

RELATIONSHIP BETWEEN DIRECTORS' DIVERSITY AND IPO UNDERPRICING: EVIDENCE FROM INDIA

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Abstract *The present study attempts to examine the relationship between the presence of foreign directors on the board of the newly listing companies and Initial Public Offerings (IPOs) on listing day returns. Sample of 367 IPOs issued in India from 2004 to 2014 are examined and the average initial excess return which measures IPO underpricing is found to be 21 percent. Taking lead from existing literature on IPO underpricing, various board related, issue related and company related variables are examined and a significant relationship of issue size, level of subscription, and professional associations of the directors with the initial day returns is observed in this study. Furthermore, it is found that only 28% of the sample companies have foreign directors present on their board at the time of IPO. The findings imply that the presence of the foreign directors on board does not curtail IPO underpricing.*

Keywords: *Foreign Directors, Initial Public Offering, Underpricing, India*

INTRODUCTION

Plethora of literature on Initial Public Offering (IPO) underpricing is available and researchers have tried to find the factors determining IPO underpricing in various markets of the world.¹ Some of the major factors identified point towards the presence of informational asymmetry between the issuers and potential investors. Beatty and Ritter, (1986) have evidenced that firms with more uncertainties tend to underprice more. Similarly, IPO firms that are subject to more asymmetric information will need a greater degree of underpricing (Johnston and Madura, 2009). Leland and Pyle, (1977) proposed that underpricing is used by the issuers to signal the high quality of the issue. In the existing finance literature on underpricing, various certifications have been consistently used by IPO firms using different aspects to signal high quality of the issue, thereby reducing information asymmetry including the venture capitalist reputation (Lee and Wahal, 2004), proportion of shares retained by the issuer (Allen and Faulhaber, 1989 and Hill, 2006), auditor reputation (Beatty, 1989), underwriters' reputation (Loughran and Ritter, 2004) and group affiliation (Marisetty and Subramanyam, 2005).

However, the relationship between the various facets of the quality of firms Top Management Team (TMT) and IPO performance has received little attention in the academic literature, particularly in the emerging markets context.²

TMTs have two major roles to play (Hillman and Dalziel, 2003). First, is the monitoring role that is to hire, evaluate, compensate and replace the managers. Second, is advising role that is to ensure that all strategic decisions are taken to maximize shareholders' wealth (Adams and Ferreira, 2007; Boone et al., 2007 and Raheja, 2005). In addition to this, TMTs also facilitate access to critical resources, such as capital, customers, suppliers or cooperative partners (Alexander et al., 1993; Mintzberg, 1983; Pfeffer, 1981; Pfeffer and Salancik, 1978). The efficiency of TMT in performing these functions largely define the quality of TMT in determining the value of the firm (Masulis et al., 2012).

In this paper, the focus is to study a specific class of TMT members whose distinguished characteristics can either provide more weight to the management decisions or could deteriorate it. Specifically, examining the presence of Foreign Independent Directors (FIDs) on the companies' board, defined as independent directors domiciled in foreign countries.

1 Loughran T., Ritter J. R., and Rydqvist K. (1994). Initial Public Offerings: International insights. *Pacific-Basin Finance Journal*, 2(2), 165-199. Analysis updated by authors in 2016.

