THE INSTITUTIONAL AND BOARD GOVERNANCE CHARACTERISTICS OF AFRICAN IPO FIRMS WITH LONG TERM FOREIGN PARTNERS

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Abstract

The attraction of blue-chip listings in emerging stock markets is a major policy initiative common across much of the developing world. However in many cases local blue-chip firms are the result of foreign Multinational Enterprise (MNE) firms engaging with local indigenous partners to form an international joint venture (IJV). Using a unique hand-collected sample of 96 IPO firms from across Sub Saharan Africa (SSA) developing region which is characterised by considerable variation in state-level institutional quality I find evidence that minority outsider investors attracted to brand name IPO firms with early-stage long term foreign partners are more at risk of expropriation. In particular a combination of ineffective governance measures such as independent directors and committees that lack support in the SSA institutional environment, alongside dominance of foreign insider groups and weak informational environments, inhibiting revelation of potential expropriating behaviour by insiders infers this class of listing carries risks for investors.

Keywords: IPO; Board of Directors; Institutional Theory

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1. Introduction

The attraction and retention of foreign direct investment (FDI) and foreign investors interested in participating in longer term ventures with local indigenous partners has been a major cornerstone of development policy for some time. Equally such joint ventures form a valuable source of local blue-chip listings for emerging stock markets in developing countries facilitating the attraction of much needed foreign capital to supplement low domestic savings and investment. This is an especially important consideration for primary listing of these ventures where the involvement of well known international multinational enterprises (MNEs) acts as a source of credibility in the eyes of foreign investors who are familiar with the brand internationally.

A considerable literature has been developed over the last three decades since John Dunning's first proposition of the eclectic paradigm of international production which synthesized organizational (O), location (L) and internalization (I) theoretical perspectives into an eclectic OLI triad facilitating the understanding of MNE expansion and growth (see see Dunning (1980, 1987, 1998). Much of the literature concerning international joint ventures has focussed on the determinants of entry modes into new markets (see Kogut (1988); Cheng (2006); Harzing (2001)), the survival rates of the ventures themselves (see Reuer and Miller (1996); Boateng and Glaister (2002)) and the impact on value of parent firms (see Owhoso et al (2002); Demirbag et al (2007)). However very little research, albeit with the prominent exception of Kriger (1988) considers the role and functioning of boards of directors in local subsidiary ventures created through MNE expansion and foreign direct investment (FDI). Given the prevalence of joint ventures across Africa with majority ownership by foreign corporate entities (Boateng and Glaister (2002); Ngobo and Fouda (2011); Luiz and Charalambous (2009); Hearn et al (2009)) and the importance of these in attracting both domestic and foreign investment for local stock exchanges it is timely to consider the multiple roles undertaken by boards of directors in these distinctive corporate ventures and the level of protection they infer for minority outsider shareholders. This extends the study by Kriger (1988) that only considered the role of subsidiary boards in mediating the relationship between pressures from parent MNE firms and those from the operating environments of countries hosting the local MNE affiliates. As such I draw

inspiration from the work on concentrated ownership by various entities including corporate block-shareholders by La Porta et al (1998, 1999) in considering the structure and composition of the board in its additional role of mitigating agency cost between corporate insiders and minority outsider shareholders. This forms my first contribution to the literature.

The level of institutional development has been ascribed an important role in defining levels of ownership concentration La Porta et al (2000) which is closely related to minority investor protection from expropriation by insider groups. Doidge et al (2007) finds evidence that state-level institutional quality is a key determinant in inhibiting the appropriation of private benefits of control through insider groups facing a trade-off between the employment of increasingly costly expropriation technology, ranging from transfer pricing to offshore investment and taxation vehicles to outright theft of retained earnings, and improved cost of capital that is beneficial to the wider firm in making cash flows increasingly profitable. Furthermore state-level institutional quality is an important factor in determining government's ability to attract increasingly footloose FDI (Branson, 2011) in an increasingly competitive global capital market. Typically policy responses to institutional deficiencies such as those relating to quality of informational environment, which infers considerable search and verification costs on foreign MNEs, can be somewhat mitigated through selective reforms to legal and regulatory system (Branson, 2001) and through the establishment of investment promotion agencies (Lim, 2008). This is an especially pertinent factor in Sub Saharan Africa (SSA) developing region where there is considerable diversity in institutional quality with this varying from being comparable to that of Western European countries in the case of Botswana and Mauritius to some of the least developed worldwide in Nigeria and Cote d'Ivoire (Transparency International, 2011). As such consideration of state-level institutional quality and its impact on the likelihood of IPO firms being the result of early stage involvement by long term foreign partners transcends traditional distinctions between market as opposed to resource-seeking MNE expansion and FDI. It also provides scope for analysis of state-level institutional protection for minority outsider shareholders attracted to stock issues by this class of IPO firm. This forms my second contribution to the literature.

I find evidence that questions the benefits of ownership concentrated in the hands of foreign corporate MNEs in terms of protection of minority outsider shareholders. In particular while boards are more likely to have increasing proportions of foreign directors they are also more likely to have far fewer nonexecutives with significant levels of personal ownership that are able to question the authority of controlling shareholders board

representatives. Equally while boards are more likely to have genuinely independent monitoring and oversight committees and independent directors which is commonly a result of influence from dominant US-UK shareholder value model of governance these generally lack effectiveness in the monitoring of executive decision-making owing to a lack of recognition in formal institutions and legal system. A further erosion of shareholder protection arises from the institutional characteristics determining the engagement of IPO firms having engaged in long term foreign partners. In particular low quality corruption control and weak informational environment, such as media freedom, are detrimental for investor awareness of potential expropriation by incumbent management and insiders. Equally low quality regulatory quality and increased rule of law infers that these ventures are more likely to benefit from regulatory capture, inferring entry barriers to potential competition and greater likelihood of higher private benefits of control. Overall these state-level institutional characteristics infer IPO firms formed from the involvement of long term foreign partners are more focussed on uncompetitive exploitation of markets and resources, the facilitation of expatriation of profits obtained through these means, and little informational transparency to protect the interests of minority outsider investors. While there may be technological transfer and human capital advantages in attracting FDI through joint ventures the evidence would suggest caution in authorities actively marketing these primary listed stocks to foreign and domestic investors owing to limited protection from expropriation.

The paper is organized as follows. The next section outlines the theoretical considerations and hypothesis development. Section 3 outlines the data, variables and empirical methods. This includes details of the six World Bank Governance institutional quality measures, recently developed by Kaufman et al (2009), derived from responses to survey data of perceptions and developed into indices using unobserved components methodology, in the quality of corruption control, government effectiveness, political stability and absence of violence, regulatory quality, rule of law and its enforcement and finally democratic voice and accountability. Section 4 discusses the results and support for hypotheses while the final section concludes.

