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Article

The Role of Governance and Bank Funding in the Determination of Cornerstone Allocations in Chinese Equity Offers

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Abstract: This article investigates the causal factors underlying cornerstone investor (CI) participation in initial public offerings in China's offshore Hong Kong market. Prospectus-based declarations on such allocations suggest that CI undertakings offer strong certification effects. Entrepreneurs planning for IPO thus have a material incentive to court CIs. The present analysis reveals that a firm's pre-IPO financials and governance attributes strongly correlate with success in this field. Specifically, CI participation is greater in issuers with established long-term loan positions. Firms housing younger CEOs and a greater number of family-connected board officers also generate more CI interest. In contrast, the fraction of independent directors and women on boards exert minimal effect. However, further analysis reveals that greater independent director presence strongly supports CI participation in family-centric entities, but imparts little to no effect on such investment in either state-run or non-family-controlled private issuers. Additionally, an issuer's political connections galvanize CI participation. Moreover, the present study highlights the importance of family resources (in non-state sponsored entities) and political connections (in state-held firms) in drawing-in CI involvement. Given the spread of CI arrangements to other primary market settings, the present enterprise also offers guidance on anchor investment elsewhere.

Keywords: entrepreneurship; governance; cornerstone agreements; bank loans; political connections; family-run firms; CEO age; independent directors; gender; Chinese issuers

JEL Classification: M40; M48; G17; G30

1. Introduction

The present article examines the causal factors underlying cornerstone investor presence in unseasoned equity offers. The pertinent question, especially in relation to this JRFM Special Issue, is what is a cornerstone investor (CI) and why is such a party so important within the realm of entrepreneurial finance? With regard to the first part of the question, a CI commitment constitutes a major recent development in initial public offering subscription practice. A cornerstone arrangement figures as a key prospectus document declaration, assuring a nominated group of subscribers a contractually determined allocation of stock just ahead of the formal IPO application period. In relation to the second part of the opening question, cornerstone commitments potentially certify or signal issuer value. An issue document's disclosure of CI undertakings therefore lends visibility and important profile to such commitments.

Company founders and SME entrepreneurs planning IPO therefore need to consider whether to solicit cornerstone interest. As finalization of relevant cornerstone or anchor investor terms arises just ahead of prospectus release, cornerstone parties are public, and not private, equity

investors.¹ By profiling such subscribers in listing documents, issuers and their appointed book-runners seek to obtain a capital raising advantage, selling new shares on enhanced price-to-book multiples (McGuinness 2014). Cornerstone stakes also signal information about a firm's longer-term resilience and stability (Espenlaub et al. 2016). Evidence also suggests that anchor investors promote disclosure and dampen after-market return volatility (Samdani 2019), while supporting investor returns during the relevant lock-up period (Seth et al. 2019).² All of the above findings point to a strong certification effect in cornerstone or anchor-invested IPOs.

The onus is therefore on an entrepreneur to cement linkage with high net-worth value investors in the run-up to listing. The focus of this short article is on how entrepreneurs might best achieve this goal. The present investigation assesses this issue in relation to the Hong Kong IPO market, where CI undertakings feature prominently. Nonetheless, findings in the present account offer some guidance in interpreting cornerstone (or anchor) arrangements elsewhere, including and perhaps most notably in Singapore and Malaysia (Tan and Ong 2013). Similarly, new IPO regulations in India in 2009 ushered-in a wave of anchor investment (for details of the regulatory changes and market effects, see Sahoo 2017, p. 265; Seth et al. 2019; Samdani 2019). A number of European markets have also witnessed a proliferation in anchor investment agreements in recent years (see McNaughton et al. 2015).

This article considers two principal ways in which pre-IPO firms position themselves for success in enticing cornerstone investment. The first relates to the development of bank funding. By establishing credit lines in advance of IPO, firms signal asset value to outside parties (Ross 1977; Slovin and Young 1990). Due to lenders' due-diligence and supervision of borrowers, bank debt serves an important role in attenuating information gaps and instilling transparency (James and Wier 1990). Pre-IPO firms with established bank funding are therefore likely to be in a stronger position to attract CIs. By reducing information uncertainties, limiting agency costs and stemming tunneling risks, banks facilitate an issuer's appeal to high net-worth investor concerns. The presence of bank funding in an issuer also affords CIs a major cost advantage in that it reduces the amount of due diligence and vetting required to ascertain fair value. The results in the present study reveal support for this proposition. Findings indicate that CI presence is increasing in an issuing firm's long-term debt to assets ratio at its financial year-end pre-IPO.

The second important avenue for entrepreneurs to build connectivity with potential CIs is through the resources and expertise on offer from the issuing firm's board. Findings reveal that younger, more dynamic boards attract significantly greater amounts of CI investment. Consistent with a growth options story, firms with younger boards offer more value potential to CIs. Additionally, CI presence is greater in firms containing two or more interconnected family board members. The present study's findings on this subject are consistent with a literature that suggests increased levels of entrepreneurship in family-centric firms (Zahra et al. 2004). The adjoining hypothesis is that CIs recognize and respond to such intangible value.

However, some board attributes only garner empirical support when examined within a specific set of circumstances. The fraction of outside directors on a board offers one such example. The present enterprise reveals that greater independent director presence acts as a strong positive in enticing CI participation in family-dominated private issuers. However, such a reinforcement effect from outside directors is not evident in the IPOs of state-sponsored or private (i.e., non-state) non-family-controlled

¹ While other, strategic and value, investors may emerge as private equity stakeholders in the years and even months preceding exchange listing, a significantly larger number of issuers seeking listing in Hong Kong solicit investor interest via cornerstone agreements. While only a minority of IPO firms listing in this market setting procure private equity investment stakes in the form of VC injections, many more attract CI stakes.

² McGuinness (2012) reveals higher initial investor returns in IPOs with strong CI participation. In respect of book-built non-CI allocations, institutional investors often receive more shares in strongly underpriced issues (Aggarwal et al. 2002) and in entities with more robust post-IPO performance (Boehmer et al. 2006). Additionally, Casares Field and Lowry (2009) find that retail (institutional) investors receive larger allocations in IPOs with poor (strong) post-listing returns.

issuers. Present findings also indicate that the gender mix of a board has little to no connection with the procurement of CIs.

Finally, in this section, as the determination of board membership easily presages the lobbying and procurement of cornerstone investor parties, the present study's examination of governance attributes largely sidesteps the confounding biases arising from endogeneity.³

2. Study Background, Literature Review & Hypotheses

As emphasized in the preceding section, IPO issue documents set out detailed declarations on cornerstone allocations. Among other things, such disclosure highlights the size of the stakes and the identities of and restrictions imposed on recipients. While all subscribers, CIs and non-CIs alike, face the same issue price, cornerstone entities gain advantage by tying-in a predetermined slice of the offer in advance of all other bidders. The advantage garnered is thus one of timing and certainty with regard to the scale of an allocation. In weighing this advantage, the market demands that CIs lock-in their assured stakes.⁴

As of prospectus release, CI undertakings account for the only contractually assigned part of a global offer.⁵ All other blocks of stock in the book-built component of an IPO, no matter the strength of book-runners' preliminary indications to potential subscribers, remain tentative and non-binding. All other things equal, the larger the scale of such contractually bound cornerstone allocations the stronger the potential signal of issuer value emitted.

