Mitigating the Dual Liability of Newness and Foreignness in Capital Markets: The Role of Returnee Independent Directors

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Abstract

Foreign firms undergoing an initial public offering in developed economies face a dual liability of newness and foreignness that can negatively impact the firm's ability to access capital. In this study, we examine the ability of returnee independent directors to overcome such a liability among 232 foreign listings in the U.S. We find that returnee independent directors positively impact the price premium of the foreign IPO. We also find that this relationship is contingent on the level of ownership retained by non-independent directors, the level of ownership retained by venture capitalists, and institutional factors in the firm's country of origin.

Keywords: returnee independent directors; liability of newness; liability of foreignness in capital markets; investor protection

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INTRODUCTION

Scholars have recognized that foreign companies often choose to list in stock exchanges in more developed economies such as the United States (U.S.) in order to obtain greater access to international capital (Hursti & Maula, 2007). Such firms face a dual liability of newness and foreignness in capital markets (Certo, 2003; Bell, Filatotchev, & Rasheed, 2012). They suffer a liability of newness as they have limited operational track records (Beatty & Zajac, 1997; Certo, 2003). They also have to overcome the liability of foreignness in capital markets as they are less familiar to host market investors and may face a foreign investors' bias for firms from their home market (Bell et al., 2012; Humphery-Jenner & Suchard, 2013). As a result, foreign initial public offering (IPO) firms suffer from "legitimacy deficit" (Schmidt & Sofka, 2009: 461), and thus must build their legitimacy, or the "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" with the local investors as they seek an overseas listing (Suchman, 1995, p. 574). The question that arises, therefore, is: *How do foreign IPO firms build legitimacy among stock market investors in developed economies?*

Prior studies grounded in agency perspective suggest several governance-related legitimation strategies that might help mitigate the disadvantages faced by IPO firms (Ahlstrom & Bruton, 2001; Certo, Daily, & Dalton, 2003), including inside ownership (Bell, Moore, & Al-Shammari, 2008), investment by venture capital (VC) firms (Bruton, Filatotchev, Cahine, & Wright, 2010; Megginson & Weiss, 1991; Sanders & Boivie, 2004) and board independence (Bell, Filatotchev, & Aguilera, 2014; Bell et

al., 2012). Such governance-related legitimacy drivers represent strategies that both domestic and foreign firms undertaking an IPO can use to alleviate investors' concerns (Certo, 2003; Filatotchev & Bishop, 2002; Higgins & Gulati, 2006). Foreign IPO firms face not only liability of newness but also the additional liability of foreignness in capital markets. Therefore, this study examines legitimation actions specifically useful for this type of firms. Specifically, we examine hiring returnee independent directors as a legitimation strategy for foreign IPO firms. A returnee independent director is a native who had work experience or had a business degree from a university abroad before returning back home to join a local firm's board. We argue that returnee independent directors serve as a "legitimacy bridge" that connects a foreign firm with its potential investors in a host capital market in a country where a returnee director has returned from.

We further argue that the distance a foreign IPO needs to travel along this legitimacy bridge is not the same for all firms; rather, the legitimacy need depends on other firm-level governance characteristics and macro-institutional environment in the firm's home country. Extant studies on legitimation processes tend to examine the various legitimization strategies separately, without paying attention to their substitutability or complementarities (e.g. Ahlstrom, Bruton, & Yeh, 2008). However, recently scholars have found that legitimation strategies should not be considered in isolation from each other as they might complement or substitute for each other in addressing stakeholders' concerns (Li & McConomy, 2004). Indeed, Bell et al. (2012: 120) have specifically called for studies to "evaluate how these legitimation strategies can complement or perhaps substitute for one another." This study responds to this call and examines the interactive effects of legitimation strategies in overcoming dual liability of newness and foreignness in capital markets. Specifically, we examine a

possible substitution between IPO valuation impacts of the returnee independent directors and two governance factors of an IPO firm: the retained ownership by non-independent directors and that of venture capital (VC) firms. These governance factors are traditionally associated with enhanced monitoring and incentive alignment processes in IPO firms and they may negatively moderate the effects of returnee independent directors.

In addition, the effectiveness of legitimation strategies cannot be properly understood outside their institutional contexts (Peng, Sun, Pinkham, & Chen, 2009; Scott, 2008). As Ahlstrom, Levitasm, Hitt, Dacin, & Zhu (2014: 572) argue: "Given the substantial variation in institutional environments, there is a need to better understand how different institutional arrangements help shape firm preferences and strategic choices". Indeed, the effectiveness of a particular legitimation strategy in foreign capital markets can hinge upon the home institutional environments (Bell, et al., 2014). Bell et al. (2012: 119) proposed that "the impact of the institutional environment of a country on the likelihood of success of specific strategies...is a promising avenue for future research." This study responds to this call by examining how different institutional arrangements in the firm's host and home markets shape the effectiveness of returnee independent directors as a legitimation strategy.

Our research makes a number of specific contributions to the literature. First, we contribute to research on the liability of newness and foreignness in capital markets. Specifically, we identify a legitimation strategy that is particularly important for foreign IPO firms, returnee independent directors on the firms' boards, which has been largely overlooked by prior research. Second, we expand our understanding of legitimation strategies adopted by foreign IPO firms by examining their substitutability. In particular, we examine the substitutability between returnee

independent directors in foreign listed firms and the previously identified "good governance" practices for domestic firms, ownership retained by non-independent directors, and ownership retained by venture capitalists. Third, we delineate the boundary conditions of the legitimation strategies and explore how home country institutional arrangements shape the effectiveness of these strategies. Overall, we contribute to the literature on returnees and their impact on their home economies by examining their role in corporate governance.

THEORY AND HYPOTHESES

The Dual Liability of Newness and Foreignness in Capital Markets

Scholars have long recognized that IPO firms face a liability of newness (Leland & Pyle, 1977). At the time of the IPOs, investors face tremendous uncertainty associated with the quality of the IPO firms, as these firms typically have limited operational track records and resources (Chen, Hambrick, & Pollock, 2008). In addition, investing in these firms is risky because these firms have not demonstrated their willingness and ability to protect investors' interests (Certo, 2000; Filatotchev & Bishop, 2002). As a result of these risks and uncertainties, investors tend to place a discount on the IPO firms' valuation (Filatotchev, Chahine & Bruton, 2016).

In addition to the liability of newness, foreign listed firms also face the liability of foreignness in capital markets. The international business literature has long recognized that a firm experiences liabilities when they do business in areas other than their home market (Caves, 1971; Bhanjj & Oxley, 2013). Such a liability of foreignness can apply to both firms physically operating in a foreign market and those seeking capital in foreign markets (Bell et al., 2012). Scholars have offered a wide

variety of reasons for the presence of liability of foreignness in capital markets, including institutional distance between a home and a host country (Chan, Covrig, & Ng, 2005), the cultural distance between a home and a host country (Beugelsdijk & Frijns, 2010), host market investors' information costs (Kang & Stulz, 1997), and host-market investors' unfamiliarity with foreign IPO firms (Sarkissian & Schill, 2004). In particular, for foreign IPO firms, the biggest concern for investors is that protection of their interests might be less in a foreign country than in their home country (Bell et al., 2012; Moore, Bell, & Filatotchev, 2010).

Prior studies highlight that foreign IPO firms could mitigate their dual liability, and build legitimacy in the eyes of foreign investors, by sending signals of firm quality (Bell et al., 2012). Research has found that whereas domestic IPO firms used governance-related signals, such as enhanced monitoring and incentive alignment to overcome the liability of newness, foreign IPO firms can also adopt these strategies to address investors' concerns (Bell et al., 2008; 2014). However, to the extent that foreign IPO firms face additional challenges concerning the liability of foreignness in capital market, an investigation of legitimation strategies which are particularly effective for such firms is an important area for research.

