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# Initial performance of Greek IPOs, underwriter's reputation and oversubscription

Dimitris F. Kenourgios

*Department of Accounting and Finance,  
Athens University of Economics and Business, Athens, Greece*

Spyros Papathanasiou

*School of Social Sciences, Hellenic Open University, Athens, Greece, and*

Emmanouil Rafail Melas

*Department of Accounting and Finance, London School of Economics, UK*

## Abstract

**Purpose** – This paper aims to provide additional international evidence on the initial public offerings (IPOs) by examining the initial performance and two main determinants of short-run underpricing of 169 IPOs listed on the Athens Stock Exchange (ASE) over the period 1997-2002.

**Design/methodology/approach** – In the first stage, the initial performance of the IPOs is measured by two calculated formulas: the raw returns and the excess or adjusted returns of the first, fifth and 21st day, respectively. In the second stage, a proxy is used to rank the underwriters' prestige along with the times of oversubscription, which are introduced as explanatory variables in the model.

**Findings** – The results of the analysis on the initial performance of the IPOs provide evidence of significant underpricing. Furthermore, the cross-sectional analysis on the determinants of the IPOs shows that both the underwriters' prestige and the times of oversubscription significantly affect the underpricing level of the IPOs.

**Research limitations/implications** – To understand the Greek IPO market with further depth, future studies could shed light on the other hypotheses emerging from the finance literature to explain the underpricing phenomenon.

**Practical implications** – This paper helps investors and issuers to understand the role of an underwriter's reputation into the Greek going public process and the underpricing phenomenon and supports that the oversubscription is a pure signal to the investors that the shares are underpriced.

**Originality/value** – This paper presents further evidence on the underpricing of the Greek IPOs, while extending previous relative studies by providing an explanation of this phenomenon over the most important and "hot" period for the Greek emerging stock market since its establishment, in terms of growth rates, acceleration of the going public process and volatility of market and stock returns.

**Keywords** Accounting research, Flotation, Pricing, Return on investment, Greece

**Paper type** Research paper

## 1. Introduction

In this study it is analysed one of the asset market anomalies, the underpricing of initial public offerings (IPOs) of new shares. This is a very interesting topic because it has always been a mystery why the IPOs are priced in a manner that results in such large positive average initial returns. When a firm issues a public traded equity for the first time it follows different patterns of share price fluctuations. Such anomalous price behaviour violates the efficient market hypothesis (EMH) and on average leads to arbitrage profits for those who have an advantage in gaining information.

Numerous researches have been carried out to theorise the empirical findings and thus challenges us to construct a framework of the hypotheses formulated to explain the underpricing phenomenon as a conceptual groundwork for the present study.