The key question in the present investigation is what are the guiding posts or signs relevant to the development of cornerstone commitments? The current analysis focuses on two principal areas: (1) pre-IPO bank lending decisions and (2) an issuer's corporate governance attributes in the run-up to listing. The literature suggests that the establishment of pre-IPO debt funding serves a role in signaling corporate value (Ross 1977; Slovin and Young 1990). Such a signal may be especially important for issuers where VC-investment is absent.⁶ Pre-IPO bank credit is also important in galvanizing disclosure and transparency, and thus improving the information environment surrounding an issuer (James and Wier 1990; Barry and Milhov 2015). Banks' supervision and monitoring actions also mitigate agency cost concerns (Barnea et al. 1980; Jensen 1986; Diamond 1991).⁷ Bank loans, and the associated protective covenants that apply, also circumscribe related-party transactions, thus limiting the expropriation of minorities. Cornerstone parties may thus be more receptive to issuers that have successfully procured bank credit.

It is also important to distinguish between short- and long- term debt. Firms with more certain investment prospects, or better-calibrated growth options, are more likely to garner debt with a longer

³ Nonetheless, founders may appoint directors in the years prior to IPO based on such incoming officers' networks and resources, with a view to establishing links to CIs ahead of listing. This consideration might apply most readily to founders' appointment of independent (Ind) and non-executive (Ned) directors. Interestingly, results in the present study suggest no obvious connection between CI involvement and the proportion of a board in Ned form.

⁴ In contrast, non-cornerstone investors encounter uncertainty in relation to both the prospect and size of an allocation. Nonetheless, some non-CIs may also face selling restrictions. However, and in such cases, the restrictions are not mandatory, reflecting instead book-runners' proscriptions on share "flipping" (Aggarwal 2000; Fische 2002).

⁵ This position holds decisively for CI allocations in the HK IPO market, which is perhaps the most important setting for such undertakings (McGuinness 2016). Offerings in HK entail a division between an international placing and a local public offer. For the latter, investors submit full payment for applications after prospectus release, with the prospect of rationing via lottery if oversubscription arises. Book-building figures in relation to the placing component. In the period leading up to prospectus announcement, book-runners solicit information on potential subscribers' interest. Nonetheless, determination of allocations to such parties only arises after the date of prospectus release, and usually close to or just before the first day of listing [see Sherman and Titman (2002) for further discussion]. For useful background on the formation of bid schedules and book builders' extraction of private information from institutional participants in the US IPO context, see Benveniste and Spindt (1989) and Cornelli and Goldreich (2003).

⁶ VCs thus offer another source of certification (Megginson and Weiss 1991). Lee and Masulis (2011) also demonstrate that higher quality investment banks reinforce the VC certification role, especially in relation to financial disclosure. Additionally, Barry and Milhov (2015) reveal that VC and pre-IPO debt often feature as "substitute" funding channels.

⁷ Even stronger effects emerge when only one lender offers debt funding (Bennouri et al. 2017). A further cost of equity benefit arises if a pre-IPO bank lender acts as an underwriter in the equity issue (Schenone 2004).

repayment horizon (i.e., of more than one year from the date of loan advancement). In contrast, short-term debt funding is more likely where pronounced information asymmetries exist. In response to such an information gap, lenders advancing short-term financing typically impose tight restrictions. Despite the generally lower rates of interest on short-term debt, borrowers continually need to renegotiate such positions (Diamond 1991; Jun and Jen 2003; Abdulla et al. 2016).⁸

Significant restrictions on the exploitation of growth options may also exist where firms procure large amounts of short-term debt. Banks exert greater bargaining power over borrowers when lending short- (rather than long-) term (Magri 2010). Such restrictions may limit a firm's pursuit of growth options and thus deter CI interest. In contrast, long-term debt positions may allow for greater freedom in the exercise of growth options. Additionally, longer-term debt is more likely where information costs are low. In accordance with Pecking Order Theory (Myers 1984), Alves et al. (2015) demonstrate that, as information gaps lessen (i.e., as the funding cost gap narrows between long- and short-term debt), borrowers switch from short to long-term debt. Similar sentiments apply in relation to equity funding. Myers and Majluf (1984) contend that issuers are more likely to be able to invest in new projects in an environment of low information costs.

Pre-IPO firms' establishment of long-term debt therefore signals a more mature and stable environment for CI investment. CIs also reinforce creditors' certification role. Hypothesis 1 thus contends:

Hypothesis 1. *Cornerstone presence is an increasing function of an issuer's pre-IPO debt level, especially where such financing has a long-term horizon.*

Hypotheses 2–5 of this study address CI participation in relation to a listing firm's board attributes. Hypothesis 2 asserts that a larger pool of independent non-executive directors on a board minimizes agency costs and the abuse or wasteful utilization of free cash flow (Harford et al. 2008). Conventional wisdom suggests that greater outside director presence stems agency costs (Bruton et al. 2003), thus mitigating the adverse selection risks confronting CIs. Additionally, Filatotchev and Bishop (2002, p. 945) assert that non-executive directors help broker ties with investment banks and value investors. Notwithstanding such points, Hermalin and Weisbach's (2003, p. 20) survey of the international empirical literature suggests an inconclusive link between firm performance and the fraction of outside directors.

Independent directors may also force reliance on external funding channels (Rozeff 1982; Easterbrook 1984; Jensen 1986) and boost the quality and quantity of managerial disclosure (Ajinkya et al. 2005). Independent directors potentially contribute to a more informed information environment and, in the present context, act to reduce CIs' adverse selection risks. For example, Liu et al. (2015), with respect to Chinese listed firms in Shanghai and Shenzhen, report reduced rates of "self-dealing" and more efficient utilization of funds in entities with greater board independence. Accordingly, this study's next hypothesis contends that cornerstone parties prefer share allocations in IPO firms accommodating a significant body of outside directors. Hypothesis 2 thus asserts:

Hypothesis 2. *Listing firms with a greater proportion of independent non-executive directors on boards attract more cornerstone investment.*

This paper's third hypothesis considers the important demographic of director age. Hypothesis 3 posits that the average age of a firm's board members proxies for a listing entity's growth options. If older directors are more risk averse (Horvath and Spirollari 2012), and less adaptable to strategic change (Wiersema and Bantel 1992), the firms they supervise may forgo important growth opportunities.

⁸ The lenders to pre-IPO firms are typically and overwhelmingly commercial banks (Magri 2010). This is perhaps not too surprising given the general absence of credit ratings in pre-IPO entities (Gounopoulos et al. 2013). Most IPO firms therefore have little to no marketable debt within their capital structures.

The empirical literature offers support for this conjecture. Regarding Chinese A-listed firms, [Farag and Mallin \(2018\)](#) reveal that older CEOs invest less aggressively relative to younger leading officers. Longstanding evidence ([Cochran et al. 1984](#)) also suggests an inverse connection between board member age and firm performance. Additionally, [Chan et al. \(2011\)](#) reveal that age differences (between board chair and the leading executive officer) shape performance. An inverse relation may also exist between decision-making “optimism” ([Graham et al. 2013](#)) and executive officer age. Hypothesis 3 asserts that board age acts as a proxy for growth options, and that cornerstone parties recognize this positive governance attribute. Accordingly:

Hypothesis 3. *An inverse relation exists between the average age of board directors and the incidence and level of cornerstone investment.*

Above all, analysis of board member age adds useful context to Upper Echelons Theory ([Hambrick and Mason 1984](#)), by contributing to the debate on entrepreneurship, strategy, control and corporate valuation ([Ahlstrom et al. 2004](#)). As an overarching consideration, older boards generate offsetting effects in valuation terms: Imparting greater levels of both experience and risk aversion ([Johnson et al. 2013](#), p. 238).