Returnee Independent Directors as a Legitimation Factor

We propose that returnee independent directors could serve as a signal of high firm quality, and thus enhance a foreign listed firm's legitimacy. An effective signal of firm quality that impacts the firm's legitimacy has two chief characteristics: observability

and cost (Connelly, Certo, Ireland, & Reutzel, 2011).

First, observability refers to whether outsiders, in this case foreign investors, are able to notice the legitimacy signal of the company undergoing the IPO outside their home economy. In order to undertake an IPO, the owners and managers must prepare a standard set of documents for potential investors, particularly the firm's prospectus. In the prospectus, a firm must include biographical information on all the directors (Certo, 2003; Higgins & Gulati, 2006). For the foreign firms, a unique aspect of a director's background is whether the director is a returnee, or an individual who has worked or received education overseas and has now returned to his or her home country. Hence, potential investors are highly likely to be aware of the backgrounds of the returnee independent directors.

Second, high legitimacy signal costs imply that firms with high quality are in a better position than those with low quality to absorb those costs (Connelly et al., 2011). The costs concerning returnee independent directors include the time and effort associated with searching for and recruiting a returnee to serve as an independent director, as well as potentially high compensation paid to the returnee independent director. As the globalization intensifies, firms are increasingly experiencing competition from multinational enterprises, and more and more firms are embarking on internationalization (Peng, Sun, & Markoczy, 2015). Since returnees tend to have more overseas experience and overseas network resources (Filatotchev, Liu, Buck, & Wright, 2009; Li, Zhang, Li, Zhou, & Zhang, 2012; Liu, Lu, Filatotcheve, Buck, & Wright, 2010), they are likely to receive high compensation when being hired as

independent directors (Peng et al., 2015). For example, in their study of foreign directors in Chinese companies, Giannetti, Liao, and Yu (2015: 1634) indicate that the returnee board members enjoy various monetary and non-monetary incentives including subsidized housing, schooling for the children of the returnees, medical benefits, jobs for spouses, and long-term residence permits. Our detailed analysis of director compensation in the prospectuses of the foreign firms listed in U.S. reveals that returnee independent directors typically receive higher compensation compared to local independent directors. For example, among the four independent directors of Perfect World, a Chinese firm listed in U.S., only a returnee independent director receives an equity-based compensation in addition to cash payments, whereas other three local independent directors do not own any shares.

Though all IPO firms will likely find returnee independent directors costly to hire, high quality firms are in a better position to absorb the associated costs (Connelly et al., 2011). Prior studies suggest that only high quality firms are able to attract returnees to join their boards. As Giannetti et al. (2015: 1630) put it: "Since individuals with foreign experience are scarce, not all firms with similarly high demand for directors with foreign experience are able to attract one". Similarly, Filatotchev et al. (2016) argue that a primary motivation to accept a board seat by a non-CEO director is establishing and/or maintaining membership in the corporate elite. As returnee directors are concerned with preserving their reputation, higher quality IPO firms should have an easier time recruiting other prestigious actors.

Overall, to the extent that hiring returnee independent directors is observable and

costly, especially for low quality firms, it serves as a strong legitimacy signal indicating firm quality to potential foreign investors.

Hiring returnee independent directors is also an activating signal of legitimacy as it can serve to bring about good governance and ensuring investors' interests protected (Connelly et al., 2011). The returnee independent directors are unique in that they understand both the home market where a firm has its headquarter and principal operations and, having worked or received education in the foreign market where the listing will occur, they have an understanding of that market also. Thus, such directors are well placed to bridge firms and investors in different nations, ensuring the values of the foreign investors are understood and that the ability to navigate the local market of the listing firm is also present. In recent study of the roles of foreign directors in China, Giannetti et al. (2015) argue that directors with foreign experience may facilitate the adoption of superior management practices aimed at enhancing firm performance and productivity. More importantly, these authors suggest that "directors with foreign experience may be more effective at performing the monitoring function and improving firm-level corporate governance" (Giannetti et al., 2015: 1630).

Indeed, recent studies of the roles of directors with foreign experience provide empirical support to these theoretical arguments. For example, Ma and Khanna (2015) found that in China, compared to those without foreign experience, independent directors with foreign experience are more likely to issue disagreement or abstention opinion reports. Using a large sample of Chinese companies, Giannetti et al. (2015) provide robust empirical evidence that returnee directors are associated with an

increase in the firm's valuation and its total factor productivity.

In addition, research grounded in institutional perspective suggests that in a highly uncertain environment associated with an IPO, board characteristics are a product not only of coordinative demands imposed by the market efficiency concerns but also of norms legitimizing the adoption of appropriate governance practices (Filatotchev et al., 2016). Following Deephouse and Suchman (2008), these researchers argue that having returnee independent directors on the focal IPO board indicates to overseas investors three measures of legitimacy: pragmatic (returnee directors' competence), moral (returnee directors' propriety associated with their exposure to norms and rules in developed economies), and cognitive (returnee directors' ability to "bridge" cognitive differences in home and host countries). These theoretical perspectives highlight that returnee independent directors are a potential observable legitimacy driver that can reduce the impact of a foreign IPO's dual liabilities in host capital markets.

In sum, hiring returnee directors not only separates high quality firms from low quality firms, but also is essential to bring about good governance. Such legitimacy signals of firm quality can help to mitigate the dual liability of newness and foreignness in capital markets, and is thus an effective legitimation strategy enhancing IPO valuation. We thus offer the following hypothesis:

Hypothesis 1: Returnee independent directors have a positive impact on IPO valuation for firms listed in a foreign stock exchange.

Alternative Legitimation Strategies

Our arguments suggest that presence of returnee independent directors may alleviate liabilities of newness and foreignness associated with foreign IPOs and, in turn, improve the firm's valuations in the host capital markets. However, having independent returnee directors has its cost-benefit trade-offs, and the organizational impact of returnees should be considered in conjunction with alternative legitimation strategies. Bell et al. (2014: 302) points out that "scholars should not consider corporate governance mechanisms in isolation from each other, but should instead look at them in "bundles" when determining their overall legitimacy impact, because mechanisms can be functionally equivalent". Indeed, in line with Aguilera, Filatotchev, Gospel, & Jackson (2008), we argue that prior research on IPO performance overstates the functionality of governance within IPO firms and, perhaps, fails to recognize the possible substitution effects among governance practices. This makes a constellation of governance practices an element of strategic choice; a view that represents a significant departure from the traditional agency perspective that considers governance practices as parts of a standard "toolkit" each IPO firm should possess if it is to impress investors and achieve high performance. In other words, when multiple legitimation strategies play similar and redundant roles, then these strategies might substitute for one another, as each additional legitimation strategy has limited value for the IPO firms (Bell et al., 2014; Ozmel et al., 2013).

Following this logic, we argue that presence of strong internal governance mechanisms associated with enhanced monitoring and incentives may substitute for the valuation effects of returnee independent directors, for two reasons. First, when a foreign IPO firm already signals its quality through a certain legitimation strategy, it reduces the uncertainty concerning the firm's value. Indeed, these strategies all are legitimacy signals of a foreign IPO firm's unobservable quality. As a result, the amount of uncertainty that an additional legitimate strategy can reduce would be finite, and the effectiveness of returnee independent directors in improving valuations would be weakened (Bell et al., 2014; Ozmel et al., 2013).

Second, it can be costly for firms to simultaneously send different types of legitimacy signals of firm quality. To the extent that a particular type of legitimacy signal, such as improving internal monitoring and incentives, is sufficient in signaling a firm's underlying quality, sending additional legitimacy signals of firm quality by hiring returnee independent directors can be inefficient, since a firm has already borne the signaling cost (Hsu, 2004; Ozmel et al., 2013). Hence, because these legitimation strategies can bring about similar legitimacy benefits and each of the strategies is itself costly, we argue that the legitimacy signals generated by ownership retained by non-independent directors and ownership retained by venture capitalists weaken the effects of hiring returnee independent directors. In the following sections, we extend these arguments and explain the underlying socio-economic mechanisms behind these substitution effects. Following prior studies (e.g, Bell et al., 2014, Filatotchev et al., 2016; Aguilera et al., 2008), we associate these enhanced governance practices with

ownership retained by non-independent directors and ownership retained by venture capitalists.

