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ORGANIZATIONAL SUPPORT FOR STRATEGY ELABORATION ON AN INITIAL PUBLIC OFFERING

Medvedieva Irina, Ahapova Mariia. Organizational support for strategy elaboration on an initial public offering. It was determined in the article that preparation of corporate sector entities for an IPO contributes to the increase of corporate governance efficiency, as well as legal transparency of a company, improvement of business reputation, which in their turn, ensure higher competitiveness. The dynamics of the IPOs of the Ukrainian companies in 2005–2018 was analysed and the reasonability of such offering on the Warsaw Stock Exchange (WSE) was proved. Based on the comparison of the WIG-Ukraine and the WIG-Poland indexes during the past five years, the existence of certain barriers for domestic companies to IPO was proved, namely, the imperfect regulatory framework, political uncertainty, low economic growth rate, pessimistic expectations of the market participants, high investment risks, and inflation growth. It was proved that reasonability of implementation of the developed structural and functional model (in the IDEF0 notation) of IPO management for domestic business entities is determined by the need for efficient use of the raised financial resources in order to ensure sustainability and adaptation to a change in the economic situation.

Key words: initial public offering (IPO), strategy, WIG-Ukraine, WIG-Poland, Warsaw Stock Exchange, Balanced Scorecard (BSC) method, functional model.

Медведєва І. Б., Агапова М. Ю. Організаційне забезпечення формування стратегії первинного публічного розміщення акцій. У статті встановлено, що підготовка суб'єктів корпоративного сектору до IPO сприяє підвищенню ефективності корпоративного управління та юридичної прозорості компанії, покращенню їх ділової репутації, що, у свою чергу, забезпечує їх більшу конкурентоздатність. Проаналізовано динаміку IPO українських компаній упродовж 2005–2018 рр. та обґрунтовано доцільність первинного розміщення акцій на Варшавській фондовій біржі (WSE) з огляду на такі критерії: можливість розміщення акцій компаніям із середньою капіталізацією, достатньо висока ліквідність WSE, необмежений обсяг розміщення, відносно низькі витрати на розміщення. Досліджено структуру та динаміку структури портфеля індексу WIG-Україна, що дозволило зробити висновок про відсутність стабільної динаміки структури портфеля індексу WIG-Україна, а також про переважання в ньому упродовж 2015–2017 рр. частки (70 % портфеля)

компаній KERNEL та ASTARTA. На основі порівняння динаміки індексу WIG-Україна та WIG-Польща за останні п'ять років доведено існування певних перепон виходу вітчизняних компаній на IPO, зокрема, недосконалість нормативно-правової бази, політична невизначеність, занижкі темпи економічного зростання, песимістичні очікування учасників ринку, високі інвестиційні ризики та зростання інфляції. У статті розроблено IDEFO модель формування компанією первинного публічного розміщення акцій, яка завдяки формалізованому опису всіх підпроцесів, а також характеру взаємозв'язків між ними дозволяє забезпечити повне уявлення як про функціонування досліджуваного процесу, так і про всі потоки інформації. Доведено, що доцільність реалізації запропонованої структурно-функціональної моделі управління IPO вітчизняних суб'єктів господарювання зумовлена необхідністю ефективного використання залучених фінансових ресурсів з метою забезпечення стійкості та адаптації до зміни економічної ситуації.

Ключові слова: первинне розміщення акцій (IPO), стратегія, WIG-Україна, WIG-Польща, Варшавська фондова біржа, метод збалансованих показників (BSC), функціональна модель.

Медведева И.Б., Агапова М.Ю. Организационное обеспечение формирования стратегии первичного публичного размещения акций. В статье установлено, что подготовка субъектов корпоративного сектора к IPO способствует повышению эффективности корпоративного управления и юридической прозрачности компаний, улучшению их деловой репутации, что, в свою очередь, обеспечивает их большую конкурентоспособность. Проанализирована динамика IPO украинских компаний за 2005-2018 гг. и обоснована целесообразность первичного размещения акций на Варшавской фондовой бирже (WSE). На основе сравнения динамики индекса WIG-Украина и WIG-Польша за последние пять лет доказано существование определенных препятствий для выхода отечественных компаний на IPO, в частности несовершенство нормативно-правовой базы, политическая неопределенность, низкие темпы экономического роста, пессимистические ожидания участников рынка, высокие инвестиционные риски и рост инфляции. Доказано, что целесообразность реализации разработанной структурно-функциональной модели управления IPO отечественных субъектов хозяйствования обусловлена необходимостью эффективного использования привлеченных финансовых ресурсов в целях обеспечения устойчивости и адаптации к изменению экономической ситуации.