2. Theoretical antecedents and hypotheses

The original work of Dunning (1977) established the OLI triad paradigm approach in facilitating enhanced understanding of FDI and MNE expansion overseas from the point where the preceding Heckscher-Ohlin-Samuelson (HOS) trade theory failed, namely in

taking account of positive intra-industry transactions costs (Dunning, 1987). However while the OLI paradigm has proved invaluable in establishing a precedent of analysis of FDI which has largely dominated the literature it is only much more recently that this has been questioned in the light of emerging MNE expansion from developing countries both to developed as well as to other developing nations (Sun et al (2010); Liu et al (2011)). In particular Sun et al (2010) propose a new perspective in analysing MNE expansion from developing countries based on comparative ownership advantage and taking inspiration from Ricardo (1817) in national comparative advantages as well as Dunning's definition of ownership advantages. However Sun et al (2010) argue that where emerging economy MNE firms are perceived to have ownership disadvantages in terms of world-class management, technology and know-how according to the conventional definition of ownership advantages their unique advantages arise from a combination of home country and industry specific factors which are institutional in nature and socially embedded in organizational structure. These it is argued enable the explanation of relative differential success in expansion of Indian vis-à-vis Chinese MNE firms in highly competitive overseas markets. Liu et al (2011) develop from this perspective of distinctive advantages accruing to emerging economy MNE firms in terms of their expansion being contingent to a combination of levels of concentration in stock ownership as well as both entrepreneurial and market orientation. Again this viewpoint draws on the unique management competencies of emerging economy executives in terms of organizationally embedded deeply rooted set of social values that guide strategic decision making. As such market and entrepreneurial orientation which supports more concentrated stock ownership as a form of incentive alignment is argued to be particular important in facilitating Chinese firms in particular in attaining firm specific advantages through ability to identify and act on entrepreneurial opportunities internationally (Liu et al, 2011). However a distinctive argument across both Sun et al (2010) and Liu et al (2011) is that where the Dunning OLI framework perceives the mode of resource allocation to be associated with allocation efficiencies across MNE network adaptive efficiencies are of greater importance in emerging economy MNE firms. Equally the traditional OLI view of internationalization is through a focus on the reduction of transactions costs by internalizing otherwise costly external markets. In contrast Sun et al (2010) and Liu et al (2011) both emphasise the focus on strategic extension of corporate entrepreneurship in the case of emerging economy MNE firms building on the distinctive firm-specific advantages derived from home country and industry experiences.

The more recent developments in the literature relating to emerging economy MNE firm expansion principally from India and China (Sun et al (2010); Liu et al (2011)) how ever builds on a more substantial literature regarding the relationship between MNE subsidiaries and the parent MNE in terms of subsidiary specific advantages (Rugman and Verbeke, 2001), knowledge creation in subsidiaries and its uneven diffusion (Birkinshaw (1996, 1997); Birkinshaw et al (1998)). Rugman and Verbeke (2001) outline ten subsidiary competence building strategies derived from location and non location specific factors and in particular their creation through country-specific knowledge (country levels of human capital and institutional development) and diffusion across the wider MNE network through establishment of organizationally embedded structures and socialization of routines across wider MNE firm to engender recognition and trust. However they emphasize the necessity in distinguishing between conventional non-location-bound firm specific advantages (FSA) developed in a subsidiary against a subsidiary-specific advantage and the implications for the strategic management of the wider MNE network.

While this literature elaborates on the importance of the relationship between local subsidiaries and the parent MNE firm both in terms of contribution to firm as well as subsidiary specific advantages and value creation Kogut (1988) outlines three theoretical perspectives in MNE decision making framework for the establishment of wholly owned subsidiaries as opposed to entering joint ventures with an existing partner in local market. International joint ventures (IJVs) are a particularly common method by which foreign MNE firms enter markets across the developing Sub Saharan African region (Owhoso et al (2002); Boateng and Glaister (2002); Luiz and Charalambous (2009)). While traditional MNE expansion across the region was characterised by extractive industries (Owhoso et al, 2002) where expansion was traditionally hindered by poor infrastructure and low institutional quality these very constraints have created opportunities for profitable expansion of MNE firms to revitalise moribund telecommunications (Hearn et al, 2009) and financial sectors (Luiz and Charalambous, 2009). Consequently Kogut (1988) first outlines the transaction cost theoretical perspective that views the benefits of potential expansion in terms of the sum of production and transactions costs in terms of contrasting potential governance modes. These commonly range from more distant arm's length licensing and franchising agreements, to minority as opposed to majority controlled IJVs ultimately through to wholly owned subsidiaries via vertical or horizontal integration. Contrastingly strategic behavioural theory views market entry mode on the basis of the maximisation of profits through improving the

firm's competitive position vis-à-vis rivals. IJVs are also a mechanism to deter entry as well as erode competitor's dominant positions in a market (Kogut, 1988) which in turn has inferences in terms of the local subsidiaries contribution to MNE firm strategic advantages (Birkinshaw et al, 1998). These are especially prevalent as a market entry mode across the highly competitive SSA telecommunications sector (Hearn et al, 2009) where motivations are jointly on establishing a foothold in local market while being strategically placed to benefit from competitive bidding process for lucrative government licenses. This has led to the continent's mobile telecommunications markets being dominated by a small handful of key firms (Hearn et al, 2009). It is also prevalent in the expansion of banking FDI with South African firms in particular acquiring dominance across Southern African region through a series of joint ventures (Luiz and Charalambous, 2009). The third and final theoretical perspective involved in explaining IJVs as argued by Kogut (1988) centres on organizational knowledge and learning where firms seek to retain knowledge within their boundaries which defines their unique capabilities and differentiates their market position by capacity to innovate and encapsulate knowledge as part of entrepreneurial process. As such joint ventures are a vehicle facilitating the transfer of "tacit knowledge". However the exchange of tacit knowledge itself incurs substantial costs, though Kogut argues these are not due to potential opportunism but rather from the inherent difficulties in replicating firm-specific experiential knowledge, which fits loosely in the definition by Nelson and Winter (1982) of organizational skills and routines. As such tacit knowledge derived from the product of complex organizational routines is difficult and costly to transfer across boundaries unless the organization itself can be replicated (Kogut, 1988) which has strong inferences on levels of cognitive transactions costs between parties to a joint venture, trust and mutual understanding (Birkinshaw et al (1998); Reuer and Miller (1998)), and consequently on levels of concentrated stock ownership (Sun et al (2010); Liu et al (2011)).

A more recent development in the literature relating to the establishment of IJVs is in the comparable levels of ownership in IJV by foreign partner and the impact of this on survival rates (Dhanaraj and Beamish, 2004). Dhanaraj and Beamish develop a transaction cost economics theoretical perspective to outline the relationship between increasing foreign partner equity ownership and enhanced commitment of executives and management to the enterprise alongside decreasing incentives for shirking and opportunism by incumbent management from local partner. Given equity signals the extent of opportunism and the commitment to governance process in the light of the equity stake itself reflecting a

mechanism to distribute residual returns when ex-ante contracts are not able to be written to specify or enforce a division of returns (Dhanaraj and Beamish, 2004) governance inferences can be made in terms of levels of commitment to the venture by foreign as opposed to local partner directors. The agency perspective, as originally developed by Jensen and Meckling (1976), takes a contrasting perspective in terms of asymmetric information and moral hazard between partners while arriving at a similar conclusion. While holding the principal as the foreign partner increasing levels of ownership are viewed in terms of increasing ability of principal to monitor the agent, in this case being the local partner, which correlates with increasing stability and longevity of partnership (IJV) (Dhanaraj and Beamish, 2004). However while the agency perspective offers insights into the relationship between foreign and local partners within the joint venture which accounts for much of IJV activity a complication arises when considering differences between those IJVs undergoing initial primary offerings (IPOs) on local capital markets and those seeking external finance abroad. Boateng and Glaister (2002) exemplify the latter group in terms of firms such as Anglo-Ashanti and Ghana Cocoa Board in which these firms have foreign partners with majority equity stakes while the local partner, in this case the Ghanaian government exert a degree of control over national resource extraction through the potential to veto board decisions vested in a Golden share ownership. In contrast local firms that have engaged early stage foreign partners and are undergoing the IPO process on local financial markets necessarily have to attract minority outsider investors for first time inferring the establishment of formal corporate governance and organizational restructuring for the first time (Brav and Gompers, 2003). These governance arrangements are of particular importance to the protection of property rights of minority outsider investors whose increasingly important presence in emerging markets is well documented (La Porta et al (1997, 1998)). In particular these have important inferences in the trade-off decisions by dominant insider groups in terms of the relative costs of using ever increasingly costly expropriation machinery ranging from transfer pricing through to forms of cronyism in preferential allocation of contracts, to offshore taxation avoidance vehicles and ultimately to outright theft of retained earnings (Doidge et al, 2007) vis-à-vis adhering to implemented governance whereby the whole firm benefits from lower cost of capital. Consideration of the governance arrangements at IPO to enhance the protection of minority outsider shareholders infers a widening of the simple agency perspective that merely considers the interactions between principal and incumbent management and executives, or agents. In particular the multiple agency framework

