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**THE EFFECTS OF PRIVATIZATION
AND CORPORATE GOVERNANCE
OF SOES IN TRANSITION ECONOMY:
THE CASE OF KAZAKHSTAN**

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Abstract

This paper focuses on the relationship between corporate governance and corporate performance by initial public offerings (IPOs) of Kazakhstan state-owned enterprises (SOEs) in the transition economies of Central Asia. It argues that privatization (i.e., IPO) has different effects depending on the types of owners to whom it gives control in corporate governance. This study investigated the long-run stock performance of Kazakhstan companies listed on the London Stock Exchange (LSE) and the Kazakhstan Stock Exchange (KASE) in order to determine whether the IPOs of SOEs are underperforming or overperforming in the long term and the determinants of their performance. The data contain 536 observations of a listed non-financial company, including board size, whether the directors are independent, CEO/chair duality, institution ownership, government shareholding, and managerial ownership. The results show that return on equity (ROE) is significantly affected by the ownership structure (institutional ownership and managerial ownership) of Kazakhstani firms listed on the LSE. Metal and mining and oil and gas industries show the strong relationship buy and hold return (BHR) and market return, firm size, ROE and initial return on long-term performance.

Keywords: SOEs, privatization, corporate governance, IPO, sovereign wealth fund

JEL Classification: G32, G38, P26, D23, H70, H82

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1. INTRODUCTION

This paper focuses on the relationship between corporate governance structure and privatized state-owned enterprises (SOEs) as a way to reform SOEs in a transition economy, using the experience of Central Asia as a case study.

Companies around the world conduct initial public offerings (IPOs) to reform SOEs and to improve the liquidity of private companies. However, going public is an expensive process. In addition, public companies are always in the public eye and have to comply with certain regulatory requirements. Mourdoukoutas and Stefanidis (2009) argue that “sharing ownership with outside investors through an IPO has advantages and disadvantages that create dilemmas for company founders” (p. 125).

However, the advantages of listing on the stock exchange are usually so great that they outweigh any disadvantages. First, the company gets more access to funds because it is getting the right to raise additional capital and to use alternative financing on favorable terms provided by private investors. Second, it increases the liquidity and diversification of equity and currency (IPO leaders of EY 2018). Moreover, the company's prestige, brand awareness, reputation, and trust from customers also increase. Typically, the image of public companies is more favourable in comparison to private firms, which is particularly important for those industries that need reliable long-term collaboration between customers and suppliers. Furthermore, the public disclosure and circulation of securities on the stock markets creates national channels for marketing the company and its trademarks. Therefore, IPOs increase the value of the business and investors are willing to pay a premium for liquidity, that is, the ability to buy or sell shares easily. In contrast to public firms, private companies have limited liquidity or do not have it at all (Brigham and Ehrhardt 2010). The main advantage of the IPO is that the company is not obliged to return capital which was raised from investors. However, Brzezczynski (2012) emphasizes the major drawbacks of this type of investment. One of these disadvantages is that the new shareholders have a right to a portion of future profits as dividends. Furthermore, new participants dilute the ownership structure of the company. Thus, there is a risk of losing control over the firm (Mourdoukoutas and Stefanidis 2009). Governments in transition and emerging economies have been concerned with whether the privatization of SOEs can improve firm performance through different types of transactions (e.g., direct sale, share issue, restitution, and mass voucher; (Megginson and Netter 2001). Currently in Kazakhstan, within the framework of a forced industrial and innovative development of the economy, the problems of increasing and making effective use of the domestic financial resources are becoming more urgent. The former President of Kazakhstan, Nursultan Nazarbayev, addressed the reform of SOEs as follows: (primeminister.kz, 31 January 2017).