Hypothesis 4 focuses on board gender balance. Among other things, greater gender diversity suggests a wider range of firm-based resource dependencies ([Pfeffer and Salancik 1978](#); [Shrader et al. 1997](#); [Hillman et al. 2007](#)). A richer and more extensive channel of networks may enable pre-IPO firms to broker greater access to prospective high net-worth cornerstone parties. Thus:

Hypothesis 4. *Stronger connection with cornerstone parties emerges in issuing firms with more gender-diverse boards.*

Gender board diversity (GBD) may also attract value-investor presence for other reasons. First, GBD enriches the information content of a listed entity’s share price ([Gul et al. 2011](#)), contributing to enhanced disclosure practice ([Ahmed et al. 2017](#)). Second, diversity supports firm-level monitoring ([Adams and Ferreira 2009](#)). Third, GBD fosters wider stakeholder engagement ([McGuinness et al. 2019](#)). Fourth, gender balance on boards ([Srinidhi et al. 2011](#)) and in senior management teams ([Krishnan and Parsons 2008](#)) enhances earnings quality. Fifth, greater GBD may serve in restraining egregious actions, notably securities fraud ([Cumming et al. 2015](#)) and environmental malpractice ([Liu 2018](#)). Sixth, entities with GBD accept lower levels of financial risk but pursue innovation and R&D more efficiently ([Bernile et al. 2018](#)). The last finding offers context to accounts on regional economic growth ([Ahlstrom 2010](#); [Tomizawa et al. 2019](#)).

This paper’s final hypothesis asserts that family-centric firms attract CI investment. [Zahra et al.’s \(2004\)](#) account of the organizational constructs underlying family and non-family firms informs this proposition. In terms of a Resource-Based View (RBV), [Zahra et al. \(2004\)](#) argue that family firms’ commitment to longer-term goals cements a greater level of entrepreneurial orientation.⁹

Within an RBV framework, [Habbershon and Williams \(1999\)](#) further suggest enhanced performance in family firms due to strong levels of “trust and unity” (p. 18). A stewardship advantage also arises from family-run firms’ greater cultural cohesion ([Miller and Le Breton-Miller 2006](#)). The underlying stewardship view implies lower agency costs in family-centric firms. Both RBV and stewardship narratives suggest family firms’ greater inclination to the development and management of real investment options ([Lin and Wang 2019](#)). Such arguments are consistent with empirical evidence of enhanced performance in family-based firms ([Anderson and Reeb 2003](#); [Villalonga and Amit 2006](#); [Van Essen et al. 2015](#)).

⁹ However, generational factors ([Cruz and Nordqvist 2012](#)) moderate a family firm’s inclination toward entrepreneurship. Additionally, [Schultz et al. \(2001, p. 108\)](#) identify specific agency problems in family firms, such as “self-control”.

CIs' identification of the depth of intangible assets in family-run firms (as stressed in the RBV account), as well as the stronger stewardship properties on offer, leads directly into Hypothesis 5.

Hypothesis 5. *All other things being equal, cornerstone parties are more likely to lobby for investment in family-run entities than in non-family based entities.*

However, and in testing Hypothesis 5, empirical tests need to distinguish between state and non-state IPO entities. First, McGuinness (2018) reveals the general absence of family-connected directors in state-sponsored entities listing in Hong Kong. Second, sponsored issuers may still be attractive to CIs because of the political and regulatory connections they bring to the table.

The present study's empirical analysis of CI investment thus distinguishes between three types of listing entity in the Hong Kong market setting: (1) State-sponsored issuers; (2) privately founded firms without family-affiliated directors; and (3) privately controlled issuers with family board linkages. McGuinness's (2018) stratification of sample firms into these three firm types reveals a performance premium for firms accommodating gender-diverse boards. Crucially, this premium only exists where board members are uninhibited by family linkage. As an important extension of this analysis, it is pertinent to ask whether gender mix and family board connections interact in relation to the procurement of outside investors; most especially in relation to cornerstone parties.¹⁰

3. Methodology

The present analysis considers cornerstone investor (CI) agreements in unseasoned equity offers on the Hong Kong Exchanges and Clearing Limited (HKEX) market between January 2005 and December 2009. This timeframe is of interest for a number of reasons. First, it includes both bull and bear market conditions, traversing the years leading up to and immediately following the Global Financial Crisis. Second, and more importantly, cornerstone allocations became a significant and visible part of the Hong Kong IPO landscape during the chosen five-year timeframe. Such allocations were generally less commonplace during the 1990s for example. Third, IPO volume was generally high during the five-year study period.¹¹

The present assessment considers all IPO firms selling shares on the HKEX Main Board during the 60-month period of interest. However, the study frame excludes firms achieving new listing through means other than IPO (such as through an introduction or via a transfer listing). The sample frame also excludes one "Unit IPO", where warrants serve as a sweetener in the sale of new ordinary shares, one dual listing, and a further case involving a major preferential offer. Given the posited importance of a firm's pre-listing debt structure in establishing CI stakes (see Hypothesis 1), the present assessment also excludes all financial firms (= 10 IPO entities). Analyses on corporate capital structure elsewhere routinely exclude financial firms due to the regulatory factors that typically shape such firms' balance sheets (Alves and Ferreira 2011, p. 125).

After the exclusion of 10 financial firms, and the elimination of two further cases due to missing data on pre-IPO short- and/or long-term debt positions, 257 IPOs remain. Within this study-frame, careful analysis of prospectus-based disclosures reveals cornerstone investor presence in 74 of the 257 listing firms. Almost 30 percent of sample firms thus accommodate one or more CIs within the placing component of their IPOs. Instructively, CI presence has become much more common in recent years in the Hong Kong market, both in terms of the number of IPOs accommodating such investors as well as

¹⁰ The board attributes considered in the present analysis are by no means exhaustive. For example, board duality, i.e., a unified CEO/chair role, may impart some important influence in yielding stewardship benefits and/or agency concerns (Peng et al. 2007). While duality seems to have a limited role in enticing cornerstone investment, Cheung et al. (2018) reveal that entities combining duality with a founding CEO experience lower levels of IPO underpricing.

¹¹ However, and as noted in Gucbilmez (2015), HK IPO volume is more stable than in the mainland PRC.

the size of earmarked allocations (Hughes 2016). Further comment on this important change features later in this paper in Section 6.

The present analysis excludes consideration of strategic investor allocations. Cornerstone allocations are those specifically referred to as such in relevant prospectus documents.¹² The predominant view is that CIs are in the main value and not strategic investors (McGuinness 2014; Espenlaub et al. 2016). Strategic investors seek allocations for reasons of industry and regulatory tie-ups, while cornerstone parties' investment selections appear more closely aligned to potential stock value and dividend returns. Additionally, the present study, by addressing the antecedents of anchor investment, breaks new ground. It does so by adding insight, context and background to accounts that focus on such stakes' later-stage effects on issuer value and after-market performance (McGuinness 2014, pp. 158–59; Espenlaub et al. 2016; Sahoo 2017; Seth et al. 2019; Samdani 2019).