2 Chemmanur and Peagles (2005), Cohen and Dean (2005), Lester et al., (2006), Zimmerman (2008) and Certo (2003).

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FIDs being at a different geographical location can be double edged sword for the firm. As on one side, foreign directors have exposure to unique knowledge and understanding of various developed markets, hence, presumed to be more capable in sensing environmental situations and handling them (Randøy and Oxelheim, 2006). Furthermore, as most of the directors are sitting on several boards, many companies experience conflict of interest among their board members, which make the decision making process cumbersome, with the inclusion of FIDs company can signal that the power of Old Boy network is being eroded (Oxelheim and Randøy, 2003). In addition, foreign directors have superior social capital network than the domestic directors (Ramaswami and Li, 2001). Furthermore, these independent directors also have affiliation with Foreign Institutional Investors (FIIs) and Venture Capitalists (VCs) (Oxelheim and Randøy, 2003). These resources can enable FIDs to provide valuable advice and assistance to corporations, (Orshy et al., 2009). On the other hand, these foreign directors due to their geographical location may prove less effective in boards monitoring and disciplining role. Moreover, FIDs from a different country are not much acquainted with regulatory environment, accounting standards, management techniques being used making it more difficult for them to fit into their role.

However, there is dearth of literature studying the effect of the presence of the FIDs on board of a firm but primarily these studies have been done in developed markets. Furthermore in India, to the best of our knowledge the relationship effect of foreign directors' presence on initial day returns of IPO has not been studied. Therefore the present study is considered to plug the gap. The paper is further organized in the following sections. The second section deals with the review of the literature. In the third section objectives and rationale of the study are discussed. The fourth section covers the data and the research methodology used. The empirical results of the study are discussed in the fifth section. The conclusion of the study has been presented in the last section.

REVIEW OF LITERATURE

The literature on IPO underpricing traditionally focused on studying firm related and issue related variables but TMTs diversity related variables are still lagging. Baron, (1982); Rock, (1986) and Welch, (1992) observed that underpricing is due to the information asymmetry gap between issuers, investors and underwriters, leading to IPO underpricing.

However, in order to mitigate the informational asymmetry gap between issuers and investors various certifications have been used in the traditional literature. Carter and Manaster, (1990); Dunbar, (2000); Beatty and Welch, (1996) and Carter and Dark, (1993) used reputation of underwriters. In the similar trend, Megginson and Weiss, (1991) compared Venture Capitalists (VCs) backed IPOs with non VC backed

IPOs and found that VC backed IPOs were valued more accurately. Furthermore, Marisetty and Subrahmanyam, (2005) and Ghosh, (2005) studied the certification effect of Indian business group affiliated firms and found group affiliation to be influencing the IPO underpricing. In addition to the certification literature (Certo, 2003; Certo, Daily, and Dalton, 2001; Higgins and Gulati, 2003; Lester et al., 2006; Nelson, 2003; Sanders and Boivie, 2004) studied Corporate Governance and (Certo, et al., 2001; Daily et al., 2003; Downes and Heinkel, 1982; Filatotchev and Bishop, 2002; Fischer and Pollock, 2004; McBain and Krause, 1989) examined the equity retained by insiders as an additional certification for the quality of the issue. However, the effect of the presence of foreign directors on companies' board during IPO has received little attention in Indian context.

With the globalization in equity markets and governance regulations the inclusion of foreign directors on board can be taken as a supplementary signaling factor for the board quality. However, the existing literature in this context is sparse. Oxelheim and Randøy, (2003) observed that Norwegian and Swedish firms experienced benefit by adding Anglo-American board members. Norburn, (1986) argued that directors' international experience is positively associated with industry average performance. In a similar trend, Mi Choi et al., (2012), observed that the inclusion of foreign independent directors on board indicates firm's willingness to increase board expertise and independent monitoring over management and they further confirmed the enhancing impact of foreign independent directors on firm value. Furthermore, (Leblanc and Gillies, 2005) found directors with international know-how empowers board with ability to take decisions with a wider perspective as well as increases creativity of the board. From the resource based perspective, current globalization and internationalization of business requires decision makers to belong to a foreign network (directors to have foreign contacts and knowledge) which will increase the international efficiency of the company (Carpenter and Westphal, 2001).

In addition, the foreign independent directors assist in facilitating crucial resources to the firm and are far more independent than the other directors (Ruigrok et al., 2007). Likewise, foreign directors bring in their experience and skills along with access to external resources and networks, which act as a link between company and its strategic environment (Hillman and Dalziel, 2003).