Ключевые слова: первичное публичное размещение акций (IPO), стратегия, WIG-Украина, WIG-Польша, Варшавская фондовая биржа, метод сбалансированных показателей (BSC), функциональная модель.

Formulation of the problem. Given the development of economic competition, raising investment through an initial public offering (IPO) on the stock market has a bilateral nature. On the one hand, a company holding IPO improves the efficiency of corporate management and brand image, increases transparency, thereby strengthening its competitive position. On the other hand, it is the increased supply of investment opportunities from successful technologically advanced companies that boosts the competition during a shares sales process on the securities market. Consequently, elaboration of the strategy of an IPO by a business entity is becoming more and more relevant.

Analysis of recent research and publications. Issues of preparation and holding IPO are highlighted in the works of domestic [3; 4; 5; 6; 7] and foreign [8; 9; 10; 11; 12] scholars. However, in view of the decreasing confidence in Ukrainian financial institutions, weaknesses of the prudential regulation, and insufficient legal protection of private property rights, the emphasis on a scientific grounding for company's preparation process for an IPO is growing.

The purpose of the article is to improve methodological support for the process of elaboration of IPO strategy by business entities.

Presentation of the main research material. Regarding the economic essence of the notion of IPO, the authors adheres to the idea stated in the work [15, p. 31], according to which IPO is considered as a process of an initial placement of ordinary or preferred shares on a public stock market in order to raise additional investments in the company's equity capital. While holding IPO, a company becomes public, which enables it to raise a significant amount of financial resources from international stock markets, receive loans and place bonds at low-interest rates.

As for the IPOs of Ukrainian companies, there were 26 placements on the international markets during 2005-2012. However, losses of foreign investors on shares of domestic companies, low credit ratings, non-transparent reporting of Ukrainian issuers, and unfavourable investment climate led to the fact that none of the Ukrainian companies held initial or secondary public offering of shares during 2013-2018 [2]. At the same time, as it is noted in [1], «... a delayed for 2-5 years prospect of holding IPO by Ukrainian companies does not change the fact that for most companies, this way of raising capital remains the most attractive in the long run from a financial and reputational perspective. That is why, even in the situation of instability, companies continue to prepare for IPO...»

It should be noted that the most popular platform among the Ukrainian enterprises is the Warsaw Stock Exchange (WSE), which is the most promising and dynamic among European stock markets. For Ukrainian business entities, it is the WSE that is highly attractive because it provides an opportunity to place shares for mid-cap companies; the WSE liquidity is high enough; the volume of placement is not limited; placement costs are lower than such on the London Stock Exchange (Table 1).

As represented in Table 1, the volume of fees is an interval value, which depends on the capitalization of an issuer and the volume of placed shares.

It is important that since 2010 the WIG-Ukraine index is calculated by WSE along with the WIG-Poland national index. This index includes companies that meet the following criteria: 10% of shares must be in a free float; the value of such shares must exceed €1.0 million; the market capitalization of the company should not be less than €5.0 million; shares of the company must be liquid. According to

Table 1

Fees for holding an IPO

Type of fee	Volume of fees by exchanges, \$ ths.				
	New York Stock Exchange	London Stock Exchange (main market)	London Stock Exchange (Alternative Investment Market)	Warsaw Stock Exchange	Singapore Stock Exchange
Fee for bid admission	125-250	77.5-682	17.64-32.91	1.5-6.5	20-76
Annual fee	35-500	18.21-77.5	9.38	4-15	7.5-18.6

Source: [16]

the latest WSE report (as of the end 2017) [16], the WIG-Ukraine index portfolio included the following companies: KERNEL, ASTARTA, OVOSTAR, Industrial Milk Company SA, AGROTON, MILKILAND, KSGAGRO.