IPO firms' prospectus documents serve as the present study's principal information data source. Detailed disclosure on the specifics of CI allocations features prominently in such issue documents. These declarations stress the identity and background of the constituent cornerstone players, the dollar size of allocations assigned, as well as the terms of the lock-up arrangements applied to the coalition of assignees.¹³ In relation to financial and market-based information, this study's other major data source is Datastream.

4. Empirical Methodology and Variable Construction

A number of aspects of participation feature in this study's assessment of cornerstone involvement. These dimensions include cornerstone investor presence (**CI Dum**), equity holdings (**CI Eqint**), number of participating parties (**CI Num**) and the term of the lock-up imposed (**CI Lku**). The upper section of Table 1 provides detailed description on the construction of variables relevant to the cornerstone dimensions.

Equation (1) figures in relation to the five hypotheses identified in Section 3 of this paper.

$$\begin{aligned} \text{CI dimension} = & \beta_0 + \beta_1. \text{State}_i + \beta_2. \text{StDebt}_{T-1,i} + \beta_3. \text{LtDebt}_{T-1,i} + \beta_4. \text{InsOwn}_i + \\ (\text{for firm } i) & \beta_5. \text{UwrQ}_i + \beta_6. \text{LnSize}_i + \beta_7. \text{ResDev}_i + \beta_8. \text{FemBrd}_i + \\ & \beta_9. \text{AgeBrd}_i + \beta_{10}. \text{Ined}_i + \beta_{11}. \text{FamLinks}_i + \beta_{12-15}. \text{YLD2005-9}_i + e_i \end{aligned} \quad (1)$$

Table 1a over page offers specific detail on all explanatory variables included in Equation (1).

¹² Declarations on cornerstone presence are most evident in the section of a prospectus entitled "Structure of the Global Offer" (or the equivalent). However, in some issue documents, relevant disclosure may appear under a separate "Corporate Placing" heading. The present enterprise subsumes all such allocations under the mantle of "cornerstone" even though this specific label may not necessarily figure in declarations. For further background on the identification and measurement of CI stakes, see McGuinness (2012, p. 1533). The present analysis excludes allocations explicitly identified under the heading of "Strategic" placing (or the equivalent). The focus in the present account is on value- rather than strategic- investors. The latter typically use equity stakes to build industry connection with firm-level controllers, industry regulators (especially in issuers with state-based owners), and other licensing bodies. Similarly, the term cornerstone excludes allocations to private equity investors arising from the exercise of anti-dilution provisions at IPO.

¹³ The HKEX website provides access to all prospectus issue documents as well as to other pertinent pre- and post-issue announcement information. Thanks are due Gary Yan, Karen Lee and Edgar Chan for their assistance in helping me check prospectus document disclosures.

Table 1. (a) Summary of variable characteristics relevant to Equation (1). (b) Descriptive statistics of Equation (1) variables.

Dependent Variables:	
CI Eqint	The fraction of offer shares, excluding those from Green-Shoe, assigned to CIs or the equivalent.
CI Dum	Dummy for CI presence.
CI Num	Number of prospectus-declared CIs with earmarked allocations in a given stock offering.
CI Lku	Lock-up period imposed on CIs (as expressed in number of months).
CI Clawback	Fraction of shares assigned CIs in the international placing tranche component of a global offer after <u>account of</u> actual claw-back. A claw-back, i.e., transfer of shares from an issue's placing to retail offer tranches, arises where subscription demand on the local offer component exceeds thresholds stipulated in HKEX Practice Note 18 (1998) . The present research determines an issue's claw-back arrangement from inspection of subscription announcement results posted to the HKEX website one day prior to listing.
CI Eqint*Lku	A composite variable equal to the product of CI Eqint and CI Lku . The underlying premise is that a CI offers greater certification of an issuer when locking in a larger fractional holding for a longer committed period (i.e., the signal effect emanating from a CI undertaking of 10 percent of an offer locked-in for 12 months is four times that of a similar undertaking to receive 5 percent locked-in for 6 months).
Explanatory Variables:	
State	Dummy for an IPO entity classified by HKEX as either an H- or Red-Chip stock issuer.
StDebt_{T-1}	(Short-term debt/Total assets) × 100. Determined for the financial year-end prior to IPO.
LtDebt_{T-1}	(Long-term debt/Total assets) × 100. Determined for the financial year-end prior to IPO.
InsOwn	Fraction of outstanding voting equity retained by pre-listing owners after the expiration date in any adjoining Green-Shoe option.
UwrQ	Dummy for issuers where <i>at least two</i> blue-ribbon international lead underwriters are present. The presence of a high quality underwriting team serves to reassure value investors, thus cementing greater CI participation at the point of IPO. The underlying premise is that high reputation underwriters signal stronger issuer quality (Michaely and Shaw 1994).
LnSize	The natural log of the number of employees in the listing entity just prior to IPO (as disclosed in the relevant issue prospectus).
ResDev	Dummy variable for a listing firm with declared R&D expenses for the financial period immediately prior to listing (as determined from financial statement disclosures in the relevant prospectus document). A number of studies identify a positive relation between institutional investor presence and R&D (see, for example, Bushey 1998 ; and Aghion et al. 2013).
FemBrd	Percentage of female personnel on a given IPO firm's board.
AgeBrd	Average age of board members. A proxy measure for a firm's growth options.
Ined	Fraction of a board in Independent Non-Executive Director (INED) form.
FamLinks	Number of intra-family affiliations evident between officers on a given board. For family-centric firms, the number of linked directors ranges from two to six officers. The present investigation judges corporate entities <i>without</i> intra-board family linkage to be non-family-focused firms (McGuinness 2018).
YLD2005-9	Dummy variables for year of listing (the omitted effect in regressions is YLD2008).

(a)

Table 1. Cont.

	CI Eqint	CI Dum	CI Num	CI Lku	CI Clawback	CI Eqint*Lku	State	StDebt _{T-1}	LtDebt _{T-1}	InsOwn	UwrQ
Mean	5.12	0.29	1.13	2.22	8.03	40.64	0.18	16.49	8.49	71.76	0.21
Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14.42	2.73	72.29	0.00
Maximum	44.81	1.00	12.00	24.00	89.62	481.92	1.00	65.36	71.79	95.00	1.00
Minimum	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.18	0.00
Std. Dev.	9.54	0.45	2.34	3.92	15.19	83.05	0.39	13.54	11.94	5.73	0.41
N	259	259	259	259	258	259	259	257	257	259	259

(b)

	LnSize	ResDev	YLD2005	YLD2006	YLD2007	YLD2009	FemBrd	AgeBrd	CEOage	Ined	FamLinks	FamilyD
Mean	7.60	0.34	0.20	0.19	0.29	0.22	9.94	48.74	46.64	38.63	1.15	0.43
Median	7.58	0.00	0.00	0.00	0.00	0.00	8.33	48.29	45.00	37.50	0.00	0.00
Maximum	13.71	1.00	1.00	1.00	1.00	1.00	60.00	63.91	83.00	70.00	6.00	1.00
Minimum	2.64	0.00	0.00	0.00	0.00	0.00	0.00	39.71	27.00	18.75	0.00	0.00
Std. Dev.	1.69	0.48	0.40	0.39	0.45	0.42	12.11	4.58	8.20	8.41	1.45	0.50
N	259	259	259	259	259	259	259	259	259	259	259	259