In contrast to this, Mak et al., (2003) didn't observe any relation between IPO pricing and foreign directors on board. Masulis et al., (2012) found presence of foreign independent directors leads to poor firm performance. Similarly, Hahn and Lasfer, (2016) observed that the benefits of increased diversity and international expertise is offset by the reduced internal governance mechanism and increased conflicts due to the lower presence of foreign directors on board meetings.

Finally, (Miletkov et al., 2016) suggested positive effect of foreign directors on firm performance in the countries with low levels of investor protection.

OBJECTIVE AND RATIONALE OF THE STUDY

Since the introduction of the Securities and Exchange Board of India (SEBI) Act, 1992 and the abolition of Controller of Capital Issues (CCI), many regulatory reforms were introduced in the Indian primary market leading to the growth in the amount raised by IPOs.³ The study of IPO underpricing is important for regulators, issuers and investors in Indian context as the effect of the presence of foreign directors on board on IPO underpricing is different than that of the developed markets. The objective of present study is to examine the presence of Foreign Directors on board in addition to issue related variables on IPO underpricing of 367 IPOs issued over the 10 year period.

Methodology

Sample

The sample for the study is of the firms which issued new equity shares from 2004 to 2014 and got listed on the Bombay Stock Exchange (BSE). The total number of public issues during the aforementioned period was 367 IPOs which was reached on the basis of availability of the prospectus of the issuing firm. Due to the unavailability of the information in regard to few variables used in the study the sample had to be reduced on those counts as clear from the statistical summary of the variables.

Data Sources

The data regarding the presence of foreign directors on board of the study has been collected from the IPO filing document called the prospectus. Prospectus is the mandatory document filed by a company to the market regulator at the time of the public issue. The prospectus of each company used in the study is downloaded from Securities Exchange Board of India (SEBI) website. The listing day price related information was collected from the official website of Bombay Stock Exchange (BSE). The details of the IPOs during the mentioned period are presented in the Table 1.

Table 1: Number of IPOs Along with Underpricing and the

3 Singh, A. K. (2017). Growth performance of Indian IPO market since liberalisation. *Asian Journal of Management*, 8(3), 753-760.

Amount Raised from 2004 to 2014

Year	Number of IPOs	Underpricing	Amount Raised (Rs. in millions)
2014	5	27.183	12176.68
2013	3	4.151	12919.58
2012	11	4.375	67725.1
2011	36	4.256	57792.59
2010	62	12.991	370577.2
2009	21	4.020	193246
2008	33	16.344	170073
2007	89	29.099	330736.6
2006	58	26.564	191294.6
2005	37	32.492	95813.84
2004	12	64.324	68981.64
Total	367	21.705	1571337

Source: Authors' calculations

The sample consists of 367 IPOs that cumulatively mobilized (INR) 1571337 million from the market in the mentioned period. The IPO activity in terms of both number of issues and amount raised was not uniformly spread during this period.

Statistical Model

The main objective of this paper is to study the effect of the presence of foreign directors on board on the IPO underpricing in Indian primary market. The market performance has been measured using the IPO underpricing as a dependent variable in the regression model. The model employed is as follows:

$$\text{IPO Underpricing} = \alpha + \beta_1(\text{FD}) + \beta_2(\text{DD}) + \beta_3(\text{TEDU}) + \beta_4(\text{PA}) + \beta_5(\text{BAGE}) + \beta_6(\text{BTEN}) + \beta_7(\text{OBM}) + \beta_8(\text{GD}) + \beta_9(\text{BSIZE}) + \beta_{10}(\text{RD}) + \beta_{11}(\text{LD}) + \beta_{12}(\text{ISIZE}) + \beta_{13}(\text{ASSET}) + \beta_{14}(\text{VC}) + \beta_{15}(\text{AOF}) + \beta_{16}(\text{SUB}) + \beta_{17}(\text{IBR}) + \beta_{18}(\text{INDA}) + \dots + \beta_{32}(\text{INDR}) + \varepsilon.$$

Description and Estimation of Variables

The variables in this research have been categorized as dependent and independent variables. Where dependent variable is IPO underpricing and independent variables are issue and firm related variables. Issue related and firm related variables have been used as control variables along with presence of foreign directors on board as individual variable to provide for its potential influence on the listing day market performance of the IPO.

