

Agency Theory and Flotation Methods in Seasoned Equity Offerings: The Case
in Taiwan

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Abstract

The purpose of this study is to examine the impacts of alternative flotation methods on price performance of seasoned equity offerings, and to compare the competing hypotheses supported by asymmetric information theory and agency theory. Based on 385 sample issues which were listed in Taiwan Stock Exchange from 1996 to 2006, we find that the bookbuilding flotation method demonstrates significant positive abnormal returns for issuing firms, whereas the fixed-price method exhibits negative results. The empirical findings support the agency theory in the sense that the bookbuilding procedure offers a mechanism to strengthen the external monitoring provided by blockholders, which can subsequently reduce the agency cost and thus increase the share price. Further cross sectional analysis confirms this argument. The result of the study implies that the governments should take effective actions to help regulate agency problems in emerging markets such as Taiwan.

Keyword : seasoned equity offerings, flotation method, agency theory