CI Eqint	The fraction of offer shares, excluding those arising from Green-Shoe, assigned to CIs or the equivalent.
CI Dum	Dummy for CI presence.
CI Num	Number of prospectus-declared CIs with earmarked allocations in a given stock offering.
CI Lku	Lock-up period imposed on CIs (as expressed in number of months).
CI Clawback	The fraction of shares assigned CIs in the international placing tranche component of a global offer after consideration of claw-back.
CI Eqint*Lku	A composite variable equal to the product of CI Eqint and CI Lku .
State	Dummy for an IPO entity classified by HKEX as either an H- or Red-Chip stock issuer.
StDebt_{T-1}	(Short-term debt/Total assets) × 100. Determined for the financial year-end prior to IPO.
LtDebt_{T-1}	(Long-term debt/Total assets) × 100. Determined for the financial year-end prior to IPO.
InsOwn	Fraction of outstanding voting equity retained by pre-listing owners after the expiration date in any adjoining Green-Shoe option.
UwrQ	Dummy for issuers where <i>at least two</i> blue-ribbon international lead underwriters are present.
LnSize	Natural log of number of employees in the listing firm just prior to IPO.
ResDev	Dummy for an IPO firm with R&D expenses at the financial period-end prior to listing.
FemBrd	Percentage of female personnel represented on a given IPO firm's board.
AgeBrd	Average age of board members. A proxy measure for a firm's growth options.
Ined	Fraction of a board in Independent Non-Executive Director form.
FamLinks	Number of intra-family affiliations present within a given board.
FamilyD	Dummy = 1 where the number of intra-family affiliations present within a given board is two or higher.
YLD2005-9	Dummies for year of listing (the omitted effect in regressions is YLD2008).

The estimated coefficients of prime importance in Equation (1) are β_2 , β_3 , β_8 , β_9 , β_{10} , and β_{11} . The first two of these relate to sample firms' respective short and long-term gearing properties, while β_{8-11} capture issuers' pertinent governance characteristics.¹⁴ Additionally, coefficients β_1 and β_4 apply in relation to control variables for state sponsorship (**State**) and the fraction of equity retained (**InsOwn**) by insiders on IPO completion (Leland and Pyle 1977). Underwriter quality reputation variable **UwrQ** and firm size variable **LnSize** offer further important control variables (with β_5 and β_6 the respective coefficients in Equation (1)). Control also exists for a firm's growth options through the inclusion of a dummy variable for research and development expenditure (**ResDev**). Finally, Equation (1) controls for year of listing (YLD2005-9).

As important background (and as shown in Table 1b), state-sponsored issuers (**State**) account for around 18 percent of all issuers. The non-state sponsored group of entities makes-up the remaining 82 percent of issuers. Of this group, family-dominated private (i.e., non-state) firms account for around 43 percent of all study frame issuers (see descriptive statistics on **FamilyD** in Table 1b). Private entities without family-affiliated directors account for the rest, comprising around 39 percent of all study frame firms. **FamLinks** in Equation (1) is a categorical variable for the number of family-affiliated board members. It therefore represents a refined and extended measurement form of **FamilyD**.

5. Results

Table 1b reports descriptive statistics for all variables included in Equation (1), while Table 2 sets-out the principal regression effects. Consistent with Hypothesis 1, Table 2 results indicate that a firm's long-term debt ratio (**LtDebt_{T-1}**) displays significant positive association with cornerstone participation. This result holds for all six of the dimensions considered. The estimated coefficient on variable **LtDebt_{T-1}** in the Column (1) regression of Table 2 suggests that a 100 basis point increase in an issuer's long-term debt level raises cornerstone interest in a global offer by 33 basis points. This is an economically meaningful interpretation of cornerstone sensitivity, given a mean level for anchor participation of around 512 basis points for the whole sample (see the descriptive statistics for variable **CI EqInt** in Table 1b).

Congruent with Hypothesis 1, a listing entity's pre-IPO short-term debt position (**StDebt_{T-1}**) exhibits an inverse link with all six of the cornerstone dimensions considered in Table 2. This relation is consistent with short-term debt constraining or at least delaying an issuer's pursuit of growth options. The opposite implication arises for issuers holding more long-term debt.

Regression results in Table 2 offer some level of qualified support for Hypothesis 2. In particular, the estimated coefficient on **Ined**, the proportion of independent directors on a board, appears significant in five of the six regressions considered. However, the level of significance achieved of only 10 percent in the five relevant regressions suggests only limited effects. Information asymmetry concerns may underlie this outcome. Duchin et al. (2010) demonstrate that outside investors yield relatively little benefit when information costs are high. Such high information costs may be more emblematic of unseasoned IPO firms than of more mature seasoned companies.

Findings for another governance demographic, average board member age (**AgeBrd**) also appear significant in overall results. In five of the six Table 2 regressions, **AgeBrd** bears a significant inverse association with cornerstone involvement. The sign and significance of the estimated coefficient indicates that cornerstone investor presence is more likely, more pronounced, and subject to a longer lock-up term in IPO firms accommodating younger board officers. This finding signals strong support for Hypothesis 3. The magnitude of the association is also important. For example, the relevant coefficient estimate in Column (1) of Table 2 suggests that a reduction in average board age of one year

¹⁴ The present analysis addresses the structure and demography of formal boards. It does not consider supervisory boards (as relevant to H-share entities, which constitute a minority of the present sample's issuers) or the composition of adjacent audit or remuneration committees. Farag and Mallin (2016) offer useful examination of the composition of supervisory boards, in relation to A-share issuers on the mainland Chinese markets of Shanghai and Shenzhen.

raises cornerstone participation in an IPO by around 68 basis points (relative to the mean figure of 512 basis points, as reported in Table 1b).

Table 2. Determinants (including AgeBrd) of cornerstone participation.