The dynamics of the WIG-Ukraine index portfolio structure are given in Table 2.

According to Table 2, it was concluded that there is no stable dynamics of the WIG-Ukraine portfolio structure. During 2015-2017, around 70% of the portfolio belonged to the two companies – KERNEL and ASTARTA.

The structure of the WIG-Ukraine portfolio as of the end of 2017 is represented in Fig. 1.

As can be seen from Fig. 1 and Table 2, the WIG-Ukraine portfolio included exclusively agro-industrial enterprises throughout the all investigated periods: the largest shares of 40.84% and 34.85% belong to KERNEL (the biggest manufacturer and exporter of sunflower oil in

Ukraine) and ASTARTA (agricultural holding operating in the field of sugar and agricultural production) respectively.

It should be noted that as of June 2019 [18], the most actively traded shares are those of AGROTON, KERNEL, Industrial Milk Company, ASTARTA, and OVOSTAR.

The dynamics of the WIG-Ukraine and the WIG-Poland indexes for the past five years are provided in Fig. 2 and Fig. 3 respectively.

The data presented in Fig. 2 and 3, demonstrate a significant excess of the WIG-Poland index over the WIG-Ukraine. For instance, their minimum values differ more than 180 times, and the maximum ones – more than 140 times. Regarding the comparative dynamics, the WIG-Poland index is characterized by a generally positive trend since January 2016 (its value increased from 45,518.52 to 59,847.80 respectively, see Fig. 3) while the dynamics of the WIG-Ukraine is characterized by leaps. Since

Table 2

Dynamics of the WIG-Ukraine index portfolio structure

Company	Share in portfolio by years			Change of share by years	
	2015	2016	2017	2016	2017
ASTARTA	0,356	0,401	0,384	0,045	-0,052
KERNEL	0,405	0,386	0,408	-0,020	0,023
OVOSTAR	0,145	0,104	0,107	-0,041	0,003
IMCOMPANY	0,067	0,065	0,099	-0,002	0,035
AGROTON	0,007	0,023	0,020	0,015	-0,003
MILKILAND	0,013	0,014	0,010	0,000	-0,004
KSGAGRO	0,006	0,009	0,008	0,003	-0,001

Source: formed by the authors according to [16]

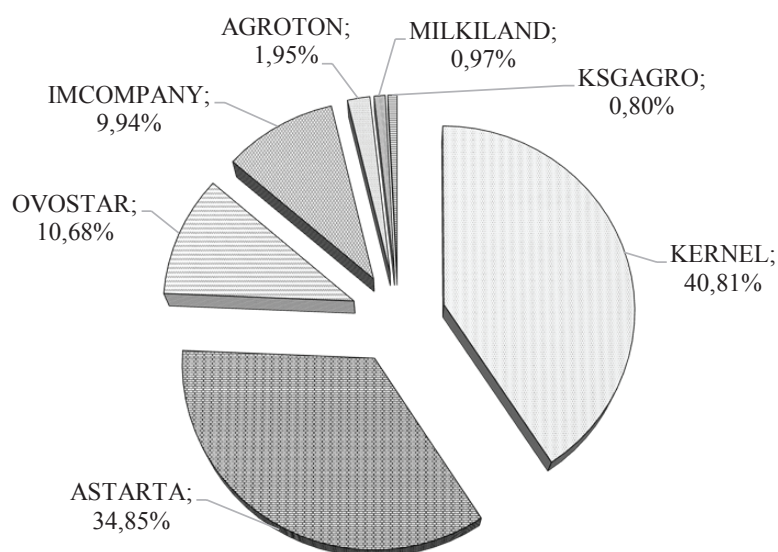


Fig. 1. Structure of the WIG-Ukraine portfolio as of the end of 2017

Source: [16]



Fig. 2. Dynamics of the WIG-Ukraine index

Source: formed by the authors according to [18]