advanced recently by Arthurs et al (2008) facilitates understanding of governance from the point of view of multiple agency relationships. In this case those parties considered principals in traditional agency theory are considered as agents to their own external principals with often incongruous goals and motives. This assists in the extension of the scope of study of the structure and composition of boards in terms of their monitoring capability in terms of long term foreign partner, the local equivalent partner, incumbent management and executives as well as minority outsider shareholders introduced through divesting of ownership at IPO. These diverse stakeholders and their influence on board underscore the importance of IJV boards in terms of fulfilment of governance obligations for additional minority outsider investors as well as the more conventional view of their straddling the pressures of foreign MNE firm and local host country pressures (Kriger, 1988).

2.1. Firm-level governance characteristics of IPO firms with long term foreign partners

The mainstream international corporate governance literature views an IPO as being the first major "liquidity event" in the life cycle of fast growing firms when founders and initial investors (corporate insiders) begin the process of realizing the value of their ownership stake in the firm (Brav and Gompers, 2003). However the IPO process introduces a number of potential agency conflicts for the various principal and agent parties involved (Bruton et al, 2009) which are particularly pertinent given the considerable body of evidence in literature revealing global firm ownership is often highly concentrated (La Porta et al, 1997, 1998) inferring a lack of support for the original dispersed ownership model of Berle and Means (1932). However increased levels of concentrated ownership by insider groups also raises the risks of expropriation of minority outsider investors underscoring the importance of the board of directors as a firm level governance mechanism mitigating the risks to the erosion of their property rights from insiders.

The increasing proportion of foreign directors in particular is associated with increasing ownership and control by long term foreign partner over the IJV (Kriger (1988); Dhanaraj and Beamish (2004)). This is in principal due to the enhanced voting rights of the dominant foreign partner over board affairs and in particular its composition inferring that these directors are either affiliated to foreign partner MNE firm or are closely related with congruous motives. As such I test the following hypothesis:

H1. The ratio of foreign directors to total board size is positively associated with likelihood of IPO-firm having a long term foreign partner

The literature relating to the increasing presence of indigenous social elites and in particular those associated with the local partner in IJVs, whether this is state as is mostly the case in SSA (Boateng and Glaister (2002); Luiz and Charalambous (2009)) or private corporate entity argues that an increasing proportion of directors with motives aligned to the local partner and incongruous to those of foreign partner are likely to increase potential for moral hazard and agency costs. Boateng and Glaister (2002) find survey evidence from a sample of West African IJVs that foreign partners in particular disapprove of increasing levels of local partner directors. However in contrast a dissenting view from Ngobo and Fouda (2011) views increased presence of indigenous directors as beneficial in the light of their personal social networks which assists in securing local resources for firm and favourable operating conditions through governmental lobbying. However given the literature relating to MNE expansion taking place preferentially in markets with similar cultural and linguistic traits to those of the home country of MNE parent firm (see Kogut and Singh (1988) for more comprehensive literature review) and evidence of foreign partners having apprehension over increasing numbers of local partner directors (Boateng and Glaister, 2002) I test the following hypothesis:

H2. The ratio of indigenous social elite directors to total board size is negatively associated with likelihood of IPO-firm having a long term foreign partner

There is a considerable literature relating to the role of nonexecutives in the decision monitoring and surveillance process of their executive counterparts thereby acting as a device protecting outsider shareholder interests (such as Boyd (1994); Kosnik (1990); Westphal and Zajac (1994) and Conyon and Peck (1998)). However very little relates to the role ascribed to genuinely independent nonexecutives. Westphal and Zajac (1995) express uncertainty regarding the genuine level of independence of nonexecutives owing to recruitment practices commonly being administered by CEO's and dominant insiders while a lack of financial incentives in rewarding effective monitoring is also cited as an issue affecting nonexecutives (Conyon and Peck, 1998). However the promotion of independent nonexecutives is a central feature of the Anglo-American shareholder value model of corporate governance with many

of its features incorporated into national indigenous governance codes (Chizema, 2008). Furthermore the Anglo-American model is spread through coercive and mimetic institutional pressures within globalized industries (Branson, 2001) although its lack of applicability in developing areas such as SSA owing to incongruous fit with indigenous informal institutions infers a lack of enforcement in practical terms for many of its stipulations including legal recognition and recourse for independent directors. Consequently the presence of independent directors is more a consequence of intra-industry institutional pressures with their presence lacking any real credibility in terms of enforcement and recognition by informal institutions. As such I test the following hypothesis:

H3. The ratio of independent nonexecutives to board size is positively associated with likelihood of IPO-firm having a long term foreign partner

Leading from the above arguments regarding the lack of institutional support for nonexecutives a potential avenue whereby nonexecutives would be able to effectively question decisions made by dominant insider entity and thus reduce their ability to appropriate rents is through elevated levels of ownership thereby becoming a stakeholder and principal within the firm. Consequently I test the following hypothesis:

H4. The ratio of nonexecutives owing more than 2% to board size is negatively associated with likelihood of IPO-firm having a long term foreign partner

Finally leading from above arguments relating to expropriation, Core et al (2008) argue from the executive compensation literature that a common feature of expropriation technology is the domination of board level committees by either CEO or insider groups that are able to engage in detrimental self-rewarding behaviour. However the independence of such committees forms a central part of both European stakeholder and Anglo-American shareholder value governance models which are spread through intra-industry coercive and mimetic pressures in the same sense as legislation relating to independent nonexecutives. Consequently I test the following hypothesis:

H5. The presence of "gray" committees (those influenced by CEO or dominant insider groups) is negatively associated with likelihood of IPO-firm having a long term foreign partner

2.2. State-level institutional characteristics of IPO firms with long term foreign partners

The study of institutions facilitates enhanced understanding of the wider factors involving the structural features of the business environment and its impact on founder-CEO succession. The quality of a country's national level institutions is especially important in terms of influencing the growth and development of financial markets and availability of external finance for both public firms (Demirguc-Kunt and Maksimovic, 1998) as well as their private counterparts (Payne et al, 2008). National level institutions have also been attributed in being influential in determining levels of minority outsider shareholder protection (La Porta et al, 2000) and in inhibiting the appropriation of private benefits of control by insider groups (Doidge et al, 2007).