Ownership Retained by Non-independent Directors.

Apart from independent directors, corporate boards of foreign IPOs include non-independent directors that include executives, and affiliated directors linked to the IPO firm through various commercial and family relationships. Prior research indicates that these non-independent directors often side with the executives, reducing, therefore, the overall monitoring capacity of the firm's board (Daily, Johnson, & Dalton, 1999) and undermining investors' perceptions of the quality of its governance.

However, high ownership stake retained by non-independent directors sends positive legitimacy signals of firm quality to potential investors (Bell et al., 2008). Non-independent directors tend to have private information on firm quality (Filatotcheve & Bishop, 2002). As a result, non-independent directors of high quality firms are likely to retain shares, since when they incorporate their private information of the IPO firms in the aftermarket share price, they can benefit from a higher valuation of their retained shares (Bruton et al., 2010). For this reason, when the non-independent directors are retaining shares, they send a legitimacy signal of the firm's quality by communicating private favorable information to potential investors. In addition, by retaining equity, the interests of non-independent directors and investors are aligned. Ownership retained by non-independent directors thus also serves to reduce conflicts in principal-agent relationships (Filatotchev & Bishop, 2002).

We propose that returnee independent directors and ownership retained by non-independent directors substitute for each other in alleviating investors' concerns over foreign IPO firms. When non-independent directors retain high levels of ownership, potential foreign investors could tell that the firms are of high quality, and thus rely less on the presence of returnee independent directors as legitimacy signals (Bell et al., 2014; Pollock et al., 2010). In addition, simultaneously sending these two types of legitimacy signals can increase the signaling costs of the focal firms. Therefore, ownership retained by non-independent directors mitigates the positive effect of hiring returnee independent directors. We thus offer the following hypothesis:

> **Hypothesis 2:** The positive effect of a returnee independent director on IPO valuation for firms listed in a foreign stock exchange is weaker for firms with high retained ownership by non-independent directors

Ownership Retained by Venture Capitalists.

Ownership retained by venture capitalists is another signal of the quality of the IPO firms. Venture capitalists typically have a strong incentive to develop a trustworthy reputation so as to gain future access to the IPO market (Celikyurt, Sevilir, & Shivdasani, 2014; Chemmanur, Krishnan, & Nandy, 2011; Megginson & Weiss, 1991). As a result, they are reluctant to provide support to low quality firms, as association with these firms might damage the venture capitalists' reputation (Connelly et al.,

2011). Thus, by retaining high levels of ownership of an IPO firm, venture capitalists send the signal that maintaining their investment is worthwhile (Bruton et al., 2010; Megginson & Weiss, 1991; Sanders & Boivie, 2004). In addition, retained ownership also provides venture capitalists the incentives to closely monitor the management, and thus serves to mitigate the potential of agency problems (Sapienza, Manigart, & Vermeir, 1996).

Ownership retained by venture capitalists mitigates information asymmetries associated with the IPO firm newness, and thus should substitute for returnee independent directors on the board in alleviating the investors' concerns. When venture capitalists have retained high levels of ownership in a foreign IPO firm and hence differentiated the firm from others having less attractive prospects, the investors face a lower level of risk of investment. Therefore, the value of hiring returnee independent directors decreases. Furthermore, as the firms in which venture capitalists have retained high levels of ownership have borne the legitimacy signaling costs, hiring returnee independent directors can be inefficient (Ozmel et al., 2013). As a result, the positive effect of hiring returnee independent directors on IPO valuation for firms listed in a foreign stock exchange will diminish. We thus offer the following hypothesis:

> **Hypothesis 3:** The positive effect of a returnee independent director on IPO valuation for firms listed in a foreign stock exchange is weaker for firms with high venture capital retained ownership.

Home Country Institutional Environment

Recent studies on the role of institutional context suggest that whether a strategy can result in desired outcomes is contingent on the institutional arrangements of a country (Peng et al., 2009). As Ahlstrom et al. (2014: 573) point out: "Today it is broadly accepted that firms are affected by the broad socio-political and economic context in which they are embedded". In more recent paper Hitt, Li & Xu (2016) explore the effects of the home/host country institutional environment on MNEs' strategies, such as which countries/markets to enter and the mode of entry, but their analysis is focused predominantly on product markets. In the context of foreign IPOs, Bell et al. (2014: 304) suggest a nested legitimacy theoretical framework according to which "the process of legitimation may be contingent on the institutional environment within which a firm operates."

We extend this research and suggest that a promising avenue of inquiry is to examine the impact of the institutional environment of the IPO firm's home country on the likelihood of success of returnee independent directors to overcome the liability of foreignness in capital market. Here we focus on investor protection in home market as the key institutional environment influencing the effectiveness of returnee independent directors as a legitimation strategy.

In societies with strong investor protection, the local legal institutions provide the protection of the interests of minority shareholders such that the independent directors may have lesser pressures to monitor and discipline the management (Firth, Fung, &

Rui, 2006). Indeed, prior studies revealed that investor protection would reduce the scale and scope of managerial opportunism. For example, using a sample of 21,483 firm-year observations in 33 countries from 1997 through 2001, DeFond and Hung (2004) found that strong investor protection significantly strengthens the association between poor performance and subsequent CEO turnover, a key indicator of effective corporate governance. Potential foreign investors in firms from such societies, thus, would have less concern over the investment risks and rely less on returnee independent directors as a signal of firm quality.

In contrast, in societies with few investor protection laws, large shareholders may extract private benefits at the expense of minority shareholders in what is called the principal-principal problem (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998; 2000; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Foreign investors thus may hesitate to invest in firms that originate from such societies. In such circumstances, hiring returnee independent directors becomes particularly important to the foreign firms to overcome the liability of newness and foreignness in capital markets as it serves as a legitimacy signal ensuring the investors that their interests will be well protected (Van Essen, Van Oosterhout, & Carney, 2012). We thus offer the following hypothesis:

> **Hypothesis 4:** The positive effect of a returnee independent director on IPO valuation for firms listed in a foreign stock exchange is weaker for firms from countries with strong investor protection.

To summarize, we suggest that the impact of returnee independent directors on investor perceptions of foreign IPOs is far from being universal, and it depends on a number of firm- and country-level contingency factors that moderate this relationship. Our resulting theoretical model is illustrated in Figure 1.

[Insert Figure 1 about here]

METHODS

Sample Selection

We drew our sample of firms from the entire population of foreign IPOs listed on NYSE and NASDAQ between 2000 and 2013. Consistent with prior studies on foreign IPOs listing (Bell et al., 2008; Moore, Bell, Filatotchev, & Rasheed, 2012), we used Thomson Financial Security Data Corporation (SDC) New Issues database to identify all foreign firms that made IPOs in the U.S. markets. According to this database, foreign IPOs account for 15.27% of all IPOs in the U.S. markets. Bell et al. (2012) noted that host country institutions might also have an impact on the effectiveness of a legitimation strategy. In this study, we focus on foreign IPOs in a single country (i.e., the U.S.) in order to control for the effect of institutional environment of the host country.

We examine the actual prospectus of each IPO to ensure that it was not listed on any exchanges, including in its home country, prior to its U.S. IPO. Consistent with prior IPO research, we excluded from the sample 57 firms whose stock listing resulted from mergers or acquisitions, spin-offs of publicly listed firms, issuance of units, warrants, and rights offerings. In addition, we excluded from the analysis U.S.

financial service firms incorporated in Bermuda, the Bahamas, and the Cayman Islands. This results in a sample size of 232 firms. Table 1 provides sample characteristics.