Dependent Variable

IPO Underpricing

In order to calculate the Underpricing we have used Market Adjusted Excess Returns (MAER). The MAER of a stock has been defined as the excess of Initial Returns (IR) of the stock over the Market Return (MR) between the issue closure and the listing day. In order to calculate the market return we have taken BSE Sensex as the proxy for the market return.

MAER = IR - MR

Where IR = Initial return of a stock:

$$IR = \frac{(\text{Closing Price of the stock on the listing day} - \text{Offer Price})}{(\text{Offer Price})}$$

MR = Market return:

$$MR = \frac{(\text{Sensex on the listing day} - \text{Sensex on the issue closure day})}{(\text{Sensex on the issue closure day})}$$

INDEPENDENT VARIABLES

Foreign Directors (FD): The presence of the foreign directors on the board has been measured as the ratio (percentage) of directors on board having nationality of countries other than India. (Choi et al., 2012) observed that the inclusion of foreign directors on board results in increasing firm value. Leblanc and Gillies, (2005) found directors with international know-how empowers board with ability to take decisions with a wider perspective. Mak et al., (2003) observed the relation of foreign directors with IPO pricing.

CONTROL VARIABLES

Directors Diversity (DD): It is measured as the ratio (percentage) of independent directors to the total number of directors on the board. Lin and Chuang, (2011) indicate that the presence of independent directors is negatively and significantly related to underpricing. Filatotchev and Bishop, (2002) in UK found the similar results. Bushman et al., (2004) also state that earnings of the corporation improve with the use of independent directors on board. However Yatim, (2011) failed to find any relationship between board independence and underpricing.

Total Education (TEDU): In order to measure the effect of education of the board members on the listing day price performance of IPO total education is used. We have defined it as 1 point for a director with education up to graduation level, 2 points for education up to Masters Degree level and 3 points for education above Masters Degree. The total

education level of a company is the sum total points of education of all the directors on the board⁴.

Professional Associations (PA): Chemmanur and Paeglis, (2005) stated that the presence of Lawyers and Accountants on the board of an IPO firm helps in reducing cost of issue and money left on the table in an IPO. Hence, in order to find the effect of presence of lawyers or accountants on the IPO underpricing professional association is used. It is measured as the ratio (percentage) of directors with professional association to total directors on the board.

Board Age (BAGE): In order to measure the effect of the age of the directors on the board the board age has been used. Cohen and Dean, (2005) and Sahoo, (2014) found a negative relationship of age of board members with the IPO underpricing. Hence, average age of the board members has been measured in order to measure its impact on the listing day price performance of the IPO.

Board Tenure (BTEN): Thorsell and Isaksson, (2014) found that additional time devoted by board members on one specific board makes them more familiar with the internal workings of the company. On a similar note, (Ensley et al., 2002) highlighted that long tenured top management team members exhibit higher level of group cohesiveness. Thus, the average tenure of the board members on a company was calculated to measure its impact on the listing day price performance of the IPO.

Other Boards Membership (OBM): The presence of board members on the boards of the other companies signifies the reputation of board members in the industry. Thus, in order to quantify the impact of the reputation quality variable other board's membership on IPO underpricing, the total number of additional directorships of the board members in ratio to the board size were measured.

Gender Diversity (GD): With the increase in ongoing process of globalization in equity markets and enhanced governance regulations the inclusion of female directors on board could be taken as a supplementary signaling factor for the board. Accordingly, the ratio (percentage) of female directors to total number of directors on board has been measured to test its influence on the IPO underpricing.