While there is considerable variation in the quality of the state-level institutions across SSA generally these nations have had a disadvantaged position in terms of development. Legal and judicial systems as well as governmental governance structures inherited at independence from former colonial metropoles, principally UK and France and to lesser extent Portugal (Joireman, 2001), narrow incomplete bureaucracy designed to engender colonial control and promote interests of primarily extractive industries for colonial trade purposes rather than ensuring equitable distribution of wealth and income across society (Joireman (2001, 2005)). Additional complications arose with the disbanding of traditional court system at independence for most SSA nations with these adopting universal suffrage of populations under the narrow band of inherited and often archaic European formal legal and governmental institutions (Joireman (2001, 2005)). This caused further disempowerment and disenfranchisement of indigenous populations and serious complications for law-makers given under-equipped judiciaries with minimal case law or supportive legal bureaucracies in case of civil law countries at independence. Furthermore social elites in many SSA countries dominated the domestic polity and given their considerable private benefits of control at national level were reluctant to initiate far-reaching reforms that would involve more equitable wealth and income redistribution across society as a whole (Joireman (2001, 2005)). Consequently many SSA political economies are narrow, dominated by social elites with little incentive to reform, and with business environments

shaped by dense social networks that are necessary to mitigate some of the world's highest transactions costs (North (1989, 1990)). These transactions costs also influence the contracting environment, reflected in levels of concentrated ownership (Liu et al, (2011); La Porta et al (1997, 1998)). In order to capture the contrasting impact of institutional quality on likelihood of early stage foreign partner involvement within IPO firms I construct hypotheses for each of six World Bank Governance institutional quality indices as developed by Kaufman et al (2009), namely corruption control, government effectiveness, political stability and absence from violent revolution or terrorism, quality of regulatory environment, rule of law and finally democratic voice and accountability, which is a measure of the informational environment.

A central feature of quality of institutions is the facilitation of information flow to minority outsider investors from the firm. Doidge et al (2007) argues that this is essential in terms of protection of property rights of minority outsider shareholders in terms of their being empowered through timely information regarding potential appropriation of firm assets and value by insiders and hence their being able to effect sanctions or legal restraints. As such improvement at state-level of anti-corruption legislation and its subsequent enforcement is closely tied to general improvement of firm informational environment. Consequently I test the following hypothesis:

H6. Control of corruption is positively associated with likelihood of long term foreign partner involvement in IPO-firm

The quality and effectiveness of central government and civil service in providing services and in formulating and implementing (enacting) new policies together with the degree of independence of the civil service from political pressures is likely closely associated with promotion of private sector enhancing policy that benefit broad inclusive constituencies beyond those of narrow social elites. This is more likely to lower transactions costs thereby promoting external finance, whether through financial markets or banking sector which in turn will reduce incentives to expropriate in favour of accessing more cost effective finance from external financial markets with the firm benefiting from reduced cost of capital. However while there is a dissenting argument that the enhanced role of government is more likely to lead to potential agency problems (Boateng and Glaister (2002); Ngobo and Fouda (2011)) the promotion of viable external finance and disincentives for employment of costly

expropriation technology by insiders is more likely to be associated with improved minority outsider shareholder protection in IPO firms with long term foreign partners. Consequently I test the following hypothesis:

H7. Effective government is positively associated with likelihood of long term foreign partner involvement in IPO-firm

The degree of political stability of a country is argued to be closely linked to the narrowness of political economy and considerable private benefits of control at state-level ascribed to controlling social elites where North (1990) and Beck et al (2000) argue these incentivize revolutions and instability. Political instability in particular is more likely to lead to deficiencies in the wider informational environment given a loss of universal constituency of the mandated authority. Consequently we test the following hypothesis:

H8. Political stability is negatively associated with likelihood of long term foreign partner involvement in IPO-firm

Following the characterisation of IJV establishment as an entry mode for MNE expansion by Kogut (1988) and that this mode of entry typically inhibits entry to market and competitiveness in market for potential competitor firms there is a strong likelihood of regulatory capture aspect of institutional quality being strongly associated with likelihood of IPO firm having engaged early stage foreign partner. Consequently I test the following hypothesis:

H9. Regulatory quality is negatively associated with likelihood of long term foreign partner involvement in IPO-firm

In line with arguments developed by Zhang and Wong (2008) the quality of rule of law is associated with the shaping of the business environment ad in particular resource and social capital procurement from either market-orientated or social networking means. Lower levels of quality in legal and judicial institutions infers a greater reliance on social networks to mitigate transactions costs in economic exchanges given mistrust in formal institutions that would otherwise facilitate market-orientated mitigation of transactions costs through

professional audit and accounting firms whose work is underscored by effective legal systems. As such business environments dominated by social networks in order to mitigate transactions costs are more likely to be associated with inferior protection of property rights and greater agency costs inferring less protection for minority outsider investors as well as concerns for MNE firms regarding paucity of protection and uncertain local partners. Consequently we test the following hypothesis:

H10. Rule of Law is positively associated with likelihood of long term foreign partner involvement in IPO-firm

Finally in line with arguments developed for hypothesis H7 improvements in the institutions promoting informational transparency and accountability are more likely to lead to the protection of minority investors and their acceptance of the trade-off between enhanced concentrated control for enhanced wealth and value generation given the firm's foreign block shareholding partner. Consequently we test the following hypothesis:

H11. Information environment (voice & accountability) is positively associated with likelihood of long term foreign partner involvement in IPO-firm

3. Methods

3.1. Data

The dataset construction involved two sequential steps. The first involved forming an accurate and comprehensive list of Initial Primary Offerings (IPOs) to have been undertaken across the Sub Saharan African (SSA) markets of Cape Verde Islands (Bolsa de Valores de Cabo Verde), Cameroon (Bourse de Douala), BRVM (Cote d'Ivoire), Malawi, Kenya, Uganda, Tanzania, Zambia, Namibia, Botswana, Mozambique, Mauritius and Ghana for the period of 2000 to 2011. Nigerian lists were only available from 2002 to 2011. The primary source for lists were the national stock exchanges and their associated websites and these were cross checked with lists sourced from major brokerage houses to ensure accuracy in the case of Nigeria and Zambia. This resulted in a list of 167 listings having taken place across Africa.

The second stage involved the procurement of IPO prospectuses that entailed the listing of ordinary shares with single class voting rights thereby excluding preferred stock,

convertibles, unit and investment trusts as well as readmissions, reorganizations and demergers and transfers of listings between main and development boards. Flotation prospectuses were hand-collected from the Ghana and Tanzania (Dar Stock Exchange) stock exchanges and Bolsa de Valores de Cabo Verde (Cape Verde Islands exchange) as well as from the stock exchange website for the Bourse de Douala (Cameroon exchange) (DSX website, 2010) while the Thomson Corporation Perfect Information database was used in the first instance to source Nigerian, Malawian and Kenyan prospectuses. This was further augmented by sourcing individual prospectuses from the national stock exchanges and individual firms although response rates were low in sourcing prospectuses direct from firms themselves. Pangea Stockbrokers (Zambia) as well as individual floated firms were the source of prospectuses for the Zambian stock market. A final source was African Financials website (African Financials website, 2011) which entailed the extraction of information relevant to listing from annual reports available. This final stage resulted in a sample of 97 IPOs to have occurred across SSA. Share prices were obtained from Bloomberg, DataStream and direct from the national stock exchange in Cape Verde and Cameroon. US$ Exchanges rates were obtained from Bloomberg.

3.2. Variable measurement

3.2.1. Likelihood of long term foreign partner involvement in IPO-firm

The likelihood of long term foreign partner involvement in IPO-firm is a dichotomous variable taking value 1 if long term foreign partner is retained during and after IPO process and 0 otherwise

3.2.2. Firm-level governance measures

Ratio of foreign directors to board size

This is the proportion of foreign directors to total board size. Notably in civil code law countries where supervisory boards exist the total number of directors is taken as sum of supervisory nonexecutives as well as the executive committee installed to manage day-to-day operations of firm.

Ratio of social elite directors to board size

This is the proportion of directors with elevated social status in indigenous society in terms of military, governmental, commercial and academic status to total board size.

Ratio independent directors to board size
This is the proportion of nonexecutive directors that have no discernable links, whether these are family, commercial or personal with CEO or dominant insider groups to total board size.

