

Media Coverage Influence on Initial Public Offerings (IPO)

Lantao Cao¹, Yidan Hu², Jiachen Liu³, Yuwei Mao^{4,*}

¹ Bartlett School of Sustainable Construction, University College London, London, WC1E 6BT, the United Kingdom

² School of Business, Sun Yat-sen University, No.135 West Xingang Road, Guangzhou, 510275, P.R. China

³ School of Business, University of Connecticut, Stamford, 06901, the United States of American

⁴ Kelly school of business, Indiana University Bloomington, Bloomington, 47405-7000, the United States of American

* Corresponding Author. Email: yuwmao@iu.edu

ABSTRACT

This paper introduces the IPO (Initial Public Offering) for the enterprises which want to go public, and discusses the role of media in this process. Prior research found the correlation between media reports and IPO underpricing by the uncertainty of events reported by the media. And researchers found that the media time and media reputation in financial news reports also have the potential impact on IPO. This paper summarizes the influence of media in IPO from these three aspects, conclude that positive media tones provides greater investment possibilities and they also found that before and after the IPO stage, the closer the news is to the IPO date will bring greater public impact and on the IPO date, the time does not matter. About the media reputation, a good media reputation can promote the share price of an IPO. However, in the unpredictable media environment, researchers still need more exploration to help managers make correct decisions under the trend of increasing IPO activities.

Keywords: IPO, Media tone, Media reputation, Timing.

1. INTRODUCTION

For all for-profit enterprises, going public is an important decision they make in the process of operation. The reasons why the company chooses to go public include providing diversification and liquidity to former owners and providing financial capital to the company when the company needs more capital than the private equity market can provide [1]. In this context, the private companies will choose to convert into public companies through IPO. IPO is the abbreviation of the initial public offering, which happening when a company changes from private ownership to public ownership by issuing liquid shares subsequently traded on the stock market [2]. And the IPO represents that the company needs additional resources to develop and prosper [3]. In this process, IPO will improve the company's valuation, strengthen the management's negotiating position in negotiations with external capital providers, and increase the company's attractiveness for employees [4]. These kinds of activities attract and retain better management and employees through shareholders' equity sharing and create more financing opportunities. On the other hand,

the process of IPO will also bring risks to enterprises that want to go public. Not all companies can successfully achieve their planned IPO. Going public means the need to disclose more information to the public, which may be beneficial to competitors. And at the initial stage, the company may incur significant cost.

Now, the IPO issue companies experience large influence by a significant amount of information released to the public. This is the main topic discussed in this paper. This paper discusses the media influence on IPO for enterprises. Before going public, the company is usually little known among retail investors. On the contrary, the popularity of these companies may change greatly during the process of going public [5]. And the type of media reports will have a great impact on the degree of change. Previous papers have discussed the impact of media coverage on IPO. According to Liu, Sherman and Zhang, the indicator of whether an issuer can attract the attention of the market is the attention to the media [6]. But the media coverage of IPO companies may have an uncertain tone. And there is not much research on how these vogue media signals affect the stock performance of newly public companies [7]. In this paper, the aspects which relate to tones, time and media reputation are discussed

in this paper. Bajo and Raimondo believed that a good intentions media tone may increase investors' interest, increase the demand for stocks, and increase the underpricing of IPO [5]. Talking about media time, Tong believed that the shorter the time interval between the release date of news articles and the listing date, the greater the impact on is the change of IPO share price [8]. In addition, the view of media reputation is also mentioned by Bajo and Raimondo, who believe that famous newspapers have a more effective influence, which will attract more potential investors for companies [5].

This research is mainly based on the literature review. It is used to evaluate the knowledge state of specific topics, which provides a basis for establishing new conceptual models or theories [9]. This paper analyzes the media influence on IPO, focusing on media tone, reporting time and media reputation. Then researchers compare the previous research with present issues to identify the research gap. The rest of the paper is organized as follows. Section 2-4 discuss the impact of media on IPO in three different aspects, which include the media tones, media reputation and timing. In the final part, researchers summarize the full text.