Board Size (BSIZE): Board size refers to the total number of directors on the board of the company at the time of the issue. Existing literature on corporate finance have used board size as important signal for the value of the firm.

4 Xu, Z., & Xu, L. (2012). IPO Valuation of Entrepreneurial Firms in China's New Growth Enterprise Market: An Examination of Board Composition, Top Management Team's Ownership and Human Capital. *Journal of Chinese Entrepreneurship*, 4(3), 206-220.

Certo et al., (2001) found an inverse relation between IPO underpricing and the board size. Yermack, (1996) observed companies with smaller board's size are able to create higher market value than the companies with larger board's size. Further, Handa and Singh, (2014) showed board size as an influential component which affects the IPO performance.

Role Duality (RD): The presence of a board member in planning and implementation of a decision suggests the influencing ability of the respective board member in the company, so, the role duality variable is used to quantify this effect. It is measured as a dummy variable with 1 denoted to the company having board members also being (Chief Executive Officer) CEO and 0 to all other boards.

Listing Delay (LD): Listing delay is measured as the difference between the issue closure date and listing on the stock exchange (BSE). Higher listing delay is expected to reduce underpricing as it enables investors to take more informed decisions about the listing company.

Issue Size (ISIZE): Logarithm transformation of the proceeds received from issue of the new shares and calculated as issue price multiplied with the number of new shares issued. The size of the issue is expected to have an opposite relationship with IPO underpricing, with small sized issued to be more underpriced whereas large issues as less underpriced.

Total Assets (ASSET): Logarithm transformation of the book value of total assets of the company. The asset size of the company is expected to have a direct relationship with the IPO underpricing, companies with large asset size are expected to underprice more.

Venture Capital (VC): The reputation and presence of the venture capital backing in an IPO effects the listing day price performance of the IPO. The companies in the sample having VC backing were denoted 1 whereas all other companies were denoted 0. Among the 367 companies only 59 companies were having VC backing.

Age of firm (AOF): The age of firm is measured as logarithm transformation of the difference between the year of incorporation and IPO issue year. The age of the firm is expected to have a direct relationship with the IPO underpricing due to the availability of the adequate information about the issuing firm.

Subscription Level (SUB): It is the times by which the public issue has been oversubscribed. A company with high subscription level is expected to have high underpricing on the listing date. Aggarwal et al., (2006) observed a direct relationship between IPO underpricing and its subscription rate.

Investment Banker Rank (IBR): It is expected that higher the reputation of the Investment Banker, more efficient will be the pricing and lower will be the underpricing. It is a

common practice to have more than one investment banker being associated with an IPO. There were total 80 investment bankers which were involved in 367 IPOs of the sample.

Investment banker rank was measured using the following steps. First, the data related to ranking of investment banks was downloaded from the prime database for the period of our study. The top-10 investment bankers have been identified based upon their involvement in the IPOs made during the period under study. The entire sample of 367 IPOs is classified into two categories - those where the big 10 investment bankers were involved and others. The big 10 investment bankers were involved in 185 IPOs (50.40 per cent) raising 1408931million (89.66 per cent) during this period. The other investment bankers 182 IPOs (49.59 per cent) with aggregate amount raised being 162406.1 million⁵.

Industry (IND): The sample of 367 IPOs were a part of total 15 industries as classified by National Industrial Classification (NIC). The list of industries is as follows:

Industry A – Agriculture, forestry and fishing,

Industry B – Mining and quarrying,

Industry C – Manufacturing,

Industry D – Electricity, gas, steam and air conditioning supply,

Industry F – Construction,

Industry G – Wholesale and retail trade; repair of motor vehicles and motorcycles

Industry H – Transportation and storage,

Industry I – Accommodation and Food service activities,

Industry J – Information and communication,

Industry K – Financial and insurance activities,

Industry L – Real estate activities,

Industry N – Administrative and support service activities,

Industry P – Education

Industry R – Arts, entertainment and recreation,

Industry S – Other service activities.

