The determinants of the choice between IPO and Private Equity in Equity Capital financing for family business: Literature Review And Model

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PURPOSE

- External financing: trade-off between maintaining family control and firm's limited growth (Wu et al., 2007).
- Family business (FB): reluctant to external equity financing (Villalonga and Amit, 2006 ; Gallo and Vilaseca, 1996).
- Equity financing: changes family involvement in ownership and challenges the preservation of Socio-Emotional Wealth (SEW) (Berrone et al. 2012, Gomez-Mejia et al., 2007).
- Few papers paid attention to equity financing alternatives in FB, Initial Public Offering (IPO) vs Private Equity (PE): except Wu et al. (2007).

The paper aims to set a model determining the choice between IPO and PE in equity capital financing in FB.

LITERATURE – HYPOTHESES – PRELIMINARY MODEL

Cost of information and choice of IPO vs PE

- The cost of information is linked to the number of investors (Chemmanur and Fulghieri, 1999), the less public information on the firm available before the IPO:
  - the greater the cost of producing it
  - the higher the discount required by external investors to participate.
- Cost of diffusing sensible information to competitors that they may take advantage (Maksimovic and Pilcher, 2001).

H1: The cost of information production has a positive relation to the choice of PE in equity financing in FB.

Bargaining power between family no economic goals and external equity financing alternatives

- Agency Theory : size of the discount at the time of the IPO helps reduce the concentration among new shareholders (Brennan and Franks, 1997; Leitterstorf and Rau, 2014) ➔ *family bargaining power preserved.*
- Agency Theory Type II (Shleifer and Vishny, 1997; Villalonga and Amit, 2006)
  - conflict between the family and the PE: controlling vs minority shareholders.
  - family non-economic goals (Schulze et al, 2001; 2003) vs financial expectation of PE (Dawson, 2011; Achleiner et al., 2010; Howorth et al., 2004) ➔ *Family bargaining power challenged.*

H2: There is a negative relation between the value of socioemotional goals and the choice of PE financing partner.

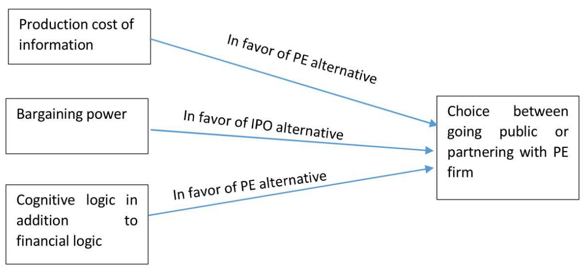
Financial vs cognitive logics in external financing alternatives

According to agency theory and Resource Based View (RBV)

- PE provides financial support AND managerial, strategic and monitoring competencies (Wright et al., 2009, Cumming et al. 2007; Beuselinck & Manigart, 2007; Dawson 2011).
- IPO is centered on financial dynamics.

H3 : There is a positive link between the choice of PE as a financing partner and the need for cognitive resources in addition to financial resources.

Preliminary Model



ON-GOING OPERATIONALISATION

- Period : 2011-2014
- Location : European market
- 2 samples :
  - -family business that went public
  - -family business remaining private and got funds from PE

Variable	Proxy
Production cost of information	Underpricing (deal value compared firm value).
Bargaining power	SEW: questionnaire (Beronne et al. (2012; Zellweger et al. 2012).
Cognitive logic in addition to financial logic	Cognitive resources: questionnaire on strategic and governance change due to the involvement of the new external shareholder(s).

CONTRIBUTIONS

Theoretical

- Exploring financial issues in FB
- Focusing on the heterogeneity of equity financing sources: IPO vs PE
- Equity Financing FB ➔ Agency Cost + RBV = cognitive and financial logics alternatives between IPO & PE.

Practical

- Help the family management choosing the best way to equity financing.
- Help external investors understanding family shareholders' choice.

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