[Insert Table 1 about here]

Measures

Dependent Variable. We measured investor IPO valuations by price premium. This variable represents the potential value that investors perceive in an issuing firm's shares that exceeds their book value. Recent studies have emphasized the advantages of this proxy of investor perceptions of an IPO firm's value compared to other IPO valuation measures such as IPO underpricing (Bell et al., 2014). Therefore, we measured the price premium as (offer price – book value)/offer price. Offer price is the value of the firm's equity as reported in the prospectus.

Independent and moderating variables. A *returnee* is a native who had work experience in U.S. or had a business degree from U.S. universities. We did not count as a returnee if a native went back to home country immediately after getting a non-business degree from a U.S. university since he or she had very limited exposure to U.S. business practices. The *Returnee independent directors* variable was measured as the percentage of returnee independent directors in the board of directors. That is, we calculated it as the number of returnee independent directors divided by the total number of board directors.

Ownership retained by non-independent directors was measured as the percentage of a company's shares held by non-independent directors after offering.

Venture capital (VC) ownership we measured as the percentage of a company's

shares held by venture capital firms. The information on the ownership structure of the companies is collected from listing prospectuses. We examined each of the major shareholders of these companies and coded whether it is a venture capital firm or not both by searching its background information on the Internet and by using venture capital directory in the SDC dataset.

La Porta et al. (2000) defined investor protection as the protection of minority outside shareholders by the firm's home country regulations and laws. We measured *investor protection* by using the revised anti-director index provided by Djankov, La Porta, Lopez-De-Selanes, & Shleifer, (2008). This index has six sub-indexes covering six areas: (1) vote by mail; (2) obstacles to the actual exercise of the right to vote; (3) minority representation on the board of directors through cumulative voting or proportional representation; (4) an oppressed minority mechanism to seek redress in case of expropriation; (5) pre-emptive rights to subscribe to new securities issued by the company; and (6) right to call a special shareholder meeting. This index ranges from 0 to 6, with higher scores representing stronger investor protection. We utilize the overall index to assess investor protection levels in the countries represented in this study.

Control variables. We control for a number of factors that could potentially impact our results. Specifically, following previous research, we controlled for firm-level variables shown to impact financial performance of IPO firms, including firm age, size, and past financial performance. We operationalized firm age as the difference between the date of the IPO and the IPO firm's founding date. Firm size was operationalized as the natural log of market capitalization in thousand U.S. dollars. A dummy variable, coded as 1 if the operating performance in the year prior to IPO is positive and 0 otherwise, is used to control for past financial performance. We control

for international sales, which might affect the performance of firms in a foreign capital market (Bell et al., 2008). This variable was measured as the percentage of revenues generated outside of home country. We also control for underwriter reputation. We measure underwriter reputation using an index developed by Loughran and Ritter (1997). This index does not provide underwriter reputation of underwriters for the period of 2012 to 2013. We thus used the underwriters' reputation in previous two years (2010 to 2011) as proxies of their reputation in 2012 and 2013.

Further, we control for firm risk at the time of the IPO by summing the number of risk factors listed in a foreign firm's prospectus. In addition, high-tech firms might be appreciated by investors on U.S. exchanges (Certo, Covin, Daily, & Dalton, 2001). Therefore, following Daily, Dalton, & Cannella, (2003), we controlled for this effect by using a dummy variable indicating whether the IPO firms operates in a high-tech industry or not. In line with Loughran and Ritter (2004), high-tech firms are those in industries of computer hardware, communication equipment, electronics, navigation equipment, measuring and controlling devices, medical instruments, telephone equipment, communication services, and software.

Further, we control for cultural distance between market in which the firm lists and the home market. Following Kogut and Singh (1988), we first calculate composite index based on the deviation along each of the four cultural dimensions from the U.S. ranking. We then measure cultural distance as a dummy variable, which equals 1 if the value of the index is above the mean, and 0 otherwise.

We include a number of control variables related to corporate governance. We control for the independent director ratio measured as the percentage of board directors who are independent directors. Dual leadership is a dummy variable, coded as 1 if the CEO also served as the board chairman, and 0 otherwise. We measure

institutional ownership as the percentage of shares held by institutional investors. Additionally, we control for the founder ratio measured as the percentage of founders on a firm's board of directors. We also control for possible monitoring effect of top auditors employing a dummy variable that is equal to 1 if the IPO firm hires the audit service of a big 4 auditor, and 0 otherwise. Finally, we control for returnee executive directors. We measure returnee executive directors as the number of returnee executive directors divided by the total number of board directors.

We also control for the bubble period of rapid growth which can affect valuation using Bubble dummy. This variable is equal to 1 if the IPO occurred in year 2000, and zero otherwise. In addition, stock market conditions change over time, and there are periods when IPO investors exhibit over-optimism. We thus use a market return variable to control for high market inflows immediately prior to the IPO. Following Chahine, Arthurs, Filatotchev, and Hoskisson (2012), we measure this variable as the buy-and-hold return of Value Weighted CRSP Index during the one-month period prior to the IPO date. Further, we control for U.S. sales ratio. We measured the U.S. sales ratio as the percentage of revenues generated from U.S. markets and obtained this information from company prospectus. Finally, in the analyses we also control for industry, issue period, and home country effects by including industry, year of listing, and home country dummies.

RESULTS

We test our hypotheses using ordinary least square (OLS) regression analysis. Table 2 shows descriptive statistics for the sample of foreign IPOs. The magnitude of correlations between independent variables was in the range of low to medium, suggesting that multicollinearity could be a problem in the testing of hypotheses. To

address this issue, we inspect variance inflation factors (VIFs) in our regression models. The VIFs were well within the limit of 10, indicating that multicollinearity did not have an undue influence on the estimations.

[Insert Table 2 about here]

We report the hypotheses testing results in Table 3. Model 1 in Table 3 is the baseline model, which includes only control variables. The first hypothesis predicts a positive relationship between returnee independent director and price premium. Model 2 in Table 3 shows the results of testing this hypothesis by adding the variable of returnee independent director to the baseline model. As expected, returnee independent director has a positive impact on price premium. The effect was statistically significant ($p<0.05$). Therefore, our findings support Hypothesis 1.

[Insert Table 3 about here]

Model 3 in Table 3 presents the results of testing Hypothesis 2, which predicted that the positive effect of returnee independent director on price premium is weaker for firms with high ownership retained by non-independent directors. As predicted, the coefficient of the interaction between ownership retained by non-independent directors and returnee independent directors was significant ($p<0.01$) and negative. Figure 2 presents the moderating effect. Following the procedure proposed by Aiken and West (1991) and Jaccard and Turrisi (2003), we perform simple slope tests to examine the relationship between returnee independent directors and price premium when non-independent directors retained low and high levels of firm ownership. The

simple slope tests show that the returnee independent directors variable is significantly and positively associated with price premium (β=0.16; $p<0.01$) when non-independent directors retained low levels of firm ownership (i.e., a retained ownership by non-independent directors that is 1 standard deviation above the mean retained ownership). In contrast, the relationship between returnee independent directors and price premium is insignificant (β=0.01; n.s.) when non-independent directors retained high levels of firm ownership (i.e., a retained ownership by non-independent directors that is 1 standard deviation above the mean retained ownership). Therefore, our findings support Hypothesis 2.