DATA ANALYSIS AND INTERPRETATION

The level of underpricing observed from the sample of 367 IPOs measured by MAER is 21 percent that confirms the presence of underpricing phenomenon among Indian IPOs. The descriptive statistics of all the variables used in the regression model are reported in the Table 2.

⁵ Please see Dhamija and Arora (2017)

Table 2: Descriptive Analysis of the Variables Used in the Regression Model

Variables	Mean	Minimum	Maximum	Std dev.
MAER	21.48	-97.74	334.929	46.951
Foreign Directors	6.74	0	71.42	13.20
Directors Diversity (%)	52.60	0	90	10.53
Total Education	7.96	4	20	2.44
Professional Associations (%)	23.94	0	83.33	23.94
Board Age	52	23	72	7.28
Other Boards Membership	5.39	0	34.62	4.95
Board Tenure (years)	4.5	0.1	17	2.64
Gender Diversity (%)	5.29	0	40	8.44
Listing Delay (No of days)	19.43	12	174	8.90
Total Assets	3.44	1.25	6.85	0.74
Age of the Firm (years)	1.60	-1	2	0.34
Subscription Level	18.89	0.91	143.99	25.08

Source: Authors' calculations

The presence of the foreign directors on board variable along with other firm and issue related variables were further probed using the regression analysis to find the relationship

with IPO underpricing. The results of the regression analysis are presented in the Table 3 below:

Table 3: Results of the Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.754371	0.365842	2.062011	0.0400
FD	-0.000164	0.001793	-0.091208	0.9274
DD	-0.000758	0.002062	-0.367698	0.7133
TEDU	0.023086	0.046723	0.494098	0.6216
PA	-0.002239	0.001351	-1.657505	0.0984
BAGE	-0.002409	0.003132	-0.769388	0.4422
OBM	0.002451	0.005253	0.466641	0.6411
BTEN	-0.002746	0.009662	-0.284194	0.7764
GD	-0.002043	0.002501	-0.816859	0.4146
BSIZE	-0.012231	0.048066	-0.254455	0.7993
RD	0.080155	0.062271	1.287199	0.1989
LD	-0.002860	0.002308	-1.239392	0.2161
ISIZE	-0.172249	0.083241	-2.069287	0.0393
ASSET	-0.042693	0.051667	-0.826316	0.4092
VC	-0.096251	0.060119	-1.601017	0.1103
AOF	0.107218	0.072734	1.474107	0.1414
SUB	0.010376	0.000894	11.60259	0.0000
IBR	-0.017839	0.058456	-0.305161	0.7604
INDA	0.156982	0.318252	0.493263	0.6222
INDB	0.195278	0.308570	0.632847	0.5273
INDC	0.031732	0.277899	0.114185	0.9092
INDD	0.175307	0.296611	0.591033	0.5549
INDF	0.117268	0.284188	0.412642	0.6801

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INDG	0.125401	0.303992	0.412513	0.6802
INDH	0.060955	0.300491	0.202851	0.8394
INDI	0.120320	0.327784	0.367070	0.7138
INDJ	-0.049514	0.282564	-0.175231	0.8610
INDK	0.060677	0.288930	0.210004	0.8338
INDL	0.014751	0.294118	0.050153	0.9600
INDN	-0.101121	0.307961	-0.328357	0.7428
INDP	0.624249	0.323215	1.931372	0.0543
INDQ	0.377707	0.339556	1.112355	0.2668
INDR	-0.096473	0.358739	-0.268924	0.7882
Adjusted R-squared	0.323282	Prob (F-statistic)		0.000000
F-statistic	6.463923	Durbin-Watson		2.080609