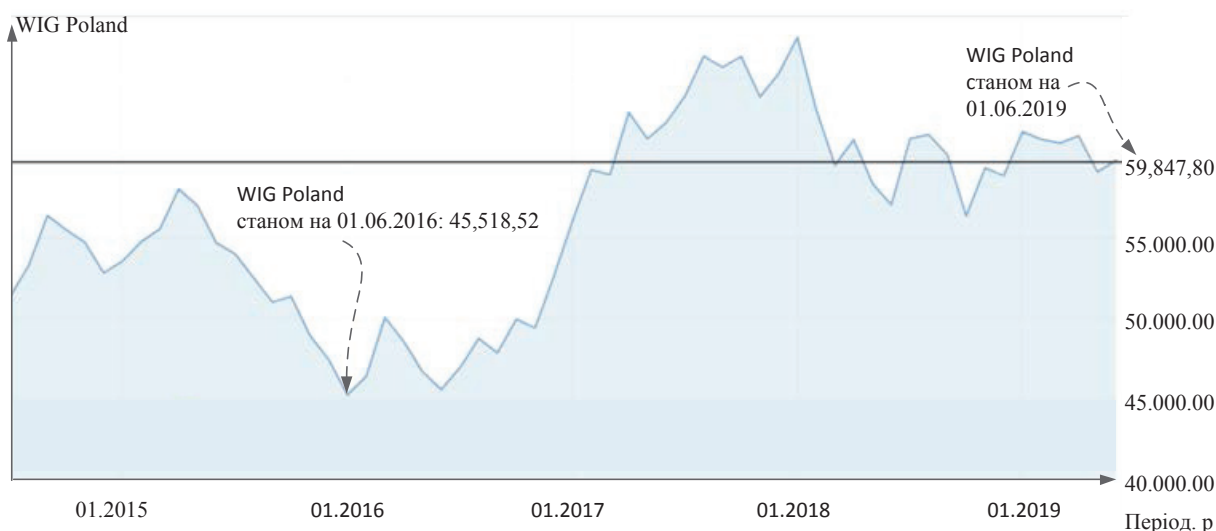


Fig. 3. Dynamics of the WIG-Poland index

Source: formed by the authors according to [18]

December 2014 till April 2017, a tendency to increase is observed (index value changed from 244.26 to 655.45, see Fig. 2), and then the index fell one and half times to the level of 425.65 (see Fig. 2).

The invariability of the index portfolio structure and significant fluctuations of its volume indicate the existence of certain barriers for domestic companies to IPO. According to a PWC study [18], the factors that hinder the development of the IPO market of the Ukrainian corporate sector are as follows: imperfect regulatory framework (32%), political uncertainty (29%), pessimistic expectations of the market participants (10%), inflation growth (4%), high investment risks (7%), and low economic growth rate (13%).

Undoubtedly, one of the areas of development for IPO market is the strengthening of measures to modernize the protection of consumers' and investors' rights, as well as

the creation of conditions for free movement of capital, proposed in the Comprehensive Program of Ukrainian Financial Sector Development until 2020 [20]. However, given the long-lasting procedure of preparation for IPO, the corporate sector needs to start preparation in advance, forming the strategy of its activities.

To clarify the nature of the company's preparation for IPO, the IDEFO model of the analysed business process was elaborated by the authors. Business process refers to a logically complete set of interconnected and interacting activities that support company operation and implement its policy aimed at achieving the set goals [13].

Note that the application of a process system to the management of IPO, along with the identification and interaction of such processes, and process management, should be based on a process approach. One of the most

common methodologies based on this approach, allowing one to create a functional model (description) of complex systems and processes, is the IDEF0 methodology.

The purpose of creating a functional model of a business process is the necessary and sufficient formal description of all the subprocesses that make up the simulated process, as well as the nature of interrelationships between them. Such a model is able to provide a complete picture of both functioning of the investigated process and all the streams of information.

Context IDEF0 model diagram representing the business process of elaboration of the company's IPO strategy is shown in Fig. 4.

According to Fig. 4, the process of the managing IPO is guided by three elements: the strategy of raising capital, regulation documents, and listing requirements of stock exchanges.

The mechanism for implementing this process is provided by a company's management, marketing department, and underwriter.