Ratio nonexecutives with ownership in excess of 2% to board size
This is the proportion of nonexecutive directors with ownership in excess of 2% of total issued and fully paid up share capital of firm to total board size.

Gray Committee
This is a dichotomous variable taking value of 1 if nominally independent board level committees (including remuneration, audit and accounting) falls under influence of CEO and 0 otherwise.

3.2.3. State-level institutional quality measures

State-level governance institutions are representative institutions of the underscoring the exercising of authority in a country (World Bank Governance indicators, 2011). These include the processes by which governments and political authorities are selected, monitored and replaced, the capacities of these political entities to formulate coherent effective policies as well as the effectiveness of implementation and finally the respect of citizens for the institutions governing economic and social interactions and contracting within society (World Bank Governance indicators, 2011). The World Bank Governance indicators originally developed by Kaufman et al (2009) are six indices capturing various aspects of state-level institutions and citizens perceptions towards these. These start in 1996 and are updated every two years until 2002 where thereafter updating is annual. As such for years where a value is unavailable I have used the previous year's value that is available so for example the value for 2000 is also used for 2001. The indicators are compiled from the responses on the quality of governance obtained from 35 data sources from 33 organizations that is itself drawn from a large number of enterprises, citizens and expert survey respondents in industrial and emerging countries, reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations (Kaufman et al, 2009). The

six indicators are constructed using an unobserved components methodology, detailed in Kaufman et al (2009) with raw values ranging from approximately -2.5 to +2.5 where higher values relate to better governance outcomes. The six governance indices are classified by World Bank (World Bank Governance website, 2011) as follows:

1. Voice and Accountability: "capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media"
2. Political Stability and Absence of Violence/Terrorism: "capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism"
3. Government Effectiveness: "capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies"
4. Regulatory Quality: "capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development"
5. Rule of Law: "capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence"
6. Control of Corruption: "capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests"

3.2.4. Control Variables

There are four groups of controls: industry, board, economic determinants and ownership.

Industry Controls

Three industry controls are used with these being dichotomous variables taking value 1 if operations of IPO firm can be classified as falling within extractive industry (for example

mining, oil, oil services), finance (for example financial services, banking, real estate), or technology (including technology and telecommunications) and 0 otherwise.

Board controls

These are board size and board independence ratio. Board size is defined as the total number of both executive and non-executive directors and is taken to include those designated as "executive directors" in civil code markets where boards are unitary in structure and supervisory in function. Board independence ratio is defined as the proportion of non-executive directors to total board size.

Economic determinants

These are natural logarithm of firm revenues in pre-IPO year, as estimated in US$ and obtained from IPO prospectus and return on assets (ROA), defined as US$ converted net income in year immediately preceding IPO to US$ converted total asset value in same year. The use of firm revenues is justified on basis that larger firms tend to have improved access to resources (Boateng and Glaister, 2002). In addition evidence from Rosen (1982) and Smith and Watts (1992) indicates larger firms having improved growth opportunities thereby necessitating firm size as a control. The return on Assets measure is a firm performance related measure.

Ownership controls

Ownership controls are the percentage of pre-IPO shareholding for corporate block shareholders, state and private equity/ venture capitalist respectively. The use of corporate block-shareholdings is justified on basis of evidence of concentrated ownership derived from this entity worldwide (see La Porta et al (1998, 1999) for example) while state ownership is based on the evidence that many listings in emerging markets are derived from privatizations of former state owned enterprises (SOEs) and parastatals (La Porta et al, 2000). The use of private equity/ venture capital ownership control follows evidence that this form of formal early stage investor adheres to more remote investment models that carry significant cognitive transactions costs inferring that their preferences are towards foreign affiliate firms or firms with longer term foreign partner in order to minimize potential agency costs (Zhang and Wong (2008); Arthurs et al (2008)).

3.3. Model

The models used to test first the five internal board governance hypotheses and then the six external institutional quality hypotheses when holding the five board governance measures as controls are Logistic regressions with a dichotomous dependent variable taking value 1 if early stage long term foreign partner is retained during and after IPO and 0 otherwise. In each case each variable of interest is recursively added to base model composed only of the controls and then a grand regression is estimated including all variables. The first model focuses on internal board level governance and is expressed below:

$$\begin{aligned} Log\frac{P(LongTermForeignPartner_t)}{P(1-LongTermForeignPartner_t)} &= \alpha \\ &+\beta_1 Internal\ Governance_{t-1} \\ &+\beta_2 Industry\ Controls_{t-1} \\ &+\beta_3 Board\ Controls_{t-1} \\ &+\beta_4 Economic\ Deter\min ant_{t-1} \\ &+\beta_5 OwnershipControls_{t-1} \\ &+\varepsilon_i \end{aligned} \qquad (2)$$

where all variables are defined in preceding section.

The second stage involves holding all internal firm governance measures (represented in hypotheses H1 to H5) as controls and then recursively adding the six institutional quality index measures before finally including all of these in a grand logistic model which in turn represent hypotheses H6 to H11. The six World Bank institutional quality index measures being corruption control, effective government, political stability & absence from violent unrest, regulatory quality, rule of law and voice & accountability. The use of the initial set of internal firm-level governance measures as controls in the second stage facilitates comparison from when they were included on their own in the initial step of hypothesis testing to study the comparative strength of effect of internal (firm-level) over and above external (state-level) governance. This is expressed below:

$$
\begin{aligned}
Log\frac{P(LongTermForeignPartner_t)}{P(1-LongTermForeignPartner_t)} &= \alpha \\
&+\beta_1 Institutional\ Quality_{t-1} \\
&+\beta_2 Internal\ Governance_{t-1} \\
&+\beta_3 Board\ Controls_{t-1} \\
&+\beta_4 Economic\ Determinant_{t-1} \\
&+\beta_5 OwnershipControls_{t-1} \\
&+\varepsilon_i
\end{aligned} \qquad (3)
$$

4. Results

4.1. Descriptive statistics

The evidence in Table 1 reveals the differences in state-level institutional characteristics, firm-level board governance and then board, economic and ownership controls between IPO firms that have and have not engaged with early-stage long term foreign partners. Study of characteristics of long term foreign partners in IPO firms is made easier given the evidence from Appendix Table 1 where all IPO firms that have engaged these entities are either IJVs or are the result of brown-field FDI investment. This latter type of investment type however only accounts for less than one quarter of FDI where the remainder is IJV. It is notable from Table 1 that IPO firms with early-stage long term foreign partners tend to be located in markets characterised by often considerably lower state-level institutional quality. However this may well be reflective of one aspect of the well documented "resource curse" (see Collier and Goderis (2007) for more detailed literature review) where countries with weaker less developed institutions are more likely to benefit least from having an abundance of natural resources. The evidence regarding firm-level board governance measures indicates that IPO firms with early-stage long term foreign partners have on average three times as many foreign directors and approximately half the number of directors drawn from social elites. This evidence supports the findings of Boateng and Glaister (2002) that IJV firms in West Africa with foreign partners are apprehensive over recruitment of local indigenous elites with links to local partner. The evidence also suggests that firms without foreign partners are more likely to have "gray" committees, namely committees dominated or influenced by either CEO or dominant insider groups. This is indicative that those IPO firms with foreign partners are more likely to adopt governance mechanisms, including nominally independent board oversight committees, in line with coercive and mimetic intra-industry institutional pressures where the parent MNE (foreign partner) is more likely to be in a strong

governance regime (Ngobo and Fouda, 2011). Finally there are considerable statistically significant differences in means between levels of pre-IPO ownership of private equity/ venture capital and corporate block shareholder entities. IPO firms with foreign partners have a mean private equity ownership three times that of their counterparts with no foreign partners. Equally levels of corporate block shareholder ownership are almost twice as high in IPO firms with foreign partners as compared to those without. Overall these results point to the marked differences transcending state-level institutional quality as well as firm-level board governance and ownership characteristics between IPO firms that have and have not engaged early stage long term foreign partners and this form of FDI.