1. The reform of SOEs involves their transfer to the private sector or the elimination of all state-owned enterprises and organizations that do not conform to these principles by 2020. And this involves several thousand enterprises. It is critical to ensure privatization's transparency and efficiency. There is also a need to reconsider the role of state holdings.
2. The government is tasked to provide a qualitative transformation of “Samruk-Kazyna” holding. It is necessary to conduct a thorough audit and optimization of both managerial and production business processes. As a result, it shall become a highly efficient, compact, and professional business/enterprise. Management and corporate governance need to be improved to international level.

Therefore, this research examines the effects of privatization (i.e., IPO) and corporate governance of SOEs on firm performance in Kazakhstan corporations. In the case of Kazakhstan, the government has the dilemma of deciding what percentage of government ownership or sovereign wealth fund ownership will remain in the privatization of SOEs in order to improve social welfare and firm performance. This is the method they want to use another type of privatization conducted through the selling of controlling shares of publicly listed SOEs to private enterprises. Control privatization empowers the new controlling shareholders to influence the privatized firms and allow us to delve deeper into the mechanisms (e.g., reducing large shareholder expropriation, enhancing management incentives, and controlling employment levels) through which privatization may affect firm performance. It is important to mention that although privatization is a possible policy measure, SOE reforms without privatization and with control privatization are also possible, depending on the specific situation.

Thus, the main objective of this study is to analyze perspectives of the IPO program to reform SOEs through privatization in Kazakhstan. In particular, this paper investigates the relationship between corporate governance and financial performance after privatization to determine whether privatization as a method of reforming SOEs is successful. The analysis helps to answer the main question: is the IPO program of interest to the public, finance institutions and policy makers and does it meet its objectives assigned to it?

2. SOES, IPOS, AND THE FINANCIAL MARKET IN KAZAKHSTAN

2.1 Sovereign Wealth Fund (SWF) for SOEs Samruk-Kazyna

Kazyna Holding or their affiliates Samruk-Kazyna is a national welfare fund for the management of the state assets of Kazakhstan. It is under the control of the government, established to improve the competitiveness and sustainability of the Kazakhstan economy and in anticipation of negative factors that may influence changes in world markets and economic growth in Kazakhstan. The key purpose of Samruk-Kazyna is to manage shares (interests) of national development institutions, national companies, and other legal entities it owns in order to maximize their long-term value and competitiveness in the world markets.¹

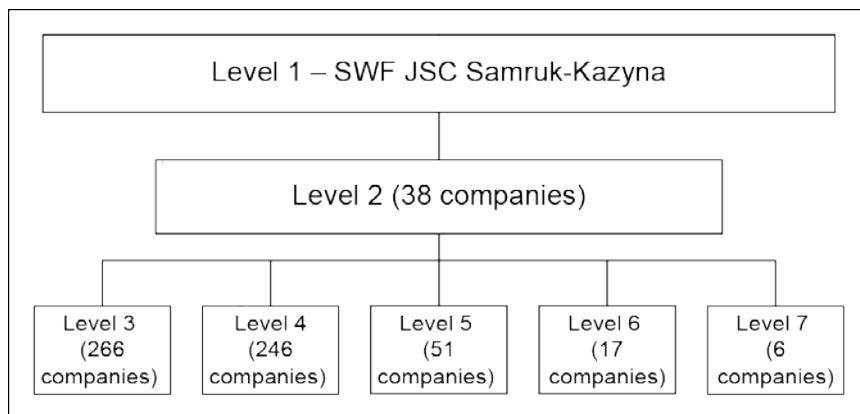
To achieve this goal, the Sovereign Wealth Fund (SWF) supports the modernization and diversification of the economy as one of the three strategic directions, by active investments, particularly in the following segments.

