **35**, 401 – 415
- Kaiser, H. (1970). "An index of factorial simplicity". *Psychometrika*, **39**, 31 – 36
- Kaplan, J.M. & Simmons, E.C. (2003). *Patterns of entrepreneurship: Early-stage financing*. US: John Wiley and Sons.
- Kaplan, S.N. and Schoar, A. (2005). 'Private equity returns: Persistence and capital flows', *Journal of Finance*, **60** 1791-1823.
- Krishnan, C.N.V., Masulis, R.W. and Singh, A. (2006). 'Does venture capital reputation affect subsequent IPO performance?' *Unpublished working paper*, Case Western Reserve University.
- KPMG and SAVCA (2009), 'Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2008 calendar year May 2009', (Available: www.kpmg.co.za or www.savca.co.za, accessed: 9/6/2010)

- Krigman, L., Shaw, W.H. & Womack, K.L. 1999. 'The persistence of IPO Mispricing and the predictive power of flipping'. *Journal of Finance*, **54**:1015-1044.
- Levis, M. (2008). 'The London Market and Private Equity-backed IPOs'. Report prepared for The British Private Equity and Venture Capital Association and the London Stock Exchange. (<http://www.cass.city.ac.uk>).
- Lyons, D. 1999. 'Silence isn't Golden'. *Forbes*, **December 13**:54
- McLaney, E.D. 2003. *Business Finance: Theory and Practice*. UK: Pearson Education, 6th edition.
- Moon, H. 2001. 'Looking forward and looking back: Integrating completion and sunk-cost effects within an escalation-of-commitment process decision'. *Journal of Applied Psychology*, **36**:104-113.
- Moshirian, F., Ng, D. and Wu, E. (2010). 'Model specification and IPO performance: New insights from Asia'. *Research in International Business and Finance*, **24** 62-74.
- Mpofu, R., van der Venter, G & Nortje, A. 2006. *Investment management*. Pretoria: Van Schaik, 2nd Edition.
- Muzyka, D.F. & Birley, S. 2000. *Mastering Entrepreneurship*. London: Prentice Hall.
- Myers, S.C. & Majluf, N.S. 1994. 'Corporate Financing and Investment Decisions when firms have information Investors do not have'. *Journal of financial economics*, **13**:261-297.
- Nahata, R. (2008). 'Venture capital reputation and investment performance'. *Journal of Financial Economics*, **90** 127-151.
- Nieman, G. 2006. *Small business management*. Hatfield, Pretoria: Van Schaik.
- Nunnally, J.C. (1978) *Psychometric Theory*, New York: McGraw-Hill.
- Nurwati, A.Z., Campbell, K. and Goodacre, A. (2007). 'The long-run share price performance of Malaysian initial public offerings (IPOs)', *Journal of Business Finance Account*, **34** (1-2) 78-110.
- Pastor, L. and Veronesi, P. (2005). 'Rational IPO waves', *Journal of Finance*, **60** 1713-1757.
- Price Waterhouse (1995). 'The going public handbook'. New York: Price Waterhouse.
- PSG Online (2009) 'Chapter 2 – Requirements for listing a company', (Available: <http://www.psgonline.co.za/wiki>, accessed: 6/9/2010)
- Ritter, J.R. 1987. 'The costs of Going Public.' *Journal of Financial Economics*, **19**: 269-281.
- Ritter, J.R. 1991. 'The long-term performance of IPO'. *Journal of Finance*, **46**:3-27.
- Ritter, J.R. 1998. 'Initial Public Offerings'. *Contemporary Finance Digest*, **2**: 2-30.
- Ritter, J.R. & Welch, I. 2002. 'A review of IPO Activity: Pricing and Allocations'. *Journal of Finance*, **57**:1795-1828.
- Rose, M. 2002. 'South African micro lending in the face of liberalisation, technological innovation and Aids' in Proceedings of the 3rd international conference'. *International Academy of African business and development*. Port Elizabeth, South Africa, **3 – 6** April.
- Ross, S., Westerfield, R.W., Jordan, B.D. & Firer, C. 2003. *Fundamentals of Corporate Finance*. Sydney: Irwin/McGraw-Hill, 2nd South African Edition.
- Rothchild, W.E. 1996. *A portfolio of strategic leaders*. Planning Review. Mason, Ohio: South-Western.
- Ruud, J.S. 1993. 'Underwriter Price Support and the IPO Underpricing Puzzle.' *Journal of Financial Economics*, **34**: 135-151.
- Rwigema, H. & Venter, R. 2005. *Advanced entrepreneurship*. Cape Town: Oxford.
- Sapienza, H.J. 1992. 'When do venture capitalists add value?' *Journal of Business Venturing*, **January**: 9-28.
- Shane, S. 2003. *A general theory of Entrepreneurship: The individual-opportunity Nexus*. Northampton, UK: MPG Books LTD.
- Shane, S. & Venkataraman, S. 2000. 'Entrepreneurship as a field of research: The promise of entrepreneurship as a field of research.' *Academy of management review*, **26** (1): 13 -17.
- Smart, S. B., Megginson, W. L. & Gitman, L.J. (2004). *Corporate finance*. US: Thompson South-Western.
- Smart, S.B., Thirumalai, R.S. and Zutter, C.J. (2008). 'What's in a vote? The short- and Long-run impact of dual-class equity on IPO firm values', *Journal of Accounting and Economics*, **45** 94-115.
- Sorensen, M. (2007). 'How smart is smart money? A two-sided matching model of venture capital'. *Journal of Finance*, **62** 2725-2762.
- South African Venture Capital & Private Equity Association (SAVCA) (2009). 'South African PE and VC investee managers 'paint' positive picture for private equity investment locally', 10th November, (Available: <http://www.savca.co.za/news/item.aspx?id=173>, accessed: 3/8/2010)
- StasBekman (2009). 'IPO: Estimates of Costs and Expenses'. 20th February, (Available: <http://www.stason.org/TULARC/investing/public-offerings-IPO-DPO>, accessed: 6/9/2010)
- Venter, R. 2004. *Financing new ventures*. Cape Town: Oxford Press.
- Welbourne, T.M. & Andrews, A.O. 1996. 'Predicting the performance of IPO: Should human resource management be in the equation?' *Academy of Management Journal*, **39**:891-919.
- Wynarczyk, P., Watson, R., Storey, D.J., Short, H. & Keasey, K. 1993. *The Managerial Labour Market in Small and Medium Sized Enterprises*. London: Routledge.]
- Yung, C., Colak, G. and Wang, W. (2008). 'Cycles in the IPO market', *Journal of Financial Economics*, **89** 192-208.
- Zimmerer, T.W. & Scarborough, N.M. 2005. *Essentials of entrepreneurship and small business management*. 4th edition, US: Pearson.
- Zingales, L. 1995. 'Insider ownership and the decision to Go Public'. *Review of economic Studies*, **62**:425-428.