[Insert Figure 2 about here]

Model 4 in Table 3 presents the results for Hypothesis 3 which suggests that the positive effect of returnee independent director on price premium is weaker for firms with high venture capital retained ownership. As we predict, the coefficient of the interaction between venture capital retained ownership and returnee independent director was marginally significant ($p<0.10$) and negative. Figure 3 illustrates the moderating effect. A simple slope test shows that the returnee independent directors variable is significantly and positively associated with price premium (β=0.14; $p<0.01$) when venture capitalists retained low levels of firm ownership (i.e., a retained ownership by venture capitalists that is 1 standard deviation below the mean retained ownership). In contrast, the relationship between returnee independent directors and price premium is not significant (β=0.01; n.s.) when venture capitalists retained high levels of firm ownership (i.e., a retained ownership by venture capitalists that is 1 standard deviation above the mean retained ownership). Therefore, our findings

marginally support Hypothesis 3.

[Insert Figure 3 about here]

Model 5 in Table 3 presents the results for Hypothesis 4 which predicts that the positive effect of returnee independent director on price premium is weaker for firms from countries with strong investor protection. As predicted, the coefficient of the interaction between investor protection and returnee independent director is significant ($p<0.01$) and negative. Figure 4 illustrates the moderating effect. A simple slope test shows that returnee independent directors is significantly and positively associated with price premium ($\beta=0.12$; $p<0.01$) in low investor protection countries (i.e., an investor protection that is 1 standard deviation below the mean investor protection). In contrast, the relationship between the returnee independent directors variable and price premium is not significant ($\beta=-0.02$; n.s.) in high investor protection countries (i.e., an investor protection that is 1 standard deviation above the mean investor protection). Therefore, our findings support Hypothesis 4.

[Insert Figure 4 about here]

Model 5 in Table 3 shows the results of simultaneously testing Hypotheses 2, 3, and 4. The results are similar to those reported in Models 3 and 4. In summary, we find support for all four hypotheses.

Robustness tests

Though the VIFs of the models in Table 3 were well within the limit of 10, suggesting

that multicollinearity did not have an undue influence on the hypotheses testing results, some of the variables in the regression models are correlated with each other. In particular, the correlation coefficients among independent director ratio, returnee executive directors, and returnee independent directors are high. In Table 4, we excluded independent director ratio and returnee executive directors from the regression models. The results in this Table are basically the same as those reported in Table 3.

[Insert Table 4 about here]

We provide another robustness test to ensure that the empirical results are not sensitive to the IPO bubble period. More specifically, we rerun the analyses using data from year 2001 to year 2013, dropping firms listed in year 2000. The results are reported in Table 5. The results are qualitatively the same as those shown in Table 3.

[Insert Table 5 about here]

DISCUSSION

We demonstrate in this study that returnee independent directors serve as a key means by which foreign IPO firms build legitimacy in the eyes of foreign investors. Attracting returnee independent directors thus represents an effective legitimation strategy for overcoming the dual liability of newness and foreignness in capital markets, particularly when ownership retained by non-independent directors and ownership retained by venture capitalists are low, and when the firms originate from societies with weak investor protection.

This study makes several important contributions. First, our findings strengthen

the theoretical understanding of the dual liability of newness and foreignness in capital market. While scholars have long recognized a liability of foreignness as foreigners enter new markets, to date most of the research has focused on the challenges faced by firms in product markets (Zaheer & Mosakowski, 1997). This research expands the work by Bell et al. (2012), which recognizes that this same liability of foreignness exists in capital markets by suggesting that foreign IPO firms suffer both the liability of newness and the liability of foreignness in capital markets. Departing from prior studies focused on domestic IPO firms, we propose that returnee independent directors can serve as a legitimation strategy that is particularly effective for foreign IPO firms. Our study thus enriches our understanding of how firms can develop more effective strategies when accessing resources in foreign capital markets.

Secondly, this study contributes to the literature on legitimation strategies by examining the substitutability of different legitimation strategies. Prior studies on legitimation strategies tend to consider the strategies in isolation. However, these legitimation strategies can substitute for each other, as they serve the same purpose of signaling legitimacy (Li & McConomy, 2004). We propose and provide empirical evidence that returnee independent directors (a legitimation strategy that is particularly effective in mitigating dual liability) and ownership retained by non-independent directors and venture capitalists (legitimation strategies firms can use to mitigate newness) substitute for each other in mitigating foreign investors' concerns over firm quality. These empirical findings thus help delineate the interactive relationships among legitimation strategies.

Thirdly, we bring into the understanding of legitimation strategies boundaries the recognition that the effectiveness of a legitimation strategy is contingent on the institutional environment of the home country. The broad literature on firm strategies suggests that the success of a specific strategy is a function of the institutional characteristics (Ahlstrom et al., 2008; 2014; Hitt et al., 2016; Liu, Wang, Zhao, & Ahlstrom, 2013). However, to date scholars have largely not examined how institutional arrangements might shape the effectiveness of legitimation strategies used to addressing investors' concerns. Our study pushes the literature forward by highlighting that investor protection can shape the effectiveness of the legitimation strategy used to overcome dual liability of newness and foreignness in capital markets.

Finally, we contribute to the research on returnees. Prior studies focus mainly on returnee entrepreneurs (Liu, Lu, & Choi, 2014). According to these studies, returnees' human capital and social capital accumulated from their foreign experience might help achieve better firm performance (Filatotchev et al., 2009). The results of this study complement prior empirical findings by suggesting that returnees can signal a firm's legitimacy by serving as independent directors. Indeed, the results in Table 3 reveal that returnee independent directors play a more important role in influencing foreign IPO price premium that returnee executive directors do. Hence, our results enrich research on returnees by suggesting that they can play an important role in mitigating the dual liability of newness and foreignness in capital markets.

Our study has managerial implications as well. From the perspective of

companies undertaking IPOs in a foreign capital market, our results suggest that it is beneficial for high quality firms to have returnee independent directors. This legitimation strategy is especially important when the non-independent directors and the venture capitalists retain no or low levels of ownership at the time of IPO. Indeed, not all directors and venture capitalists are willing to retain a high level of ownership of the IPO firms. Instead, they might take the opportunity of foreign IPO to exit and pursue other opportunities subsequently. In such circumstances, the high quality IPO firms might be able to differentiate themselves from other companies by having returnee independent directors.

Limitations and Future Research

The limitations of this study open new opportunities for research. First, this study has examined the largest market for foreign IPOs – the U.S. However, the U.S. is not the only capital market attracting foreign IPOs, and future research should expand the understanding of foreign capital acquisition to other major financial centers such as London and other European capital markets.

In addition, we rely on archival data and thus have less information about how foreign investors make sense of the legitimation strategies. Hence, more concrete information about how investors, in particular institutional investors, perceive the value of returnee independent directors may lead to a better understanding of the effectiveness of legitimation strategies (Abrahamson, 2008).

CONCLUSION

How can IPO firms build their legitimacy in foreign capital markets? The empirical results show that hiring returnee independent directors serve as a legitimation strategy that help a foreign IPO firm mitigate the dual liability of newness and foreignness in capital markets. Such a legitimation strategy is particularly effective when the level of ownership retained by non-independent directors is low, when the level of ownership retained by venture capitalists is low, or when the firms comes from a nation with weak investor protection. This study thus has made theoretical contributions to a better understanding of the legitimation strategies that firms can use in foreign capital markets. We hope that the foundation laid in this study will help to build a substantive new stream of research around both returnee independent directors and the dual liability of newness and foreignness in capital markets.

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Table 1 Foreign IPO home markets

Origin of IPO firm	Foreign IPOs on U.S. exchanges
Asia/pacific	150
Europe	38
Middle East/Africa	27
Latin America	8
North America	9
BRIC countries[a]	142

Issuing year	Foreign IPOs on U.S. exchanges
2000	10
2001	3
2002	2
2003	3
2004	21
2005	22
2006	22
2007	41
2008	7
2009	11
2010	46
2011	18
2012	8
2013	18

Industry Characteristics	Foreign IPOs on U.S. exchanges
Mining	2
Construction	3
Manufacturing	86
Transportation and public utility	33
Wholesale trade	2
Retail trade	8
Finance, insurance, real estate	10
Service	86
Other	2

[a] BRIC countries are Brazil, Russia, India, and China.

