



**Literature review**  
**The Motivation of Initial Public Offering to Businesses**

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# 1 Introduction

The majority of people consider the performance of a company's stock price as the best indicator of how well its economy is doing. This means that the stock markets of a country serve as a barometer of the economy and judge the hopes and fears of the population who generate growth and wealth [7]. Stocks remain the most popular choice for investment and let you own a part of a company. SMEs, small and medium-sized enterprises, represent 99% of all businesses in the EU and so have a major role in employment and value creation in a country. In a context of such an economic crisis that we all know today, the question of searching new methods of financing is at great interest [1]. The stock exchange could be a great alternative source of financing, by benefiting from the advantages of an Initial Public Offering (IPO). We will see the motivation of such an IPO to businesses.

Businesses, without stock markets, would be constrained to borrow loans from banks and repaid them with interest. Fortunately, they can issue shares to the public, and raise vast amounts of cash. Hence when a company wants to raise capital without diluting its ownership or going to a bank, it usually uses the following method: the issue of bonds, and stocks [6]. When a company is still private, an initial meeting is held, where the directors issue shares to the initial shareholders in exchange for money or other investment for the company. Then, when it goes public – mainly in order to raise big amounts of money – everyone can buy the company's shares.

A constraint for the companies when going public is that they have to open up their books for public review. They cannot remain confidential and their inner activities must be known. Indeed, the keyword for a listed company is transparency, especially regarding the accounts. External investors must be provided with all the necessary information on the company's financial situation. A company wishing to be listed must inform the public about its financial situation [5]. It must comply with regulatory requirements with the AMF in France and the SEC in the US.

There are two main reasons for going public: financial and commercial reasons.

## 2 Reasons for an IPO

### 2.1 Financial reasons

The main reasons for listing on the stock exchange, according to a study of 70 companies' listing prospectus, is finance growth [4]. Indeed, it helps the business to quickly gain a lot of capital, to raise funds at any time through selling shares to the investing public and thus to finance growth opportunities. It creates new securities that the company can use to acquire other companies or be acquired in an M&A transaction (acquisition or fusion). Furthermore, it helps companies to expand product lines, to increase distribution and to hedge against volatility.

From the point of view of the relationship between managers and shareholders, the IPO constitutes an additional tool of control for managers, encouraging them to make more rigorous choices in order to achieve better performance.

The IPO is also a means of diversifying the shareholder base and offering the original shareholders the opportunity to withdraw [7]. Indeed, when the company decides to go public, it is preparing to sell some of its shares to new investors, which gives the original shareholders the opportunity to withdraw without compromising the company's future.

### 2.2 Commercial reasons

From a relational point of view, the reputation generated by the IPO strengthens the credibility of the company and the confidence of its various stakeholders. Consequently, the company is bargaining power, which translates into lower bank financing costs through the acquisition of more advantageous borrowing rates [7]. Listing is used as a means of advertising to become competitive

and attract the attention of potential investors. Studies indicate that raising awareness is the second most important reason for going public.

The effect of the IPO on the brand image is not negligible. An IPO provides visibility to the general public, to business, economic and financial partners, and to potential investors. It is a sign of a company's solidity [4], its openness to the outside world, and its ambitions and prospects for expansion. These qualities are often sought after by professionals in the business and financial communities. A listing is also a good way to raise the profile of a company in the eyes of foreign partners and to increase its market share abroad. It is a step that enhances the brand, strengthens the perception of its image and solidifies its future. The company now exists in the eyes of the economic and financial press, it is a new step in its development, which is generally perceived in a very positive way [3].

Finally, even if the reason is not always clearly stated, going public is nevertheless an effective method of reducing debt. Some companies offer shares in order to initiate or accelerate their growth. The new shareholders then take on the role of capital providers, instead of the banks.

### 3 Conclusion

To conclude, being a listed company boosts its image and undoubtedly strengthens its credibility with financial and public institutions. In particular, it allows access to more favourable borrowing conditions than "classic" companies. In addition to providing a convenient way for companies to raise capital, the stock market helps to increase the economic growth and prosperity of the business. We saw that the reasons for going public are of two kinds: financial reasons and reputational and commercial reasons. But studies show that after an IPO, the growth of SME increases at a slower rate than before the operation, and their operational performance deteriorates. Hence going public on the Stock Markets does not mean success and exponential growth [2]. Variables deserve to be taken into account to ensure that the Stock Exchange is adapted to the specific needs of SMEs wishing to go public.

## References

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