The input of this process comprises the data on an issuer (charter, registration, etc.), data on a company's financial position, information about the future issue of securities.

The result of the simulated process, namely an output from the functional block A0 (see Fig. 4), is the strategy of IPO.

The second stage of modelling the business process of elaboration of an IPO strategy is decomposing of the context diagram (block A0 in Fig. 4), which results in a diagram that displays the stages of the process presented in the context diagram.

The diagram of the decomposing of the context diagram is shown in Fig. 5.

Decomposing of the context diagram (see Fig. 5) allowed determining the logic of managing IPO, which is as follows:

- to determine the appropriateness of holding an IPO (block A1): the company management has to make a managerial decision regarding the company's preparation for the IPO. The main purposes of this stage are: determining the weighted average cost of the company's capital, calculating the value of equity by the CAMP model, and estimation of the cost of conducting the IPO;
- to select the stock exchange (block A2). Selection is carried out by the company management and marketing department in order to determine an acceptable stock exchange. The main purpose of this stage is to study the requirements of the stock exchanges to issuers (listing procedures and requirements, rules of floatation, disclosure requirements) and cost determination (initial one-time and annual fees);
- to make an integral assessment of the company's readiness for the IPO (block A3). This process is performed by company management and an independent auditor. It results in the report on the level of readiness of the company to the IPO;
- to elaborate the IPO strategy (block A4).

The diagram of decomposing the business process of integral assessment of a company's readiness for the IPO (block A3 in Fig. 4) is shown in Fig. 6.

According to Fig. 6, the process of integral assessment of a company's readiness for the IPO envisages: to define the strategic goals of a company (block A31), to define the factors influencing enterprise capitalization (block A32), to define key performance indicators and their values (blocks