	Tobit (1) CI Eqint	Binary Logit (2) CI Dum	Tobit (3) CI Num	Tobit (4) CI Lku	Tobit (5) CI Clawback	Tobit (6) (CI Eqint*Lku)
Constant	−27.041 (−0.839)	−3.081 (−0.965)	−3.755 (−0.625)	−16.686 (−1.446)	−18.544 (−0.366)	−352.07 (−1.394)
State	28.449 *** (5.672)	3.219 *** (4.874)	6.265 *** (6.617)	11.995 *** (6.835)	45.638 *** (5.882)	256.32 *** (5.609)
StDebt _{T-1}	−0.146 (−1.085)	−0.018 (−1.267)	−0.031 (−1.216)	−0.093 * (−1.827)	−0.221 (−1.091)	−1.668 (−1.472)
LtDebt _{T-1}	0.327 ** (2.551)	0.025 * (1.796)	0.060 ** (2.413)	0.095 ** (2.093)	0.455 ** (2.443)	2.680 ** (2.366)
InsOwn	0.138 (0.436)	0.016 (0.509)	−0.011 (−0.194)	0.133 (1.248)	0.063 (0.126)	2.652 (1.041)
UwrQ	9.301 *** (2.702)	1.229 *** (3.036)	3.586 *** (4.614)	4.354 *** (3.209)	14.562 ** (2.551)	82.384 *** (2.728)
LnSize	1.878 * (1.692)	0.301 ** (2.407)	0.527 ** (2.382)	1.135 *** (2.750)	2.650 (1.542)	17.984 ** (1.961)
DummyRD	−5.345 (−1.189)	−0.543 (−1.114)	−0.759 (−0.905)	−1.711 (−1.068)	−10.210 (−1.508)	−39.995 (−1.119)
YLD2005	−10.972 (−1.421)	−1.264 (−1.460)	−3.571 ** (−2.282)	−4.896 * (−1.668)	−18.133 (−1.565)	−78.011 (−1.237)
YLD2006	−10.074 (−1.432)	−0.949 (−1.240)	−3.165 ** (−2.158)	−3.886 (−1.452)	−13.316 (−1.266)	−79.948 (−1.392)
YLD2007	15.710 ** (2.533)	1.918 ** (2.568)	3.346 *** (2.621)	7.009 *** (2.843)	26.964 *** (2.982)	145.255 *** (2.782)
YLD2009	5.781 (0.917)	1.023 (1.323)	1.283 (0.992)	2.461 (0.975)	10.071 (1.059)	46.433 (0.914)
FemBrd	−0.180 (−1.070)	−0.017 (−0.869)	−0.018 (−0.533)	−0.041 (−0.623)	−0.309 (−1.207)	−1.305 (−0.911)
AgeBrd	−0.679 (−1.563)	−0.092 * (−1.956)	−0.143 * (−1.720)	−0.316 * (−1.929)	−1.318 ** (−1.981)	−5.876 * (−1.650)
Ined	0.323 (1.536)	0.040 * (1.792)	0.069 * (1.755)	0.143 * (1.917)	0.565 * (1.738)	2.891 * (1.709)
FamLinks	3.314 *** (2.576)	0.337 ** (2.488)	0.524 ** (2.126)	1.074 ** (2.231)	5.076 *** (2.603)	23.897 ** (2.256)
Avg Log Likeli.	−1.504	—	−0.992	−1.206	−1.626	−2.089
McFadden R2	—	0.341	—	—	—	—
Zero values, n	183	183	183	183	182	183
Positive values, n	74	74	74	74	74	74

The z statistic (in parentheses) is the lower figure, while the estimated coefficient is the upper one. *, **, *** Denotes significant z-statistics at respective levels of 10, 5 and 1 percent. All standard errors are subject to Huber/White adjustment.

Extension of findings on the age demographic to an IPO firm's CEO (Table 3) imparts even stronger effects. Again, the magnitude of the connection is economically meaningful. All other things equal, a one-year increase in the age of an IPO firm's CEO lowers cornerstone equity involvement in a global offer (CI Eqint) by nearly 37 basis points. The age characteristics of a board, and most especially that of its leading officer, therefore displays very strong connection with CI involvement in an IPO. Overall results thus offer robust support for Hypothesis 3. Additionally, results for Ined weaken in Table 3, after the replacement of AgeBrd by AgeCEO. Results are consistent with younger, more dynamic CEOs exerting stronger influence over outside directors.

Results in both Tables 2 and 3 signal little to no support for Hypothesis 4. There is therefore no tangible evidence to suggest that cornerstone investment is more likely or more pronounced in firms with greater gender board balance. In contrast, empirical results indicate that cornerstone investment is more apparent in family-focused entities. Results capture this effect through inclusion of explanatory

effect **FamLinks**, the number of intra-board family linkages present between a firm's sitting officers. Findings in Table 2 signal strong effects across all six of the cornerstone dimensions considered.

Table 3. Determinants (including AgeCEO) of cornerstone participation.

	Tobit (1) CI Eqint	Binary Logit (2) CI Dum	Tobit (3) CI Num	Tobit (4) CI Lku	Tobit (5) CI Clawback	Tobit (6) (CI Eqint*Lku)
Constant	−34.401 (−1.231)	−3.885 (−1.360)	−3.046 (−0.590)	−18.298 * (−1.870)	−36.583 (−0.814)	−407.315 * (−1.758)
State	26.582 *** (5.247)	2.972 *** (4.683)	5.749 *** (6.214)	11.027 *** (6.423)	42.063 *** (5.337)	240.013 *** (5.223)
StDebt _{T-1}	−0.132 (−1.006)	−0.015 (−1.112)	−0.030 (−1.188)	−0.087 * (−1.786)	−0.189 (−0.952)	−1.539 (−1.418)
LtDebt _{T-1}	0.309 ** (2.333)	0.022 (1.550)	0.057 ** (2.204)	0.087 * (1.838)	0.422 ** (2.184)	2.530 ** (2.174)
InsOwn	0.097 (0.304)	0.009 (0.274)	−0.029 (−0.543)	0.108 (1.014)	−0.008 (−0.016)	2.278 (0.874)
UwrQ	9.178 *** (2.672)	1.250 *** (3.036)	3.581 *** (4.740)	4.300 *** (3.231)	14.336 ** (2.511)	81.363 *** (2.718)
LnSize	1.796 * (1.666)	0.286 ** (2.340)	0.527 *** (2.591)	1.111 *** (2.813)	2.427 (1.431)	17.329 * (1.906)
DummyRD	−4.809 (−1.089)	−0.391 (−0.838)	−0.620 (−0.760)	−1.428 (−0.904)	−9.132 (−1.373)	−35.086 (−0.989)
YLD2005	−11.664 (−1.486)	−1.384 (−1.621)	−3.666 ** (−2.319)	−5.132 * (−1.742)	−19.306 (−1.638)	−83.429 (−1.307)
YLD2006	−10.102 (−1.450)	−0.981 (−1.270)	−3.226 ** (−2.189)	−3.879 (−1.454)	−13.325 (−1.281)	−79.520 (−1.404)
YLD2007	14.551 ** (2.403)	1.752 ** (2.447)	2.955 ** (2.374)	6.375 *** (2.676)	24.970 *** (2.860)	134.995 *** (2.667)
YLD2009	5.595 (0.898)	1.009 (1.304)	1.167 (0.908)	2.341 (0.943)	9.833 (1.052)	44.661 (0.889)
FemBrd	−0.140 (−0.898)	−0.010 (−0.591)	−0.011 (−0.345)	−0.022 (−0.360)	−0.236 (−1.002)	−0.942 (−0.699)
AgeCEO	−0.384 ** (−2.016)	−0.055 ** (−2.451)	−0.112 *** (−2.820)	−0.207 *** (−2.680)	−0.675 ** (−2.187)	−3.469 ** (−2.083)
Ined	0.228 (1.116)	0.027 (1.252)	0.046 (1.195)	0.097 (1.272)	0.381 (1.200)	2.048 (1.199)
FamLinks	3.008 ** (2.412)	0.297 ** (2.295)	0.439 * (1.850)	0.909 * (1.923)	4.550 ** (2.404)	21.137 ** (2.005)
Avg Log Likeli.	−1.503	—	−0.985	−1.202	−1.627	−2.087
McFadden R2	—	0.344	—	—	—	—
Zero values, n	183	183	183	183	182	183
Positive values, n	74	74	74	74	74	74

The z statistic (in parentheses) is the lower figure, while the estimated coefficient is the upper one. *, **, *** Denotes significant z-statistics at respective levels of 10, 5 and 1 percent. All standard errors are subject to Huber/White adjustment.