Table 2 Descriptive statistics and correlations[a,b]

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1.Percent price premium	0.70	0.19																			
2. Firm age	9.39	13.09	0.09																		
3. Market capitalization	11.72	1.19	-0.01	0.03																	
4. Past finance performance	1.28	18.51	-0.03	-0.02	-0.10																
5. International sales	0.29	0.39	-0.05	0.07	-0.07	-0.05															
6. Number of risk factors	51.25	13.60	-0.12	-0.18	0.11	0.10	-0.28														
7. Underwriter reputation	0.09	0.08	0.15	-0.01	0.37	-0.08	-0.11	0.19													
8. Year 2000	0.06	0.24	0.09	-0.07	-0.08	-0.02	0.05	-0.38	0.01												
9. High tech Industry	0.60	0.49	0.21	-0.10	-0.08	-0.08	0.09	-0.01	0.07	0.13											
10. Cultural distance	2.57	1.05	-0.23	-0.31	0.16	0.04	-0.27	0.48	0.07	-0.29	-0.06										
11. Top auditor	0.88	0.33	0.23	0.08	0.33	-0.18	0.18	0.00	0.41	-0.02	0.24	-0.15									
12. Independent director ratio	0.45	0.21	-0.08	-0.09	-0.04	0.04	0.13	0.07	-0.23	-0.29	-0.12	0.02	-0.16								
13. Dual leadership	0.53	0.50	0.02	-0.12	-0.01	0.06	-0.04	0.14	0.04	-0.12	0.06	0.27	-0.03	0.08							
14. Market return	0.02	0.04	0.10	0.04	0.07	-0.10	0.01	0.06	0.07	0.00	0.04	-0.07	0.09	-0.04	-0.14						
15. US sales ratio	0.10	0.21	0.12	0.10	-0.25	-0.03	0.62	-0.25	-0.09	0.16	0.20	-0.38	0.13	0.04	-0.04	0.01					
16. Ownership retained by non-independent directors	34.58	27.64	0.01	-0.13	-0.07	0.02	-0.22	0.22	0.02	-0.05	-0.10	0.30	-0.24	-0.11	0.11	-0.01	-0.19				
17. VC retained ownership	17.80	20.57	0.36	-0.08	0.05	-0.06	0.11	0.14	0.23	-0.07	0.20	-0.18	0.31	0.01	0.05	0.10	0.19	-0.08			
18. Investor protection	2.22	1.54	0.15	0.26	-0.09	-0.05	0.36	-0.57	-0.09	0.31	0.03	-0.71	0.17	-0.07	-0.32	0.00	0.40	-0.34	0.08		
19. Returnee executive directors	0.15	0.30	0.05	-0.09	0.02	-0.04	0.03	0.13	0.07	-0.01	0.24	0.11	0.13	-0.01	0.03	0.04	0.04	-0.12	0.10	-0.10	
20.Returnee independent directors	0.17	0.26	0.10	-0.10	-0.05	0.02	-0.13	0.19	0.09	-0.10	0.03	0.21	0.07	-0.06	0.04	0.04	-0.09	0.13	0.07	-0.20	0.17

[a] n=232 observations.

[b] correlations greater than 0.13 or less than -0.13 are significant at the 0.05 level (two-tailed test).

Table 3 Factors affecting foreign IPOs' percent price premium[a,b]

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.452	0.424	0.317	0.488	0.441	0.385
	(0.473)	(0.463)	(0.460)	(0.468)	(0.448)	(0.453)
1. Firm age	-0.000	-0.000	-0.000	0.000	-0.000	-0.000
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
2. Market capitalization	0.003	0.005	0.009	0.004	0.004	0.008
	(0.020)	(0.019)	(0.019)	(0.020)	(0.017)	(0.018)
3. Past financial performance	0.008	0.007	0.009	0.005	0.007	0.007
	(0.017)	(0.018)	(0.018)	(0.018)	(0.017)	(0.017)
4. International sales	0.047	0.046	0.049	0.045	0.046	0.049
	(0.105)	(0.106)	(0.108)	(0.105)	(0.109)	(0.109)
5. Number of risk factors	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
6. Underwriter reputation	0.405	0.382	0.374	0.367	0.358	0.331
	(0.250)	(0.249)	(0.236)	(0.250)	(0.233)	(0.215)
7. Year 2000	-0.450+	-0.430+	-0.452+	-0.471*	-0.421+	-0.486*
	(0.210)	(0.211)	(0.215)	(0.192)	(0.216)	(0.201)
8. High-tech industry	0.048*	0.051*	0.046*	0.056*	0.049+	0.047
	(0.020)	(0.020)	(0.021)	(0.026)	(0.023)	(0.031)
9. Cultural distance	0.414**	0.408**	0.416**	0.403**	0.394**	0.396**
	(0.082)	(0.080)	(0.081)	(0.081)	(0.079)	(0.080)
10. Top four auditors	0.040	0.029	0.024	0.029	0.035	0.029
	(0.035)	(0.036)	(0.040)	(0.040)	(0.032)	(0.038)
11. Independent director ratio	-0.001	0.004	-0.010	0.009	0.008	-0.004
	(0.043)	(0.041)	(0.047)	(0.047)	(0.036)	(0.053)
12. Dual leadership	0.015	0.016	0.020	0.016	0.016	0.022
	(0.026)	(0.025)	(0.023)	(0.024)	(0.025)	(0.021)
13. Market return	0.774	0.769	0.714	0.743	0.683	0.585
	(0.600)	(0.625)	(0.599)	(0.637)	(0.633)	(0.612)
14. US sales ratio	-0.120	-0.117	-0.100	-0.129	-0.128	-0.122
	(0.119)	(0.121)	(0.123)	(0.114)	(0.120)	(0.113)
15. Ownership retained by non-independent directors	0.001	0.001	0.001*	0.001	0.001	0.001*
	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)	(0.000)
16. VC retained ownership	0.002	0.002	0.002	0.003*	0.002	0.003*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
17. Investor protection	-0.047	-0.043	-0.036	-0.041	-0.035	-0.022
	(0.059)	(0.062)	(0.069)	(0.061)	(0.060)	(0.068)
18. Returnee executive directors	0.035	0.028	0.019	0.024	0.035	0.022
	(0.023)	(0.024)	(0.023)	(0.021)	(0.028)	(0.027)
19.Returnee independent directors		0.055*	0.187**	0.140**	0.151**	0.398**

		(0.025)	(0.060)	(0.046)	(0.034)	(0.079)
20. Returnee independent directors*Ownership retained by non-independent directors			-0.003**			-0.004*
			(0.001)			(0.001)
21. Returnee independent directors* VC retained ownership				-0.004+		-0.004+
				(0.002)		(0.002)
22. Returnee independent directors* Investor protection					-0.058**	-0.065*
					(0.019)	(0.024)
ΔR^2	0.336	0.337	0.346	0.342	0.343	0.361

[a] Sample size: 232; standard errors are in parentheses. All models include industry, year of lising, and home country dummies.
[b] + p<0.10; * p<0.05; ** p<0.01; two-tailed tests.