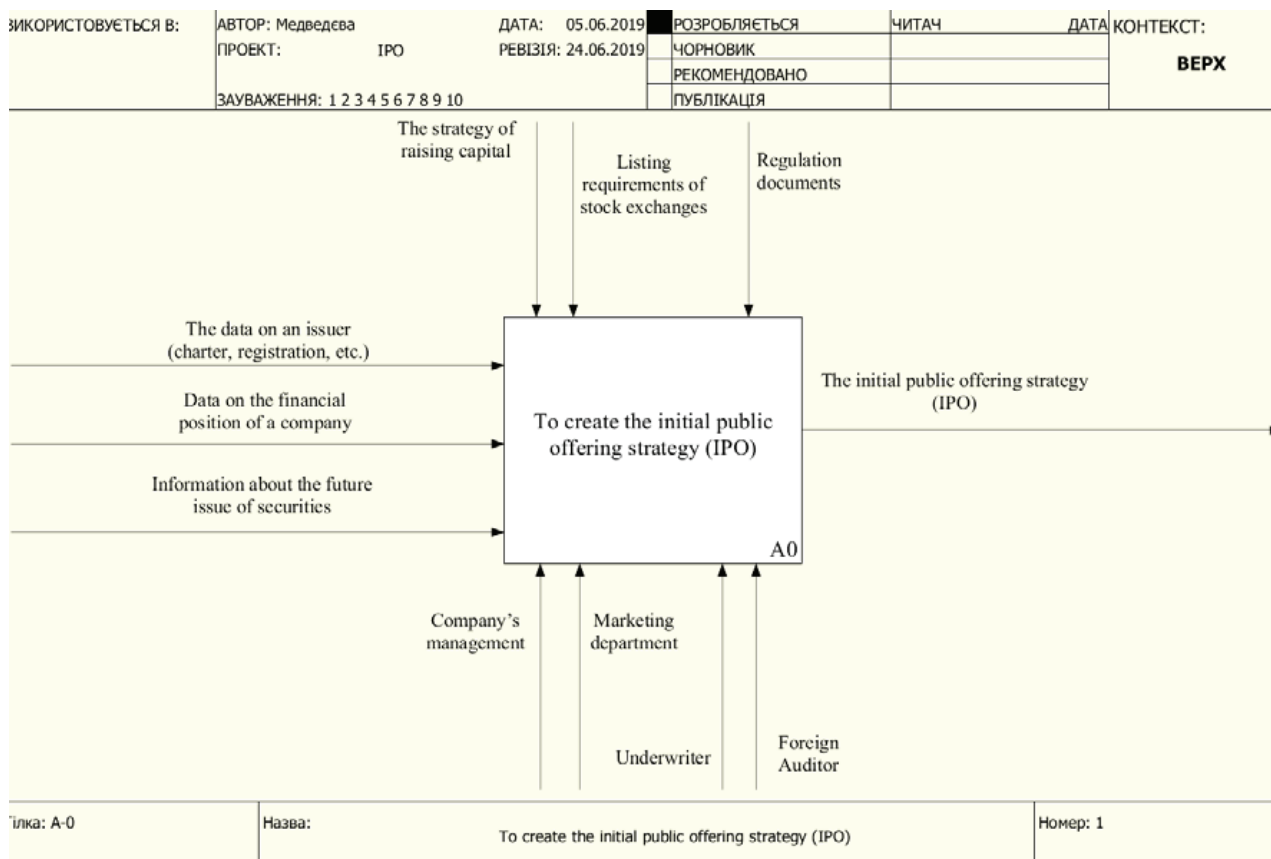


Fig. 4. Context IDEF0 model diagram of the business process of creation of an IPO strategy

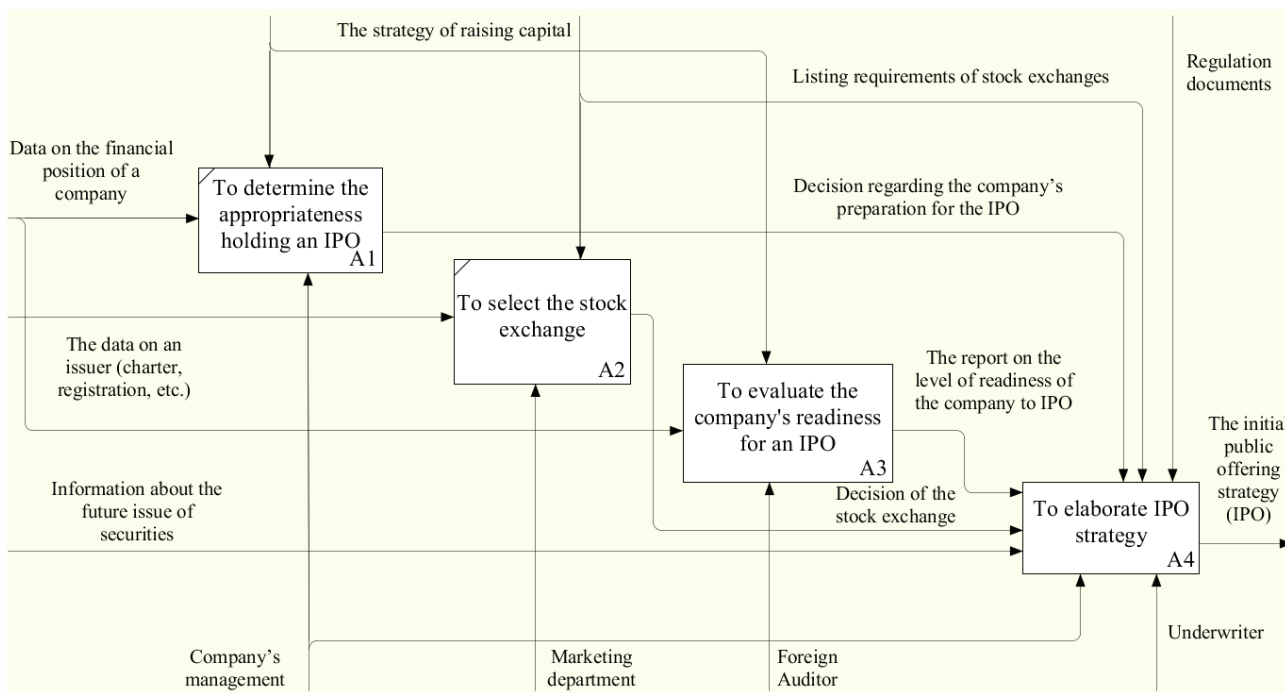


Fig. 5. The diagram of decomposing of the business process of creation of an IPO strategy