2. MEDIA TONES

Chahine, Filatotchev and Zahra pointed out that newly listed companies do not have mature historical records, and it is often difficult for investors to obtain the information of these companies [10]. Therefore, for investors, information on the media can replace IPO companies that lack public history.

2.1. Evidence

The uncertainty of the tone of media reports refers to the extent to which media signals limit the ability of IPO investors to predict the future trend of IPO company's stock price [11]. From the perspective of signaling theory, articles with uncertain tone transmit some uncertain signals to potential IPO investors. Therefore, if an IPO company has an uncertain signal before the listing date, investors may give up the idea of buying the shares of the IPO company.

A large amount of information transmitted by the media can be used as a way to make the issuing company easier to be seen by ignorant investors. The reporting method of the same information may also have important and potentially different effects. In the process of initial public offering (IPO), the issuing company can be seen to a large number of potential investors directly (through announcement or compulsory application) or indirectly (through news reported by the media). It is important for IPO issuers to show their quality through media to potential investors as a means to reduce expected underpricing.

There are previous studies that have examined the positive or negative tone of media coverage of IPO companies [12]. However, media coverage of IPOs cannot be demonstrably positive or negative [13]. In other words, media coverage of IPO companies can take a neutral or uncertain tone. Guldiken et al. found that the uncertainty of the tone of media coverage about an IPO firm one week prior to its listing date will have a negative impact on its stock price one week after the IPO [7]. In addition, research shows that herding behavior is common among IPO investors [14]. Therefore, the uncertain news in the first week after listing may cause herding and adversely affect the stock price. Importantly, media reports prodigious amount of information related to financial markets, which are affected by their collecting, elaborating and dealing of information. By accepting the assumption that the market does not like uncertainty [15], the authors argue that IPO investors will avoid investing in the shares of newly listed companies with uncertain media coverage.

Tetlock, Saar-Tsechansky and Macskassy used the proportion of negative words in company specific articles, quantifying the language of news, and showing that the proportion of negative words in news predicted the company's future revenue and return [16]. Furthermore, Tetlock pointed out that similar to pessimistic factors, negative and weak words often follow the market decline [17]. This effect can be compared statistically and economically with the impact of the market on pessimism.

Tong found that the CSRC Review Committee is more likely to refuse applicants who receive more negative news before the approval meeting [8]. Regulators are more likely to reject companies that accept negative news reports and approve companies that accept positive news reports [18].

Loughran and McDonald documented an association between newspaper tone and underpricing with a spurious effect [19]. The more positive (negative) sentiment, other things being equal, makes retail investors more inclined (less) to buy stocks, which in turn increases (lowers) prices on the first day of trading [5].

Based on more than 2800 US IPOs and more than 27,000 newspaper articles, Bajo and Raimondo showed that positive tone is positively correlated with IPO underpricing [5]. This effect is also stronger when news reports are close to the IPO date or by more reputable newspapers. The result also provides some basis for the following conjecture: the goodwill treatment of the media increases investors' interest in the offer, and then increases the demand for stocks and first day returns.

Contrary to the positive sentiment, Bajo and Raimondo pointed out that the negative sentiment of the media seems to have nothing to do with the price behavior on the first day of trading [5]. This result seems to suggest that (retail) investors will not be affected by

less flattering newspaper reports, but they will pay high attention to potential positive signals.

When considering the two information channels (SEC filings and newspapers), the two different characteristics of sentiment (positive and negative) are positively correlated with underpricing, the legal and technical information embedded in mandatory filings requires the high skills of professional investors; Instead, retail investors rely heavily on second-hand and simplified information reported in newspapers. Given that these two investor groups pay more attention to different audiences and signal types, the results of Bajo's study may not conflict with those of Loughran and McDonald [19], but more clearly understand the impact of information sentiment on IPO underpricing.

The influence of the media also extends to the regulators of capital markets. Specifically, Li, Shi and Zhou found that negative news prior to the review committee approval meeting reduced the probability of a successful IPO outcome [18]. Even in biased media markets [20], media can influence regulators' decisions and improve the efficiency of government decision-making, which is particularly important in a centralized economy like China.