Table 4 Factors affecting foreign IPOs' percent price premium: Address the issue of multicollenairty[a,b]

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.486	0.446	0.335	0.506	0.466	0.402
	(0.468)	(0.457)	(0.448)	(0.460)	(0.446)	(0.441)
1. Firm age	-0.000	-0.000	-0.000	0.000	-0.000	-0.000
	(0.003)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
2. Market capitalization	0.003	0.006	0.009	0.005	0.005	0.008
	(0.019)	(0.019)	(0.018)	(0.019)	(0.017)	(0.017)
3. Past financial performance	0.006	0.005	0.008	0.004	0.005	0.006
	(0.017)	(0.018)	(0.018)	(0.018)	(0.017)	(0.017)
4. International sales	0.047	0.046	0.049	0.045	0.046	0.049
	(0.104)	(0.105)	(0.107)	(0.104)	(0.107)	(0.108)
5. Number of risk factors	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.003)	(0.003)	(0.002)	(0.003)	(0.003)	(0.003)
6. Underwriter reputation	0.400	0.375	0.373	0.359	0.350	0.328
	(0.246)	(0.246)	(0.235)	(0.248)	(0.229)	(0.213)
7. Year 2000	-0.447*	-0.424+	-0.454+	-0.465*	-0.413+	-0.486*
	(0.203)	(0.205)	(0.212)	(0.186)	(0.212)	(0.202)
8. High-tech industry	0.052*	0.054*	0.048*	0.058*	0.052*	0.050
	(0.021)	(0.021)	(0.021)	(0.025)	(0.023)	(0.030)
9. Cultural distance	0.401**	0.398**	0.408**	0.396**	0.383**	0.389**
	(0.078)	(0.076)	(0.075)	(0.077)	(0.076)	(0.074)
10. Top four auditors	0.041	0.029	0.024	0.028	0.034	0.029
	(0.034)	(0.036)	(0.038)	(0.039)	(0.033)	(0.037)
11. Dual leadership	0.014	0.015	0.019	0.016	0.015	0.021
	(0.026)	(0.025)	(0.022)	(0.023)	(0.025)	(0.020)
12. Market return	0.768	0.764	0.710	0.737	0.683	0.582
	(0.610)	(0.632)	(0.607)	(0.641)	(0.644)	(0.620)
13. US sales ratio	-0.115	-0.113	-0.098	-0.125	-0.122	-0.119
	(0.116)	(0.118)	(0.122)	(0.112)	(0.116)	(0.114)
14. Ownership retained by non-independent directors	0.001	0.001	0.001*	0.001	0.001	0.001*
	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)
15. VC retained ownership	0.002	0.002	0.002	0.003*	0.002	0.003*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
16. Investor protection	-0.052	-0.047	-0.038	-0.044	-0.040	-0.025
	(0.059)	(0.062)	(0.069)	(0.061)	(0.060)	(0.068)
17.Returnee independent directors		0.060*	0.195**	0.146**	0.149**	0.406**
		(0.024)	(0.057)	(0.043)	(0.031)	(0.074)
18. Returnee independent directors*Ownership retained by non-independent directors			-0.003**			-0.004**

			(0.001)			(0.001)
19. Returnee independent directors* VC retained ownership				-0.004+		-0.004+
				(0.002)		(0.002)
20. Returnee independent directors* Investor protection					-0.053**	-0.062*
					(0.017)	(0.025)
ΔR^2	0.341	0.344	0.354	0.350	0.348	0.368

[a] Sample size: 232; standard errors are in parentheses. All models include industry, year of lising, and home country dummies.
[b] + p<0.10; * p<0.05; ** p<0.01; two-tailed tests.

Table 5 Factors affecting foreign IPOs' percent price premium: Drop firms listed in bubble period[a,b]

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.802	0.766	0.679	0.820	-0.234	-0.268
	(0.494)	(0.474)	(0.477)	(0.483)	(0.490)	(0.530)
1. Firm age	-0.000	-0.000	-0.000	0.000	-0.000	-0.000
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
2. Market capitalization	0.002	0.004	0.009	0.003	0.003	0.006
	(0.020)	(0.019)	(0.019)	(0.020)	(0.017)	(0.018)
3. Past financial performance	0.006	0.005	0.006	0.004	0.005	0.005
	(0.017)	(0.018)	(0.017)	(0.018)	(0.017)	(0.017)
4. International sales	0.061	0.060	0.063	0.059	0.061	0.064
	(0.117)	(0.118)	(0.121)	(0.117)	(0.120)	(0.122)
5. Number of risk factors	-0.004	-0.004	-0.004	-0.004	-0.005	-0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
6. Underwriter reputation	0.546*	0.528+	0.514*	0.517+	0.507*	0.478*
	(0.245)	(0.245)	(0.236)	(0.242)	(0.231)	(0.210)
7. Year 2000	0.050*	0.052*	0.047*	0.056*	0.050*	0.049
	(0.018)	(0.019)	(0.020)	(0.024)	(0.023)	(0.031)
8. High-tech industry	0.042	0.047	0.044	0.053	0.458**	0.457**
	(0.048)	(0.047)	(0.048)	(0.043)	(0.068)	(0.072)
9. Cultural distance	0.027	0.016	0.009	0.016	0.022	0.015
	(0.046)	(0.045)	(0.051)	(0.047)	(0.039)	(0.047)
10. Top four auditors	-0.012	-0.005	-0.019	-0.000	0.003	-0.007
	(0.048)	(0.041)	(0.049)	(0.042)	(0.042)	(0.057)
11. Independent director ratio	0.010	0.009	0.014	0.012	0.011	0.018
	(0.028)	(0.027)	(0.024)	(0.025)	(0.027)	(0.023)
12. Dual leadership	0.843	0.852	0.804	0.817	0.766	0.666
	(0.641)	(0.666)	(0.644)	(0.687)	(0.675)	(0.670)
13. Market return	-0.185	-0.185	-0.164	-0.193+	-0.200+	-0.188
	(0.116)	(0.114)	(0.122)	(0.106)	(0.112)	(0.111)
14. US sales ratio	0.001	0.000	0.001+	0.000	0.001	0.001*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
15. Ownership retained by non-independent directors	0.002	0.002	0.002	0.003*	0.002	0.003*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
16. VC retained ownership	0.117*	0.117*	0.124*	0.111*	0.298**	0.298**
	(0.048)	(0.046)	(0.047)	(0.049)	(0.072)	(0.075)
17. Investor protection	0.047*	0.042+	0.034	0.035+	0.049+	0.035
	(0.020)	(0.021)	(0.019)	(0.019)	(0.024)	(0.023)
18. Returnee executive directors		0.061*	0.189*	0.134*	0.156**	0.385**
		(0.026)	(0.063)	(0.047)	(0.034)	(0.089)
19.Returnee independent directors			-0.003*			-0.004*

			(0.001)			(0.001)
20. Returnee independent directors*Ownership retained by non-independent directors				-0.004+		-0.003
				(0.002)		(0.002)
21. Returnee independent directors* VC retained ownership					-0.058*	-0.066*
					(0.020)	(0.029)
22. Returnee independent directors* Investor protection					-0.058**	-0.065*
					(0.019)	(0.024)
ΔR^2	0.341	0.344	0.352	0.346	0.349	0.362

[a] Sample size: 232; standard errors are in parentheses. All models include industry, year of lising, and home country dummies.
[b] + p<0.10; * p<0.05; ** p<0.01; two-tailed tests.