Table 1

4.2. Characteristics of internal (firm-level) governance for IPO firms with long term foreign partners

Evidence from correlation analysis revealed a general lack of correlation at any discernable level of statistical significance across all sample variables mitigating concerns over potential multicollinearity[1] related issues. The evidence from Table 2 reveals considerable support for hypotheses H1, H4 and H5 with weaker support for hypothesis H2. This is revealed through large, positive relationship with ratio of foreign directors to board size and likelihood of foreign partner and similarly large, negative relationships between ratio of nonexecutives owing more than 2% to board size and presence of gray (insider influenced) committees and likelihood of foreign partner engagement. While these relationships are all statistically significant at 95% confidence level in the individual logistic models 1, 4 and 5 the statistical significance is retained in the grand multinomial logistic model 6. The weak support for hypothesis H2 is attributed to a large, negative relationship between ratio of social elite directors and board size with likelihood of IPO firm having engaged foreign partner. In particular this is only marginally statistically significant at 90% confidence level in the individual logistic model 2 while the relationship lacks statistical significance at any discernable confidence level in grand logistic model 6. There is no support for any relationship between ratio of independent directors to board size and likelihood of IPO firms having engaged foreign partner.

The evidence relating to the relationship between various control variables and likelihood of IPO firm having engaged long term foreign partner across all models 1 to 6

[1] Correlation results are available from authors upon request

reveals that long term foreign partners are three times more likely to be associated with IPO firms in the extractive industry as opposed to the technology (and telecommunications) industry. While coefficients for both relationships are large and positive the former relationship is at least three times the size of the latter industry relationship. Similarly statistical significance in the former (extractive industry) relationship is statistically significant at between 95% and 99% confidence level while this is merely 90% confidence for the latter (technology industry) relationship. There is a smaller positive relationship (statistically significant at 99.95% confidence level) between board size and likelihood of foreign partner, inferring that larger boards are more commonly associated with this type of early-stage long term FDI. Equally there is a negative relationship (statistically significant at 95% confidence level) between natural logarithm of firm revenues and likelihood of IPO firm having a long term foreign partner, indicating IPO firms with foreign partners are more likely to be smaller in size and revenues. Finally there is a negative and generally statistically significant relationship between state ownership and likelihood of foreign partner while this is positive and highly statistically significant relationship with corporate block shareholder ownership.

Table 2

4.3. Impact of external (state-level) institutional quality on IPO firms with long term foreign partners

The second stage of this study involves the recursive testing of hypotheses H6 to H11 delineating the six World Bank Governance institutional quality indices while maintaining the internal firm-level board governance measures (that form hypotheses H1 to H5) as controls. As such the evidence from Table 3 reveals the contrasting impact of each of six individual state-level institutional quality indices on likelihood of long term foreign partners in IPO firms across the institutionally diverse national business environments characterising SSA developing region. The evidence from Table 3 reveals mixed support for hypotheses H6 to H11. In particular all coefficients between each of the six individual recursively added World Bank Governance indices in models 7 to 12 are negative and statistically significant. However the most robust assessment measure is attributed to the grand multinomial logistic model 13. The relationship between corruption control and likelihood of foreign partner is large, negative and statistically significant in both models 7 and 13 which is counter to the anticipated relationship in hypothesis H6. The coefficients for the relationship between

effective government and political stability, hypotheses H6 and H7 respectively, are both negative and statistically significant in the individual models 8 and 9 while losing their statistical significance in the grand logistic model 13. This would infer very weak support at best for hypothesis H8. However the large negative and highly statistically significant relationship between regulatory quality and likelihood of foreign partner in models 10 and 13 supports hypothesis H9. This is indicative that the early-stage engagement of foreign partner, which is mostly through IJV collaboration as shown in Appendix Table 1, is associated with increased entry barriers and a lacking of viable competitors in these markets. While there is somewhat mixed evidence regarding the support for hypothesis H10, associated with rule of law measure, which is due to a sign change in coefficients between models 11 and 13, the retention of statistical significance (at 90% confidence level) in grand logistic model 13 is indicative of some support for hypothesis H10. Finally the large, negative and statistically significant relationship (at 95% confidence in model 12 and 90% confidence level in model 13) is the opposite of the relationship anticipated in hypothesis H11. When the negative direction of this relationship is taken together with that of corruption control a strong inference is that the likelihood of foreign partner involvement at an early-stage (i.e. mostly involved in IJVs) is closely related with a paucity in informational environment. This would infer that the presence of foreign partners together with a weak informational environment infers a considerable lack of protection for minority outsider investors from expropriation by the dominant controlling insider group. While the lower regulatory quality associated with likelihood of foreign partner is in part associated with high entry barriers preventing effective competition in these industries (see Kogut (1988) for similar findings in IJVs) it also underscores the dominance of IPO firms with foreign partners in their respective domestic markets and industries. The support for the rule of law being associated with increased likelihood of foreign partner involvement is in line with more effective contract enforcement which reduces transactions costs.

In terms of the relationships between various controls and likelihood of IPO firm having engaged an early-stage long term foreign partner and all the relationships with control variables are similar to those in the preceding section in terms of approximate size, direction and generally in terms of statistical significance. However in general across all models 7 to 13 there is a notable increase in explanatory power from the first set of firm-level governance measures. This would infer that stat-level institutional quality characteristics are important in explaining the attraction and successful engagement of early-stage long term foreign partners

in developing countries. This in turn would provide some justification for the establishment of investment promotion bureaus in many countries across the developing world that can go some way towards reducing transactions costs for foreign direct investors in the light of often poor institutional quality (Lim, 2008).

Table 3

5. Discussion and conclusions

This study undertakes an analysis into the firm-level board governance attributes of IPO firms that have engaged early-stage long term foreign partners across the institutional diverse environment of the Sub Saharan African developing region. This is further developed in terms of an assessment of the degree of influence of institutional quality, through six specifically designed World Bank Governance measures, and their impact on the likelihood of IPO firms having foreign partners. These institutional quality measures being corruption control, government effectiveness, political stability, regulatory quality, rule of law and voice and accountability. As such I make two principal contributions to the literature. The first being the firm-level board governance measures implemented by IPO firms with foreign partners divesting ownership for the first time to minority outsider investors, which is an inference on the quality of protection of minority investor property rights. The second contribution being the institutional influences differentiating IPO firms that have engaged early-stage long term foreign partners from those that have not.

The results of this study indicate that despite many emerging markets striving to attract firms with foreign partners, that are commonly major international brand names, to list on local market which provides a valuable source of blue-chip listings in many developing countries that minority outsider investors should be wary in terms of the questionable level of protection of property rights inferred from a dominant controlling insider group. This is especially acute given that IPO firms with foreign partners are considerably more likely to list in markets characterised by extremely weak informational institutional quality, thereby inhibiting minority outsider investor's ability to find out about potential expropriation practices undertaken by insiders. Furthermore board governance structural features such as genuinely independent board oversight committees and increased levels of independent directors that are cornerstones of European stakeholder and Anglo-American shareholder value governance models have little effect in mitigating concerns over dominance of insider

groups (foreign partners) and potential for appropriation in the light of paucity of institutional quality and effective board governance controls.