Findings for **FamLinks** resonate with a Resource-Based View (RBV) of family-centric firms. Within such a framework (Habbershon and Williams 1999; Zahra et al. 2004), family-focused firms offer greater opportunity for entrepreneurship and for the concomitant innovation processes that arguably ensue (Liu et al. 2017). On such grounds, entities with more family-focused boards may induce greater amounts of outside investment from institutional investors more generally and from cornerstone subscribers more particularly. Such a response may reflect investors' perceptions of the greater levels of "trust" (Habbershon and Williams 1999) and stewardship (Miller and Le Breton-Miller 2006) often present in family-oriented firms. The general evidence in Tables 2 and 3 of greater CI involvement in firms with more family-focused boards resonates with such a view, and thus both the RBV and stewardship narratives on the subject.

Additionally, all regression results (in Tables 2 and 3) highlight a strong link between CI involvement and state-sponsorship. Two reasons spring to mind. First, state-sponsored issuers likely recognize the

importance of outside investors in certifying governance standards, as well as in instilling and reinforcing an issuer's commercial goals. Second, and from the perspective of cornerstone parties, involvement with strategically-politically important listing entities may open-up other new business opportunities. By reinforcing credentials and visibility (Du and Girma 2010), cornerstone involvement with state controllers and regulators may facilitate access to new venture and licensing opportunities in the China market space. The strong visibility of cornerstone parties, as well as the overwhelming China business focus of virtually all issuers on the HKEX market, lends this argument a certain amount of currency.

Findings in the above also offer useful extension of the role of foreign investors in China, most particularly Qualified Foreign Institutional Investors, QFIIs (see Liu et al. 2014). Through their assigned quotas, QFIIs are able to target A-stock in the Shenzhen and Shanghai stock exchange secondary markets. In contrast, cornerstone investors zero-in on Chinese issuers listing in offshore primary markets. This section of the present analysis extends and refines existing accounts of Chinese firms' deliberations on the choice of listing venue (Wu 2013; Cheng and Schwienbacher 2016). One of the contentions of the present account is that the presence of CIs accentuates the attractiveness of offshore listing.

Both investor types discussed in the foregoing, QFIIs and CIs, share some common attributes, especially where political bridge-building motivations underlie stock selections. In relation to Chinese business, an issuer's political connections offer significant intangible asset value (McGuinness 2014; Liu et al. 2018). Outside investors also gain by leveraging on such connections. For example, political connections determine access to equity capital in the Chinese mainland (Bao et al. 2016), as well as final offer price levels in A-share listings (Li and Zhou 2015). Recent evidence in Cumming et al. (2016) also suggests that a Chinese borrower's political profile determines both its access to debt and concomitant expenditures on R&D.

Given the importance of political connections, the present research investigation considers the interaction of an issuer's governance characteristics with state sponsorship (**State**). The relevant interaction terms are **Ined*State**, **FemBrd*State**, and **AgeCEO*State**. Table 4 reports the effects of such interaction terms on the six cornerstone dimensions scrutinized in this study. Results reveal that the fraction of outside directors on state-sponsored boards has little effect in enticing CIs.

Other interaction terms indicate that cornerstone parties gravitate towards state-sponsored issuers housing more senior CEOs (**AgeCEO*State**) and male-dominated boards (**FemBrd*State**). Such findings are instructive, and are indicative of politically strategic Chinese issuers accommodating older, male-dominated directors. As a further robustness check on governance effects, Table 4 also includes interaction effects with family-dominated issuers. Dummy variable **FamilyD** identifies such entities, receiving value one for issuers with two or more family-connected board officers. Interestingly, CIs respond positively to family-run firms that also accommodate a large fraction of outside directors (**Ined*FamilyD**). This finding reaffirms the attractiveness of family resources to value investors. It also suggests that CIs gain from outside directors' control of family-specific agency costs (Schultz et al. 2001). Finally, the lack of significance of the **FemBrd*FamilyD** and **AgeCEO*FamilyD** interaction terms suggests that cornerstone participation in family-centric entities is largely unaffected by the gender and age composition of their constituent boards.

Table 4. Determinants of cornerstone participation (including interaction terms).

	Tobit (1) CI Eqint	Binary Logit (2) CI Dum	Tobit (3) CI Num	Tobit (4) CI Lku	Tobit (5) CI Clawback	Tobit (6) (CI Eqint*Lku)
Constant	−40.621 (−1.596)	−4.602 (−1.550)	−3.759 (−0.809)	−18.552 ** (−2.106)	−50.120 (−1.225)	−441.694 ** (−2.136)
StDebt _{T-1}	−0.083 (−0.694)	−0.009 (−0.640)	−0.021 (−0.913)	−0.064 (−1.445)	−0.123 (−0.678)	−0.974 (−1.063)
LtDebt _{T-1}	0.302 ** (2.457)	0.026 * (1.674)	0.054 ** (2.316)	0.080 * (1.884)	0.408 ** (2.249)	2.394 ** (2.293)
InsOwn	0.313 (1.036)	0.033 (0.983)	0.011 (0.216)	0.187 * (1.881)	0.359 (0.759)	4.245 * (1.702)
UwrQ	9.668 *** (2.972)	1.377 *** (3.028)	3.654 *** (5.072)	4.150 *** (3.475)	15.097 *** (2.803)	79.808 *** (3.024)
LnSize	1.159 (1.061)	0.217 * (1.717)	0.355 * (1.791)	0.755 ** (2.021)	1.488 (0.878)	9.357 (1.069)
DummyRD	−6.038 (−1.419)	−0.582 (−1.204)	−0.885 (−1.122)	−2.099 (−1.442)	−11.071 * (−1.709)	−49.779 (−1.525)
YLD2005	−10.818 (−1.456)	−1.139 (−1.281)	−3.275 ** (−2.166)	−3.635 (−1.379)	−18.299 (−1.627)	−56.669 (−0.967)
YLD2006	−9.922 (−1.533)	−1.267 (−1.474)	−3.358 ** (−2.436)	−3.650 (−1.461)	−12.609 (−1.310)	−74.743 (−1.439)
YLD2007	15.867 *** (2.711)	2.059 *** (2.615)	3.215 *** (2.684)	6.991 *** (3.116)	27.189 *** (3.214)	149.482 *** (3.141)
YLD2009	5.597 (0.936)	1.187 (1.469)	1.165 (0.956)	2.678 (1.168)	9.717 (1.074)	49.871 (1.078)
FemBrd	0.111 (0.492)	0.014 (0.496)	0.033 (0.751)	0.107 (1.064)	0.113 (0.324)	2.333 (1.086)
AgeCEO	−0.327 (−1.463)	−0.057 ** (−2.000)	−0.087 * (−1.794)	−0.182 ** (−2.177)	−0.592 * (−1.669)	−2.715 (−1.576)
Ined	−0.029 (−0.116)	0.002 (0.060)	−0.019 (−0.370)	−0.037 (−0.366)	0.037 (0.098)	−0.928 (−0.424)
(Ined*FamilyD)	0.658 ** (2.019)	0.048 (1.337)	0.138 ** (2.296)	0.178 (1.556)	1.027 * (1.933)	5.047 ** (2.000)
(Ined*State)	0.105 (0.351)	0.044 (0.950)	0.063 (0.988)	0.171 (1.457)	0.064 (0.134)	3.212 (1.301)
(FemBrd*FamilyD)	−0.199 (−0.702)	−0.009 (−0.272)	−0.028 (−0.521)	−0.121 (−1.009)	−0.216 (−0.499)	−3.208 (−1.257)
(FemBrd*State)	−1.412 ** (−2.367)	−0.213 *** (−3.201)	−0.294 *** (−2.835)	−0.675 *** (−3.326)	−2.163 ** (−2.321)	−15.529 ** (−3.216)
(AgeCEO*FamilyD)	−0.351 (−1.260)	−0.022 (−0.712)	−0.085 (−1.587)	−0.079 (−0.831)	−0.587 (−1.282)	−2.443 (−1.156)
(AgeCEO*State)	0.652 *** (2.731)	0.064 * (1.916)	0.107 ** (1.993)	0.174 ** (1.915)	1.098 *** (2.935)	4.383 ** (2.216)
Avg Log Likeli.	−1.478	—	−0.952	−1.170	−1.600	−2.050
McFadden R2	—	0.391	—	—	—	—
Zero values, n	183	183	183	183	182	183
Positive values, n	74	74	74	74	74	74

The z statistic (in parentheses) is the lower figure, while the estimated coefficient is the upper one. *, **, *** Denotes significant z-statistics at respective levels of 10, 5 and 1 percent. All standard errors are subject to Huber/White adjustment.