Source: Authors' calculations

In this study an attempt has been made to observe the presence of the foreign directors on the board of the company at the time of IPO and its effect on the IPO underpricing using the regression analysis. In the regression analysis, a sample of 367 Indian IPOs issued from 2004 to 2014 is studied. The dependent variable is taken as IPO underpricing, whereas, FD is taken as independent variables and DD, TEDU, PA, BAGE, OBM, BTEN, GD, BSIZE, RD, LD, ISIZE, ASSET, VC, AOF, IBR, SUB and IND are taken as control variables. Overall, the model explains 32 percent (Adjusted $R^2 = 0.323$) variation of the IPO underpricing.

Coming first to the prime variable of the study, Foreign Directors, it can be observed from the results that there is a negative relationship of foreign directors with IPO underpricing, however the relationship lacks significance support.

As expected the coefficient associated with Professional Associations (PA) has a negative sign. This indicates that the extent of IPO underpricing is negatively related to the professional associations of the board that is more the number of lawyers and accountants on the board lesser would be the IPO underpricing. The association between MAER and PA is in consistence with the findings of Chemmanur and Paeglis, (2005).

Among the other control variables, Subscription ratio, Issue size, were found to be significantly affecting the IPO underpricing.

The significantly positive relationship of the subscription ratio highlights that higher the subscription level in an IPO higher would be the initial day underpricing which is consistent with the empirical evidences in the literature provided by Koh and Walter, (1989); Chen and Yang, (2013) and Handa and Singh, (2017).

The Issue size of the IPO also has a significantly negative relationship with the dependent variable which means that

higher the size of the issue lower will be the level of IPO underpricing. The results found for the issue size are similar to the findings of Yu and Tse, (2006) and Hearn, (2012).

Also, in the regression results, the age of the firm is observed to be positively associated with IPO underpricing. It means that the firms with long operative history available tend to be more underpriced than young firms with less operative information available to the investors. The results obtained are inconsistent with the observation of Ritter et al., (1991) and Bansal and Khanna, (2013).

Presence of venture capital support to the firm during an IPO is observed to be affecting negatively the IPO underpricing. Such relationship as stated in the literature highlights the fact that the presence of venture capitalists assures potential investors as a signal of the quality of the IPO. The results obtained from the analysis are in line with the results of Belghitar and Dixon, (2012) and Sahoo, (2014).

Further, among the other variables of the study DD, BAGE, BTEN, GD are also having negative relation with the dependent variable but they are not significantly related. In addition, TEDU, OBM and RD have positive coefficient but they also lack the significant relationship with the IPO underpricing.

Overall the results of the model suggest that investors do not give much attention to the board diversity and quality variables in Indian market context while making the investment decision in an IPO.

CONCLUSION

In this research the presence of foreign directors on the board of the newly listing companies and their relationship with Initial Public Offering (IPO) listing day returns is examined. Using the regression analysis the dependent variable is taken as IPO underpricing whereas the independent variable is

presence of foreign directors on companies board at the time of the issue, controlling the other variables documented in the literature as the influencers of the listing day performance of the IPOs. Focusing on the firms' issuing fresh equity shares via IPO to general public, how potential investors treat such quality signals induced by the issuer at the time of the IPO. The results obtained from the study on Indian IPOs suggest that presence of the foreign directors on the board of the company can be beneficial for the operations of the company, but investors do not count it as an important signal while making the investment decision in an IPO. Among all other variables Professional Associations, Subscription ratio, Issue size, lending support to the firm were found to be significantly affecting the IPO underpricing.

Out of the other variables in the model, on the whole, the board diversity and quality variables have a minute contribution in explaining the variation in the listing day price performance of the IPO. Nevertheless, the present study suffers from certain limitations. It takes into account only the listing day price performance of the IPO, and hence the future research must also incorporate the aftermarket performance of the IPO returns so that a much deeper insight of the management quality variables and their relationship with IPO market performance can be observed.

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