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Table 1. T-difference in means test for IPO firm characteristics

The data have been sourced manually from the last prospectus lodged with the relevant securities exchange or national regulator immediately prior to listing. The six institutional quality measures are World Bank Governance measures as developed in Kaufman et al (2006), namely institutional quality indices for corruption control, effective government, political stability, regulatory quality, rule of law, voice and accountability and an aggregate measure of all six indices. Internal Governance measures are the number of foreign, social elites and, independent directors and the number of nonexecutives owing in excess of 2% total issued shares of firm as well as a dummy variable taking value 1 if gray committee, defined as if board level remuneration, accounting and auditing oversight committees are influenced by either CEO or insider groups (foreign or local partners). Board controls are board size, defined as total number of directors (namely both executives and nonexecutives). Board independence ratio is proportion of nonexecutives to total board size. Economic determinants are natural logarithm of firm revenues in year preceding IPO and ROA, defined as accounting returns (net income) divided by total assets value in year preceding IPO. Ownership controls are level of ownership (percent) prior to IPO for corporate block shareholder, state and private equity entities.

	Foreign Partner vs. Non- Foreign Partner Firms		
	Foreign Partner	**Non- Foreign Partner**	**Test of difference statistic**
External Governance (Institutions)			
Index Corruption Control	0.27	0.39	2.442†
Index Effective Government	0.36	0.46	2.419†
Index Political Stability	0.51	0.66	1.889**
Index Regulatory Quality	0.48	0.56	1.923**
Index Rule of Law	0.39	0.52	2.482†
Index Voice & Accountability	0.44	0.63	3.971††
Index Aggregate Institutional Quality	2.46	3.23	2.635††
Internal Governance			
No. Foreign Directors	3.66	1.39	3.395††
No. Social Elite Directors	1.48	2.33	1.283*
No. True Independent Nonexecutives	2.39	1.91	0.596
No. Nonexecutive >2pc	0.07	0.21	0.328
Gray Committee	0.34	0.58	1.521*
Governance Variables			
Board Size	9.00	7.91	0.996
Board Independence Ratio	3.38	4.24	0.978
Economic Determinants			
Revenues (US$ '000)	56,503.38	65,615.92	0.080
Return on Assets (ROA)	0.11	0.12	0.228
Ownership			
Private Equity Own (Pre-IPO)	10.21	3.80	1.430*
State Own (Pre-IPO)	19.35	24.31	0.522
Corporate Block Shareholder Own (Pre-IPO)	89.35	53.42	3.340††
N (Sample Size)	29	67	

Notes: (1) *p<0.10; **p<0.05; †p<0.01; ††p<0.005

Table 2. Internal governance factors determining whether IPO firm has engaged Long Term Foreign Partners

Multinomial logistic regression models are relating firm-level board governance variables, industry, board, economic and ownership controls to the likelihood of IPO firm having engaged early stage long term foreign partner. Industry controls are dichotomous taking value 1 if IPO firm's operations fall within extractive, finance or technology (and telecommunications) industries and 0 otherwise. All other controls are as defined in Table 1.

	Likelihood of foreign partner					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-5.42 (-2.22)**	-4.35 (-1.88)**	-4.54 (-1.90)**	-4.91 (-2.10)**	-3.64 (-1.46)*	-5.00 (-1.44)*
Internal Governance						
H1: Ratio Foreign Directors	**3.99 (1.57)***					**4.00 (2.15)****
H2: Ratio Social Elite Directors		**-3.47 (-1.39)***				-2.05 (-0.78)
H3: Ratio Ind. Directors			0.95 (0.45)			0.62 (0.20)
H4: Ratio Nonexecutives >2pc				**-10.91 (-2.19)****		**-7.22 (-1.55)***
H5: Gray Committee					**-1.19 (-1.70)****	**-1.47 (-1.47)***
Industry Controls						
Extractive Industry	2.97 (2.04)**	2.73 (2.36) †	2.64 (2.11)**	2.18 (1.94)**	2.91 (2.18)**	3.47 (2.49) †
Finance	0.99 (0.72)	0.81 (0.78)	0.32 (0.30)	0.48 (0.47)	0.53 (0.51)	1.23 (1.00)
Technology/ Telecom	1.56 (1.28)*	1.22 (0.88)	1.25 (1.28)*	0.84 (0.74)	1.59 (1.28)*	1.61 (1.29)*
Board Controls						
Board Size	0.38 (2.66) ††	0.30 (2.71) ††	0.35 (3.05) ††	0.32 (2.97) ††	0.30 (2.59) ††	0.30 (2.04)**
Board Ind. Ratio	-0.03 (-0.18)	0.01 (0.07)	-0.10 (-0.60)	-0.07 (-0.45)	-0.10 (-0.59)	0.03 (0.14)
Economic Determinants						
Log (Revenues)	-1.18 (-1.45)*	-0.77 (-1.69)**	-1.01 (-1.86)**	-0.70 (-1.57)*	-0.94 (-2.13)**	-1.07 (-1.34)*
ROA	2.24 (0.49)	1.94 (0.45)	1.02 (0.26)	0.29 (0.07)	2.46 (0.54)	4.66 (0.96)
Ownership						
Private Equity Own	0.02 (0.80)	0.01 (0.85)	0.02 (0.94)	0.02 (0.96)	0.02 (1.06)	0.02 (0.66)
State Own	-0.02 (-0.98)	-0.02 (-1.53)*	-0.02 (-1.91)**	-0.03 (-2.27)**	-0.03 (-1.98)**	-0.02 (-0.87)
Corp Block Own	0.06 (3.45) ††	0.06 (4.41) ††	0.06 (4.34) ††	0.06 (4.39) ††	0.06 (4.24) ††	0.06 (2.34) †
No Obs. = 0	53	53	53	53	53	53
No Obs. = 1	26	26	26	26	26	26
No. Obs.	79	79	79	79	79	79
LR statistic (prob.)	49.16 (0.00)	45.88 (0.00)	42.98 (0.00)	44.59 (0.00)	45.17 (0.00)	55.21 (0.00)
McFadden R^2	0.4911	0.4583	0.4294	0.4455	0.4513	0.5515

Notes: (1) *p<0.10; **p<0.05; †p<0.01; ††p<0.005. Z-statistics are in parentheses (2) QML (Huber/White) standard errors & covariance.

Table 3. External governance factors determining whether IPO firm has engaged Long Term Foreign Partners

Multinomial logistic regression models are relating six state-level institutional quality index measures, firm-level board governance variables, board, economic and ownership controls to the likelihood of IPO firm having engaged early stage long term foreign partner. The six institutional quality measures are World Bank Governance measures as developed in Kaufman et al (2006). All other controls are as defined in Table 1.