2.2. Summary

In conclusion, media tones can influence the decisions of IPO investors as well as regulators. The information given by media tones can impact the IPO underpricing, as the more positive sentiments, the more likely people to invest. Therefore, researchers believe that it is helpful for companies that are going to publish their IPO news to pay attention to their relative news, which could affect the results of the IPO.

3. MEDIA REPUTATION

In recent decades, reputation has attached greater importance with business news coverage because it is an intangible resource and Barney thought it would lead to sustained competitive advantage [21]. In 1997, Deephouse introduced a new concept in his essay --- Media Reputation and assumed that companies with higher media reputations have higher performance [22]. After that, he also defined the media reputation as "the overall evaluation of a corporation given in the media, may also influence other stakeholders' knowledge and opinions about a firm" and proposed a model for calculating media reputation based on media favorableness, which made this concept more concrete [23].

3.1. Evidence

Pollock and Rindova investigated the effects of media legitimation on IPOs [12]. Tong took Hong Kong

financial market as a sample and examined the influence of media reputation on the changes of IPO price share [8]. He pointed that the many IPOs target individual retail investors, who account for a larger share of Hong Kong's spot market. Investors' trust in experts and media would affect individuals' evaluation on media [24]. The public's opinion and evaluation of the company is influenced by the media's reputation. Individual investors value media reputation because print media and financial websites are essential means for retail investors to enter the market.

The impact of media reputation on IPO was studied in terms of focal and peripheral media favorability, but Tong argued in his study that media reputation in terms of tone of expression is quantified using distinct features [8]. At the same time, he believed that tone and reputation did not always go in the same direction, citing the Hong Kong market as an example, where, in addition to the significant positive effect of presentation tone of environmental attributes, the tone of social attributes had a negative impact on media reputation [8].

According to Deephouse, media reputation is a competitive resource that is difficult for other organizations to duplicate, but it will boost the organization's success [22]. Also, Tong did similar research [8]. First, he used Perreault and Leigh, and Holsti algorithms to extract 2,281 newspaper articles from 38 IPO businesses [25][26]. At the same time, media reputation is broken down into eight categories: environmental, control, non-financial, historical, strategic, yearly report, segmental, and social. The final result is that, among the eight features, as determined by the article's coding scheme and the usage of partial least square software, Environmental qualities have the most substantial positive impact on media reputation of all the attributes, whereas social attributes have a reasonably significant negative impact. The emergence of the mainland IPO market, as well as the Chinese government's assistance, has made these corporations aware of the active macroeconomic structural framework, laws, and regulations in Hong Kong's IPO market. IPO subscription rates were low during the global financial crisis of 2007-2008, and media reporting on financial markets had a significant impact on retail investors' decisions.

This study analyzed the measurement of IPO entity media reputation based on a specific media reputation attribute - product resource attribute of the environment, and gave another perspective for the evaluation of media reputation in financial activities. The findings revealed that the tone of physical media's reputation had a considerable favorable impact on IPO stock price change on the day of listing. In other words, the tone of meaningful media reputations can raise the share price of an IPO.

Furthermore, he noted in his research that recognizing linked traits can successfully manage a company's media

reputation, allowing IPO businesses to generate corporate information with a more strategic purpose. Furthermore, most of the firm lions in the sample data went public after the crisis came out, explaining the bad investor perception about IPOs.

3.2. Summary

Research on media reputation has progressed in the past 30 years, but it is still a relatively unpopular definition. For Tong, his most well-known study examines the characteristics of media reputation from a different angle [8]. However, there are still limitations in this area. To begin with, his research is based on historical data, which cannot accurately anticipate future market development. Secondly, according to different national conditions, the media also often present different styles. Whether these external factors have an impact on the reputation of the media, and then make it affect the IPO market. At the same time, Tong uses several industries in the Hong Kong market as examples, but we need to expand the research direction to different industries in the world's financial markets [8]. Finally, With the development of society, the form of media is constantly changing, from the previous print media to a multi-dimensional media market. Also, the biggest difference is the context of social media is usually unpredictable [27]. Therefore, whether the different reputation performance brought by different media methods will have different impacts on the IPO market. Therefore, regarding the relationship between media reputation and IPO, we are just the beginning, and there are more relationships worthy of our research and exploration in the future.