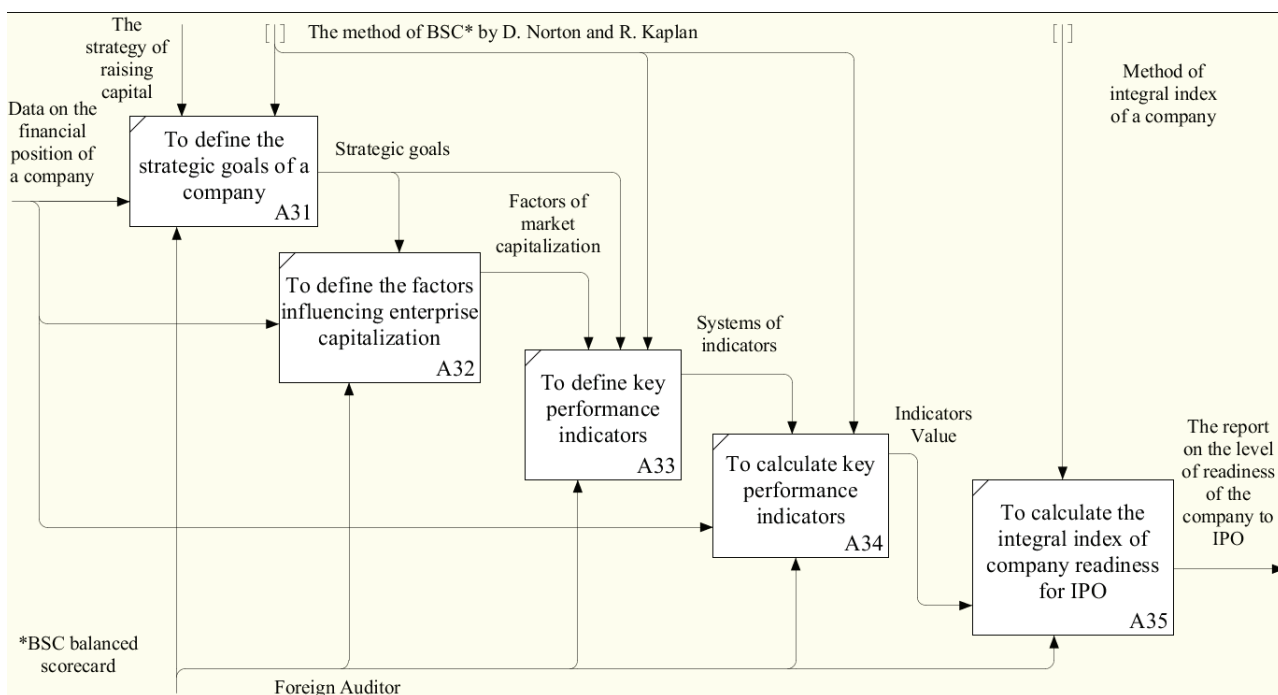


Fig. 6. The diagram of decomposing a business process of integral assessment of a company's readiness for the IPO

A33, A34), to calculate the integral index of company's readiness for the IPO (block A35).

In order to identify strategic goals, it is reasonable to use the method of the balanced scorecard (BSC) by D. Norton and R. Kaplan [14], which results in determining the factors of market capitalization, which, in their turn, are the basis for the next stage. Identification of the factors influencing capitalization is also carried out basing on the BSC method, which results in the systems of indicators, required to determine the key characteristics of a company's activity and their values.

Hereafter, a chart of the relationship between the normative and actual values is drawn. During the next step, an integral index of a company's readiness to the IPO is calculated. The obtained value makes it possible to generate a report on the readiness of the company to the IPO and provide conclusions on the possible fast IPO on the stock exchange.

The diagram of decomposition of the business process of an IPO strategy elaboration (block A4 in Fig. 4) is represented in Fig. 7.

According to Fig. 7, an IPO strategy elaboration is executed by company management and an underwriter.