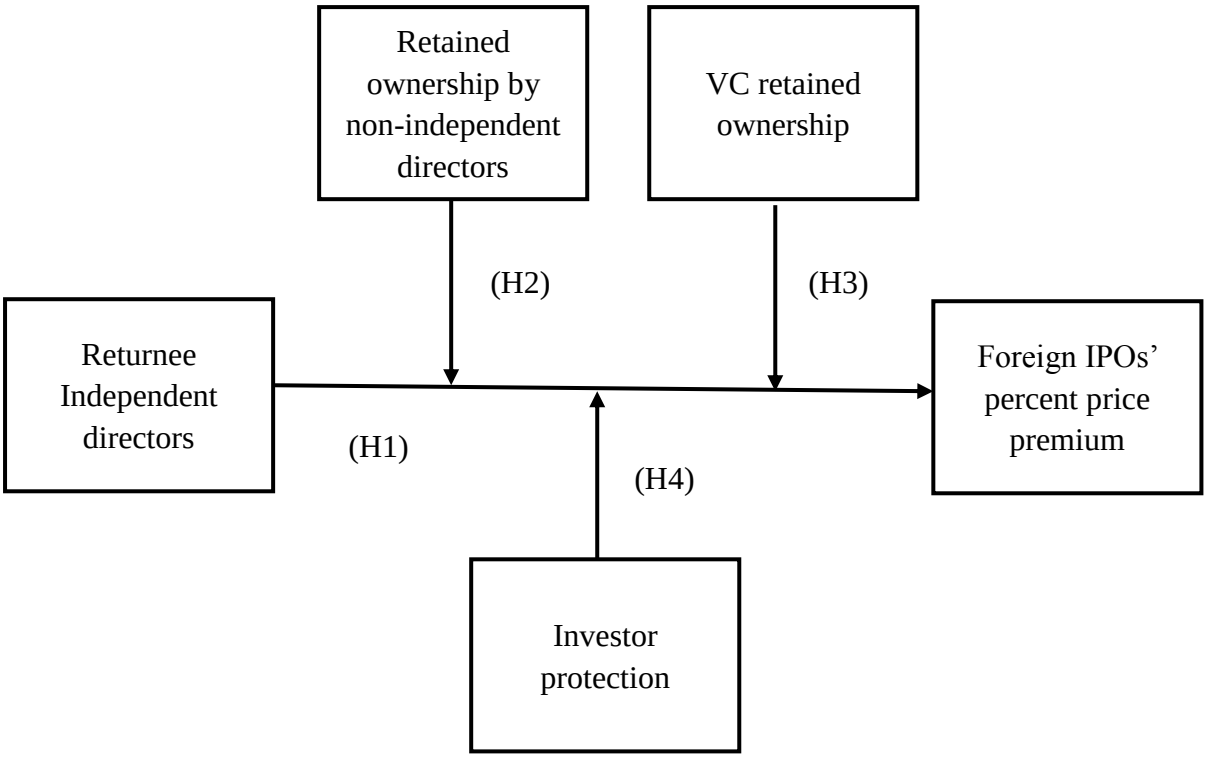

Figure 1 A model of the impact of returnee independent director on foreign IPOs' percent price premium

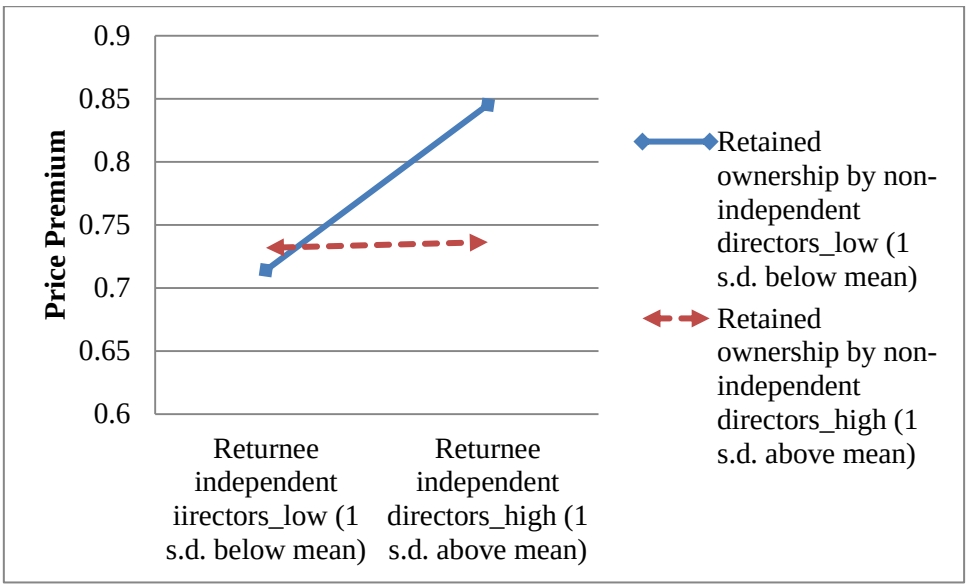

Figure 2 Interaction effect between returnee independent directors and retained ownership by non-independent directors

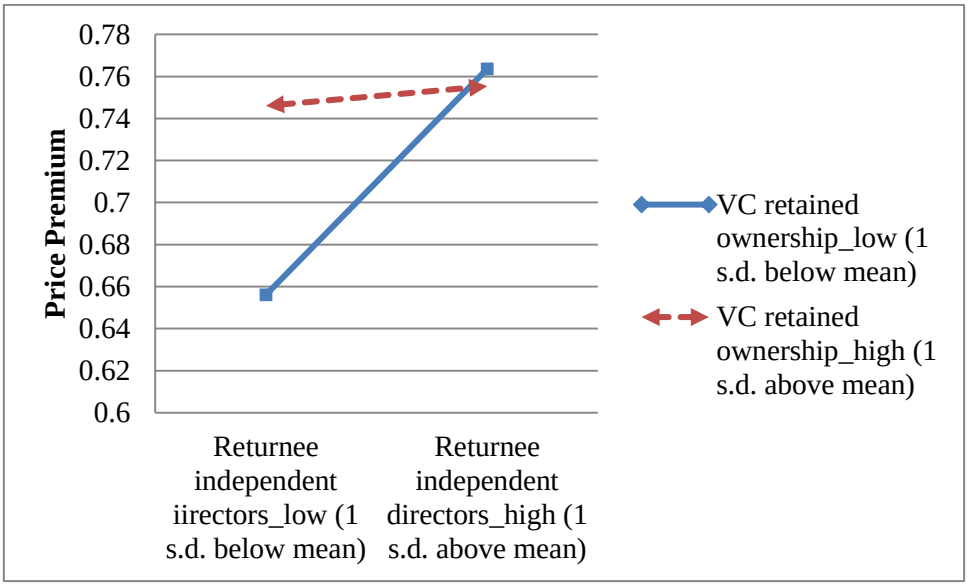

Figure 3 Interaction effect between returnee independent directors and retained ownership by venture capitalists

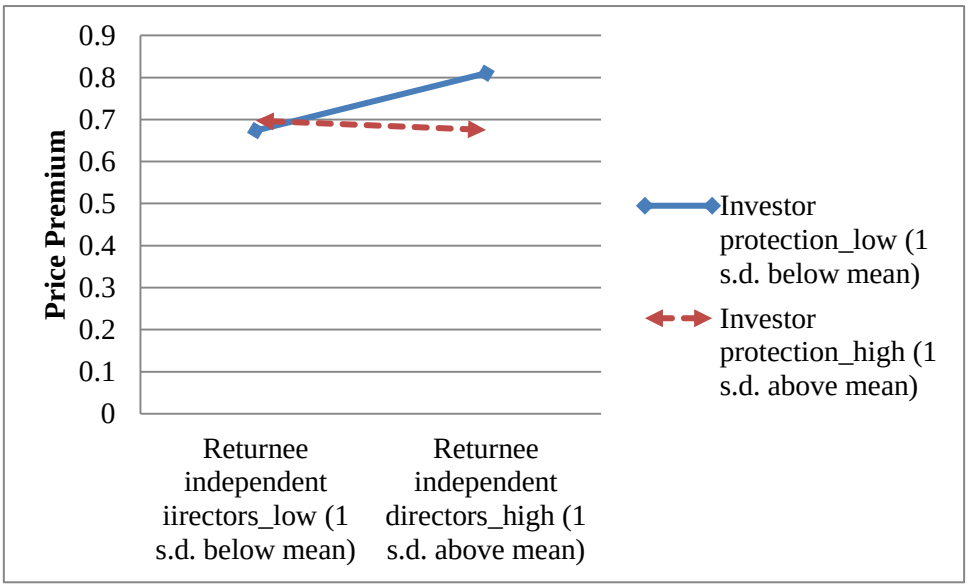

Figure 4 Interaction effect between returnee independent directors and investor protection