4. TIMING

It is obvious that medias play an important role in the IPO stage of a company, and it is clarified above that the positive or negative tone of medias towards a company could have different influence in that company's stock pricing after the IPO. Based on the existing research, we could see that the timing of media reporting could also change the medias' influence on the company's IPO process a lot.

4.1. Evidence

The previous research has proved that the timing of news before a company's IPO could be important. The closer of the news to the IPO date, the higher impact it would have to the public, thus influence company's IPO. According to Bajo and Raimondo, media tones produce sizeable effects only if coupled with investor attention that is generated by a larger coverage that takes place in the final phase of the IPO process [5].

The timing of news on the companies' IPO date, however, does not make much difference according to Bhattacharya, Galphi, Ray and Yu [28]. To confirm this

conclusion, they compared Internet Stocks whose news tend to come out in the evening and non-Internet Stocks whose news tend to come out in the afternoon. If the timing does make a difference, there would be a large difference between the effect of medias on those two different kinds of stocks, however, the authors observed a small difference on both days. Therefore, we could suggest that the timing of news on the IPO date does not make significant difference on media's impact towards company's IPO.

When considering the media's impact after a company's IPO stage, we could find out through the previous research that the impact is stronger when the news is released close enough to the IPO date. Bushee, Cedergrén and Michels argued about that influence. According to their research, greater media coverage is associated with greater retail investor purchases and this effect is strongest immediately after a firm's IPO and weakens in later periods [29].

4.2. Summary

To conclude, timing plays an important role in media's influence on IPO pricing. By dividing the influence into three different stages, which are before IPO stage, IPO date and after IPO stage, we could clearly see how media's impact on company's IPO pricing may change through time. Before and after the IPO stage, we could clearly see that the closer of the news to the IPO date, the higher impact it would have to the public, while the timing of news does not matter when it is posted on the IPO date. However, the research on the timing influence of media on IPO seems still insufficient that only few of the research on media's impact on IPO has talked about the timing issue. And for those have talked about this, they only provided some data regarding timing and pricing, but did not explain much about how this difference was made. Thus, we believe that it would help a lot to discuss more about the mechanism about how timing would make a difference on impact of media in IPO process.

5. CONCLUSION

This paper discusses the media's influence on the IPO, and mainly discusses it from three different aspects. Firstly, from the aspect of the media tones. Researchers found the positive media tones are positively correlated with the IPO underpricing. Because some previous experts believe that the media articles with uncertain tone will send some uncertain signals to potential IPO investors. This uncertain signal before going public is a very serious concern for investors, it will lead them to choose not to take risks. So the organizations need to try their best to prevent the emergence of negative media tones before IPO. Secondly, the aspect of media reputation also can bring uncertainty for IPO.

Researchers believe that media with better reputations have higher credibility among the public. In addition, the reputation of the media is the most important part for individual investors, because the media of printing and website is an important method for individual investors to enter the market. Thirdly, researchers also discuss the timing aspect of the media influence. From three different periods related to IPO, before and after the IPO stage, the closer the news is to the IPO date, the greater the impact on the public. In summary, the researchers found that media can have a considerable impact on individual investors. During the exploration process by the researchers, they have awarded of the rapid development of media diversity. The forms of media have gradually become diversified and unpredictable. From simple newspaper reports and TV reports to today's information platform, the way the media disseminate information and different target groups are continually changing. Based on the influence of media on IPO, the research and prediction of media diversity may be the research direction of future researchers. In the context of more media categories and channels, the research based on historical data will bring better predictability for the potential problems about media in IPO in the future, and help managers make the most suitable decisions for the development of the company in the context of media diversification.

AUTHORS' CONTRIBUTIONS

This paper is finished by all four authors (Lantao Cao, Yidan Hu, Jiachen Liu and Yuwei Mao). All the authors are the first authors and have made the same contribution in this work.

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