6. Discussion

In addition to building and leveraging on political connections, the findings in this short paper strongly point to the importance of three factors in enticing cornerstone investment at IPO. This paper's principal empirical contribution is to show that firms fare better in capturing institutional, and specifically cornerstone involvement at IPO, when they possess (1) more long-term credit, (2) younger boards, and (3) within board family associations.

This paper therefore offers important prescriptive guidance for entrepreneurs planning flotation of their company's shares. Such prescriptive value is especially helpful for two reasons: (1) The growing importance of cornerstone investor agreements globally; and (2) the certification effects that often

underlie such allocations. With regard to the first point, the present study therefore offers useful insight and guidance for entrepreneurs planning a public offering of equity in a variety of primary market locales. This article's findings and its implications thus bear relevance not only for entrepreneurs considering IPO in Hong Kong but also for founders contemplating listing in a number of Asian markets, as well as in several European markets, where cornerstone investor presence is increasingly evident as a feature of the new listing landscape. Additionally, evolutionary trends in firm governance arguably act as a catalyst for entrepreneurs' growing interest in drawing-in institutional and other value-based investors.

While the present study offers a number of contributions, it also has some limitations. Most particularly, certification effects likely vary across different types of CI entity. Further analysis of the different categories or types of CI present in an IPO would thus help in deepening current findings. For example, sovereign wealth funds, high net-worth individual investors, private asset management funds, and state-owned corporate entities may each give-off a different type of value signal. Additionally, investors' geographical origins may also impart valuable information (Dvorak 2005; Liu et al. 2014; Neupane et al. 2016). Finer-grained assessment of CI type would therefore add an interesting wrinkle to the present account. This issue awaits further inquiry.

A further caveat is that current study findings relate to a sample period (2005–2009) and a market setting in which cornerstone investment was visible in only around three out of every 10 IPOs. In recent times, CI involvement in IPOs on the HKEX market has increased significantly. The majority of unseasoned equity offers in this setting now accommodate some level of cornerstone investment. The size of such upfront-allocations has also increased markedly. In this sense, some evolution in cornerstone certification effects has likely arisen. Given the overwhelming and fundamental importance of cornerstone investment in the Hong Kong IPO market, greater attention should perhaps focus on the minority of offerings that nowadays come to market without cornerstone involvement (McGuinness 2016, p. 89). A focus on the type and identity of cornerstone investor is also even more insightful under such conditions. Previously, and most especially in the late 1990s, the mere sight of a CI coalition signaled a somewhat unusual and noteworthy attribute to a share offering. It would also be interesting to explore how cornerstone investors, especially in light of their burgeoning equity stakes and presence, lobby and effect change on corporate boards. Analysis of their role to sustainability and environmental issues would also constitute a welcome addition to the literature. Nonetheless, by identifying the board attributes that underlie cornerstone participation, the present study offers important insights on governance issues relevant to the ESG literature.

7. Conclusions

The background literature on the role of cornerstone investment in facilitating successful flotation of IPO stock offers important motivation for the present study, which addresses the causal factors underlying the procurement of such anchor stakes. Cornerstone undertaking are highly visible commitments in light of the detailed declarations inherent to them in relevant listing documents. The extant evidence indicates that cornerstone investment in an IPO facilitates higher final offer prices (McGuinness 2014), signals stronger longer-term survival prospects for the listing entity (Esenlaub et al. 2016), squeezes information gaps (Seth et al. 2019), and enhances disclosure (Samdani 2019). Such findings are instructive for founders planning IPO, as well as for parties advising on flotation. The present study takes the relevant debate in this area one-step further. It considers how entrepreneurs might wish to re-position their firms to reap one or more of the potential benefits on offer. The institutional setting and characteristics of the corporate entities scrutinized (Dunbar and Ahlstrom 1995; Peng 2001) undoubtedly play a decisive role in mediating such positive outcomes. This article considers the factors relevant to the inclusion of cornerstone investor stakes in equity flotations in IPOs pitched in China's offshore Hong Kong market. In addition to attracting a rich assortment of

private and state-controlled Chinese issuers, this market has been, for six of the last 10 calendar years, the leading global IPO forum in fund-raising terms.¹⁵

Findings in this research enterprise, while predicated on IPOs in China's offshore Hong Kong market, also offer important guidance on cornerstone arrangements in other settings. The growing influence of anchor investors in other major markets such as India bears testimony to their burgeoning role (Sahoo 2017; Seth et al. 2019; Samdani 2019). Cornerstone undertakings are also prevalent in other Asian locales, notably Singapore and Malaysia (Tan and Ong 2013), and are increasingly evident in a number of European primary markets (McNaughton et al. 2015) too.

Consistent with general certification arguments, the present investigation reveals that cornerstone participation correlates with an IPO firm's pre-listing capital structure and governance characteristics. These findings appear resilient to a variety of cornerstone dimensions considered. These measures include cornerstone presence, fractional equity interest garnered (in relation to both pre and post allotment reallocations), number of investing parties, as well as committed lock-up undertaking.

In term of governance, the age of board members, and most particularly that of the leading executive officer, strongly correlates with all cornerstone dimensions scrutinized. Family resources, state sponsorship and bank vetting also offer important channels in inducing anchor participation at IPO. Findings are thus consistent with cornerstone parties' recognition of long-term investment value in entities that have (1) strong political connections or state support; (2) demonstrated success in procuring long-term debt funding; and (3) in the case of private or non-state controlled firms, a wide stream of intangible family resources at board level. However, the gender and structural composition of a board (notably, the proportion of independent to non-independent directors) feature as second-order issues in explaining cornerstone participation. Nonetheless, examination of interaction terms indicates that greater independent director presence supports cornerstone participation in family-dominated firms. In contrast, outside directors impart little to no effect on cornerstone investment in state-sponsored or non-family-dominated private firms. Additionally, and for state-sponsored entities, CIs gravitate towards boards dominated by male, senior officials. The implication is that such a demographic form is dominant among China's leading state-sponsored outfits. Finally, cornerstone involvement is particularly evident in large firms and in issuers with higher quality underwriters.

One of the central premises of the current research investigation is that lending banks, investment banks (underwriters) and cornerstone investors offer a complementary and mutually reinforcing role in attenuating public subscribers' adverse selection risks at IPO. Moreover, the present investigation's detailed account of the determinants of cornerstone investment offers an important contribution to the broader entrepreneurial finance and corporate governance literature.

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¹⁵ (HKEX News Release 2018).

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