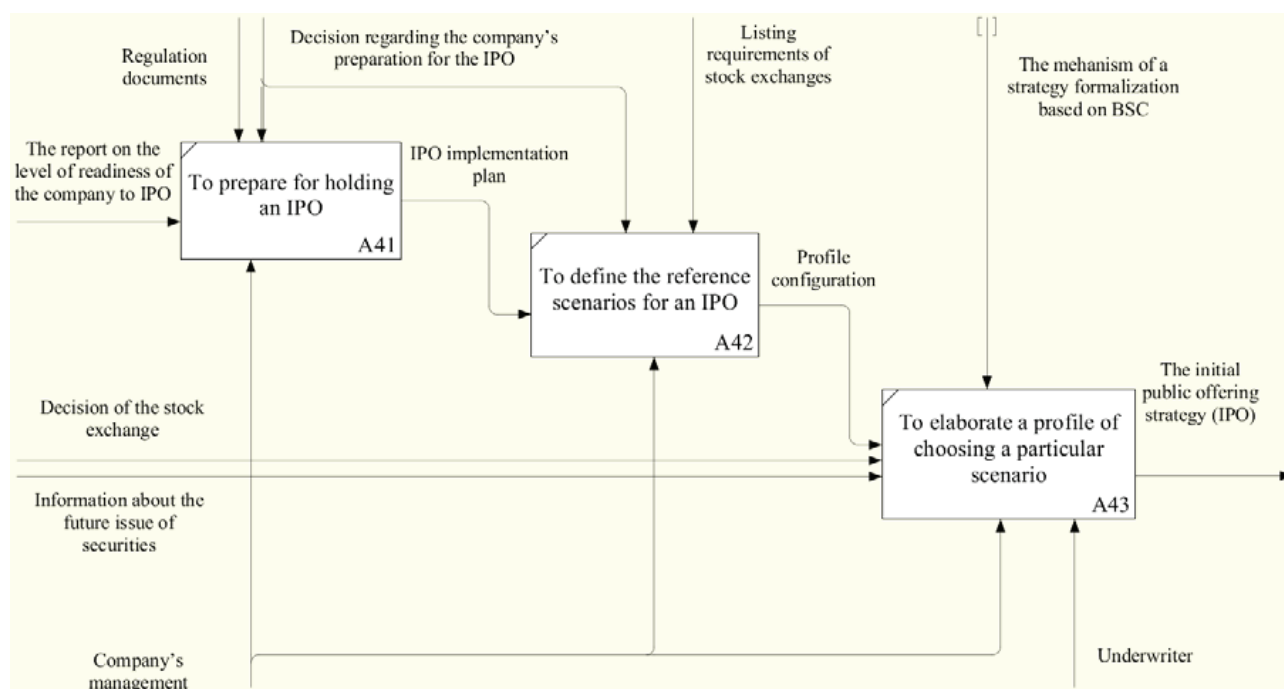


Fig. 7. The diagram of decomposition of the business process of an IPO strategy elaboration

The main subprocesses of this stage are as follows: to prepare for holding an IPO, to define the reference scenarios for an IPO, to elaborate a profile of choosing a particular scenario. Managerial decisions regarding IPO and relevant regulatory documents serve as the basis for planning IPO implementation. Hereafter, while determining the reference scenarios for an IPO and elaborating the profile of choosing a particular scenario, the additional mechanism of a strategy elaboration is used which is the Balanced Scorecard (BSC) method. The result of the phase is a strategy of an IPO.

Conclusion. Thus, the proposed structural and functional model allows formalizing and improving the procedure of managing IPO. The reasonability of elaboration

and implementation of the IPO management model for domestic business entities is determined by the need for efficient use of the raised financial resources in order to ensure sustainability and adaptation to a change in the economic situation. Using CASE-tool for modelling a business process of a business entity allowed presenting the business process of managing IPO in the IDEF0 standard and, after its subsequent decomposition, visualizing the scenarios of a company management activity while performing its duties on the simulated subject area. Further research involves the development of methodological support for the integral assessment of a company's readiness for IPO based on the Balanced Scorecard.

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