	Likelihood of foreign partner						
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model13
Intercept	2.43 (0.72)	3.59 (0.78)	-0.58 (-0.17)	4.20 (1.36)*	2.50 (0.75)	1.71 (0.32)	3.77 (0.86)
Institutional Quality							
H6: Corruption Control	**-16.94 (-3.52)** ††						**-35.45 (-1.25)***
H7: Effective Government		**-24.85 (-2.91)** ††					-6.51 (-0.41)
H8: Political Stability			**-4.98 (-1.54)***				-1.23 (-0.13)
H9: Regulatory Quality				**-22.80 (-2.26)****			**-17.30 (-1.34)***
H10: Rule of Law					**-12.95 (-2.58)** †		**51.14 (1.41)***
H11: Voice & Accountability						**-16.05 (-1.94)****	**-33.99 (-1.28)***
Internal Governance							
Ratio Foreign Directors	4.61 (2.51) †	4.32 (1.92)**	3.58 (2.42) †	5.10 (2.38) †	3.86 (2.68) ††	2.56 (1.48)*	4.34 (1.48)*
Ratio Social Elite Directors	-1.98 (-0.98)	-2.39 (-1.06)	-0.78 (-0.38)	-1.57 (-0.60)	0.13 (0.07)	-1.25 (-0.58)	-6.39 (-1.10)
Ratio Ind. Directors	2.28 (0.95)	4.51 (1.26)	0.30 (0.17)	3.74 (1.44)	1.44 (0.70)	0.8 (0.28)	4.91 (0.91)
Ratio Nonexecutives >2pc	-19.28 (-3.64) ††	-25.58 (-3.41) ††	-10.20 (-2.39) †	-21.38 (-3.08) ††	-15.35 (-2.97) ††	-16.03 (-2.53) †	-35.07 (-2.41) †
Gray Committee	-3.87 (-4.15) ††	-4.61 (-3.54) ††	-2.01 (-2.25)**	-3.34 (-2.65) †	-3.03 (-3.31) ††	-3.49 (-2.57) †	-9.29 (-2.03) **
Board Controls							
Board Size	0.14 (1.37)*	0.17 (1.44)*	0.15 (1.38)*	0.11 (0.99)	0.16 (1.52)*	0.06 (0.41)	-0.15 (-0.75)
Board Ind. Ratio	-0.22 (-1.17)	-0.11 (-0.39)	-0.10 (-0.59)	-0.06 (-0.31)	-0.20 (-1.05)	0.01 (0.05)	0.01 (0.02)
Economic Determinants							
Log (Revenues)	-0.22 (-0.38)	0.25 (0.28)	-0.44 (-0.79)	0.22 (0.35)	-0.45 (-0.79)	0.64 (1.04)	3.04 (1.75)**
ROA	-6.85 (-1.74)**	-4.76 (-1.33)*	0.67 (0.17)	0.31 (0.08)	-0.84 (-0.21)	-1.88 (-0.43)	-5.17 (-0.67)
Ownership							
Private Equity Own	0.03 (1.45)*	0.03 (0.90)	0.02 (1.17)	0.03 (1.04)	0.02 (0.98)	0.03 (0.99)	0.11 (1.41)*
State Own	-0.03 (-1.50)*	-0.02 (-1.38)*	-0.02 (-1.28)*	-0.02 (-1.29)*	-0.03 (-1.59)*	-0.03 (-1.94)**	-0.03 (-1.51)*
Corp Block Own	0.06 (3.47) ††	0.06 (2.81) ††	0.05 (3.40) ††	0.06 (2.32) ††	0.06 (3.10) ††	0.06 (3.03) ††	0.08 (3.10) ††
No Obs. = 0	53	53	53	53	53	53	53
No Obs. = 1	26	26	26	26	26	26	26
No. Obs.	79	79	79	79	79	79	79
LR statistic (prob.)	63.9 (0.00)	66.25 (0.00)	52.59 (0.00)	60.96 (0.00)	58.16 (0.00)	64.24 (0.00)	73.96 (0.00)
McFadden R^2	0.6383	0.6618	0.5254	0.6089	0.5811	0.6417	0.7389

Notes: (1) *p<0.10; **p<0.05; †p<0.01; ††p<0.005. Z-statistics are in parentheses (2) QML (Huber/White) standard errors & covariance.

Appendix Table 1. Descriptive characteristics of IPO firm has engaged Long Term Foreign Partners

Firm	IPO Market	Industry	FDI type	Host Partner	Foreign Partner Country	Foreign Partner	F-Partner Diffuse at IPO (%)	F-Partner own pre-IPO (%)
Abidjan Catering	BRVM/ Cote d'Ivoire	Non-Cyclical Cons.	JV	Pvt	France & Germany	Groupe Accor; Lufthansa Service	0.00	66.00
Bank of Africa - Benin	BRVM/ Benin	Financials	BF	Pvt	Mali	Bank of Africa	7.69	32.64
Bank of Africa - Niger	BRVM/ Niger	Financials	BF	Pvt	Mali	Bank of Africa	0.00	42.60
Office National des Telecom. de Burkina Faso	BRVM/ B-Faso	Telecom.	JV	State	Morocco	Maroc Telecom	0.00	51.00
Nouvelles Editions Ivoriennes	BRVM/ Cote d'Ivoire	Cyclical Consumer	JV	State	Switzerland	Edipresse; Edicef	0.00	43.81
SAFACAM	Cameroon	Extractive	JV	State	France	Groupe Bolloré	0.00	68.84
SOCAPALM	Cameroon	Non-Cyclical Cons.	JV	State	France	Société Palmcam	20.93	69.99
Banco Comercial do Atlântico	Cape Verde	Financials	JV	State	Portugal	Grupo CGD/ Banco Interatlântico	0.00	52.50
Enacol - Empresa Nac. Combustíveis	Cape Verde	Energy	JV	State	Angola & Portugal	Petróleos de Portugal; Socieda de Nacional de Combustíveis de Angola	0.00	65.00
Total Ghana Limited	Ghana	Energy	BF (Old)	Pvt	France	Total France	0.00	81.39
Eveready East Africa PLC	Kenya	Industrials	BF (Old)	State	United States	Everyready	25.00	14.00
Malawi Property Investment Company	Malawi	Financials	JV	State	South Africa	Old Mutual SA	0.00	55.00
Real Insurance Company of Malawi Ltd	Malawi	Financials	BF (Old)	Pvt	Kenya	Real Insurance Co.	35.00	100.00
Cervejas de Mocambique	Mozambique	Non-Cyclical Cons.	JV	State	South Africa	South African Breweries	0.00	65.00
Bank Platinum Habib (Bank PHB)	Nigeria	Financials	JV	Pvt	Pakistan	Habib Bank	0.00	15.30
Presco Ltd	Nigeria	Non-Cyclical Cons.	JV	Pvt	UK	Siat Group	0.00	64.69
National Microfinance Bank PLC	Tanzania	Financials	JV	State	Netherlands	Rabobank Nederland	0.00	34.90
Tanzania Breweries	Tanzania	Non-Cyclical Cons.	JV	State	South Africa	South African Breweries	0.00	50.50
Twiga Cement	Tanzania	Cyclical Cons.	JV	State	Germany	Heidelberg Cement	0.00	69.30
Swissport	Tanzania	Financials	JV	State	Switzerland	Swissport International	0.00	51.00
Tanzania Cigarette Company	Tanzania	Basic Materials	JV	State	Japan	Japan Tobacco International	-47.06*****	51.00
DFCU	Uganda	Financials	JV	State	UK	CDC Group plc******	0.00	60.03
National Ins. Corporation Limited	Uganda	Financials	JV	State	Nigeria	IGI (through Corp. Hdg. Ltd.)	0.00	60.00
Stanbic Bank Uganda	Uganda	Financials	JV	State	South Africa	Stanbic	11.11	90.00
Bank of Baroda	Uganda	Financials	BF (Old)	Pvt	India	Bank of Baroda India	20.00	100.00
British American Tobacco	Uganda	Basic Materials	BF (Old)	State	UK	British American Tobacco	12.50	80.00
Celtel (Zambia) Ltd	Zambia	Telecom.	JV	Pvt	Kuwait	Zain Kuwait	22.50	88.89
BP Zambia Limited	Zambia	Energy	JV	State	UK	BP	0.00	75.00
AEL Zambia PLC	Zambia	Energy	JV	State	South Africa	AEL Group	0.00	80.00

Notes: (1) * indicates an increase in ownership stake
(2) ** CDC Group PLC is a UK based private equity entity but owing to length/ duration of involvement it is classified as a long term foreign partner
(3) BF/ JV indicate brown field and joint-venture FDI investment respectively