The Benefits of Going Public: Evidence of Increased Visibility

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We empirically examine the benefits of going public: increased firm visibility. We develop a novel measure of visibility (page views of the company's website) that can calculate pre- and post-initial public offering (IPO) periods and capture a wider range of recognition than the existing measures. We find that 84% of firms that go public experience increased visibility; the remaining 16%, however, experience decreased visibility. When a firm has a smaller investor base before the IPO, the increased visibility is larger. We also find that a foreign listing is not associated with increased visibility. These results support the view that an IPO enhances firm visibility but do not support the view that a foreign listing widens investor recognition.
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Firms expect various benefits from going public; previous studies provide empirical evidence (for reviews, see Ritter and Welch 2002). However, one of the motivations for going public, which most corporate managers believe, has not been empirically shown yet: increased visibility. Although enhancing firm visibility is an important motivation for going public, no prior work has examined whether going public actually increases firm visibility. Therefore, the main objective of this study is to provide empirical evidence of this issue.

The effect of going public on firm visibility is an empirical question. Mehran and Peristianti (2009) argue that a significant fraction of firms choose to go private within five years, on average, after going public because the firms fail to sustain sufficient financial visibility. This result implies that going public does not necessarily lead to increased visibility, and the effect of going public on firm visibility might be heterogeneous and relatively temporal.

To investigate the effect of going public on firm visibility, we use Merton's (1987) investor recognition theory. Merton documents that firm managers have an incentive to expand the firm's investor base; the magnitude of the effect is greater for less-known firms. Our paper applies Merton's theory in the context of an initial public offering (IPO). During entrepreneurial firms' life-cycle, an IPO is an opportunity to expand their investor base. Based on the theory, we conjecture that less-known firms would enjoy larger increased visibility through an IPO rather than when well-known firms go public because the investor base to fill is large for less-known firms.

To date, several studies have examined changes or differences in firm visibility. Baker, Powell, and Weaver (1999) use a sample of firms that have already been listed on the Nasdaq and examine whether firm visibility increases when the firm moves from the Nasdaq to the New York Stock Exchange (NYSE), which has a higher listing standard. Jeon et al. (2015) examine cross-sectionally the effect of multiple lead underwriters on firm visibility and find that IPOs with multiple lead underwriters have higher pre-IPO visibility, as proxied by analyst coverage. Although these studies provide insight into changes or differences in firm visibility, the studies do not directly examine the effects of going public on firm visibility.

The lack of research might reflect the difficulty in empirically measuring an IPO firm's visibility due to limited information. As a proxy for firm visibility, some studies use analyst coverage and the firm's stock turnover ratio (Mehran and Peristianti 2009); others use institutional ownership and media coverage (Baker, Powell, and Weaver 1999; Jeon et al. 2015). These existing visibility measures, however, cannot be applied to IPO firms due to several limitations. As an IPO is an event that will significantly change the firm's ownership structure, ownership-based measures (i.e., the number of institutional shareholders and the change of institutional ownership) are not reliable when firm visibility is compared before and after an IPO. Media citations in newspapers are also used and seem to be a better measure than the measures mentioned above, but a larger proportion of listing firms are not featured in newspapers, and it is endogenously determined (see Fang and Peress 2009).[1] In

[1] Fang and Peress (2009) use a sample of all companies listed on the NYSE and 500 randomly selected companies

addition, analyst coverage is usually not available before IPOs (see O'Brien and Tan 2015); thus, we cannot compare changes in coverage before and after an IPO. Therefore, our challenge is to define a more broadly applicable measure of firm visibility that is available during the private period and to examine whether going public increases firm visibility.

In this study, we develop a novel measure of firm visibility using page views of a company's website. We recognize that people who visit a company's website must know about the company, and thus, the page view–based visibility measure is useful to broadly capture recognition not only by investors but also by potential new customers and employees. In particular, in the case of an IPO, managers of the firm often cite the gain in recognition by potential customers.

Using a novel visibility measure, we examine whether going public increases firm visibility. We calculate the aggregate number of page views by each month around the IPOs. Figure 1 plots the median value of the monthly aggregate number of page views of our sample firms between 15 months before and 15 months after the IPO. The figure graphically shows that a large number of people visit the company's website during the IPO month. The questions here are whether firms experience significantly increased visibility after going public, and if so, which firm characteristics affect the increased visibility.

To test whether going public affects firm visibility, we first compare our visibility measure before and after companies go public. We next employ multivariate analysis and regress the change in visibility on various firm characteristics.

The findings of this study can be summarized as follows. Our findings show that firm visibility in terms of page views, on average, increases after the firm goes public. Specifically, 83.6% of the sample firms experienced increased page views, and the remaining 16.4% experienced decreased page views.[2] The results suggest that going public does not necessarily increase firm visibility. From the univariate comparison results, the average level of page views in the post-IPO period is statistically significantly higher than that in the pre-IPO period. As a determinant of increased visibility, using ordinary least squares (OLS) regressions, the level of pre-IPO page views is negatively associated with the change in visibility measure, suggesting that the magnitude of increased visibility, in terms of page views, is stronger for less-known companies. In addition, we examine the effect of a foreign listing on firm visibility and find that a company that is listed on a foreign stock exchange does not experience an increase in visibility.

This paper makes three contributions to the literature. First, our paper is related to the literature on IPOs. To the best of our knowledge, this is the first study to empirically examine an important motivation for going public: to increase visibility. Mehran and Peristiani (2009) use analyst coverage, shareholding ratio by institutional investor, and turnover, as a measure of financial visibility, and analyze the relationship between these variables to proxy for visibility and the decision to go private.

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listed on the Nasdaq between 1993 and 2002 and report that newspaper coverage is unexpectedly low: About 25% (58%) of NYSE (Nasdaq) stocks are not featured in the press in a typical year.

[2] In our sample, no firm had unchanged levels of page views before and after the IPO.

To examine the change in visibility from before to after the IPO, however, these existing visibility measures are not applicable to IPO firms because there are no market data (such as stock turnover) in the private period. Therefore, we use page views, which are available before and after the IPOs. Jeon et al. (2015) examine whether hiring multiple lead underwriters improves media coverage for a half year before the IPO date. Although the authors examine the effects of multiple lead underwriters on IPO firm visibility, our study examines the effect of going public on firm visibility.

Second, we analyze the determinants of increased visibility. Merton's (1987) investor recognition theory suggests that the size of the investor base is smaller for less-known firms; thus, managers of the firm have a stronger incentive to expand the firm's investor base. Consistent with the assumption of Merton's theory, in the IPO setting, our study shows that when the investor base is smaller, the magnitude of increased visibility is larger when they go public; thus, the motivation of enhancing visibility is important especially for low-visibility firms.

Finally, this study contributes to the literature on cross-listing. Although Baker, Nofsinger, and Weaver (2002) find a positive effect of cross-listing on visibility using a sample of firms that have already listed on a local exchange, our study shows that foreign listing at the time of the IPO does not affect firm visibility.