Given the main strategy of the SWF and its activities, it can be suggested that SWF Samruk-Kazyna is dedicated to stabilizing and diversifying the economy, with considerable domestic portfolio investments. In 2016, Samruk-Kazyna comprised 50%–80% of Kazakhstan's GDP. Additionally, oil and gas production was 25% of Kazakhstan's GDP, export was 72% and the national budget was equal to 40%. The national fund of Kazakhstan gets high percentages from saving fund portfolio which is 75% and 25% from

¹ The National Welfare Fund "Samruk -Kazyna" was established by merging the joint stock companies of the Sustainable Development Fund "Kazyna" and the Kazakhstan Holding for Management of State Assets "Samruk" in accordance with the decree of the President of Kazakhstan, Nursultan Nazarbayev on 13 October 2008. From 2012, in connection with changes in the legislation of Kazakhstan, the name was changed to JSC "Samruk-Kazyna" (<http://www.sk.kz>).

stability fund. Samruk-Kazyna is one of the youngest SWFs, ranking in 15th place of total assets all over the world (\$77.5 billion assets).

Figure 1: Structure of the SWF in Kazakhstan



Source: Samruk-Kazyna, <http://www.sk.kz>.

2.2 Overview of IPOs and the Financial Market

An IPO is intended to raise long-term funds for the real sector of the economy, especially in the industrial sector. Another important function of IPOs is to develop and increase the capitalization of the stock market. Conducting IPOs is the main condition of financial market development, increasing its liquidity and capitalization, stock trading volume; and the number of traded instruments. IPOs and privatization are also methods of redistributing capital within the economy, which stimulates the economy (Ritter 1998).

The growing activity of Kazakh issuers on national and international financial markets is quite natural. Traditional sources of financing such as debt, equity, and budget have been depleted in recent years. Domestic companies are still undervalued and interested in getting an adequate valuation by the market. Moreover, the growth of the economy of Kazakhstan, the qualitatively new level of development of more than 7% of the annual growth of GDP, and corporate earnings allow them to use the IPO as an effective mechanism to attract investment more actively. The development of the market can be divided into six main stages

Stage 1 – The Beginning of Privatization (1991–1994)

This stage can be characterized by a lack of conceptual approaches to the issue and the conversion and issuance of securities on the basis of established rules, as well as by mass privatization (Azihkhanov 2010). First, there were joint-stock companies with Kazakhstan's first securities in history which were on the wave of the social upswing caused by the process of democratization in 1991. In 1991, a law titled "On the conversion of securities and the stock exchange in the Kazakh SSR" was enacted, and the government introduced the "Regulations of the securities market" developed by the Ministry of Finance. Registration, issuance and circulation of securities were regulated by the first provisional rules in 1992 and then by the "Regulations on the rules of issuing and registration of securities of the companies and investment funds."

Stage 2 – Formation (1995–1998)

During this stage, several changes were implemented: improvement of the legal framework and market infrastructure; termination of mutual funds; growth of the stock market; the creation of infrastructure organizations; approval and implementation of the state program of development of the securities market in the years 1996–1998; and the beginning of pension reform. The government began to understand the important role of the securities market in the economy, but the process of privatization did not provide the expected budget revenues. The government, being the largest owner, prepared a plan to enter the securities market.

Stage 3 – Development of Financial Market (1999–2004)

In this stage, we can see further improvements to the legal framework, the emergence of new investors in the form of private pension funds, insurance companies and mutual funds; a growing number of types of securities; issuance of municipal bonds; and activation of the segment of nongovernment corporate securities. The stock exchange market of corporate bonds was started in 1999, with the first listed on the Exchange on 1 February. Exchange sector repo transactions on government securities were also started in the same year, along with an organized secondary market of sovereign Eurobonds of Kazakhstan formed by the National Commission of Kazakhstan on securities. The first auction on these Eurobonds was held in the KASE on 19 October 1998. The law on the Securities Market, which regulates the activity of KASE, was put into force. There was a significant increase in the capacity of Kazakhstan's securities market for the period from 2000 to 2004 (Azhikhanov 2010).

Stage 4 – The Starting of IPOs (2005–2007)

The practice of initial public offerings for Kazakhstan firms was at its most popular in this period (Appendix 1). Large local companies and banks, such as the ENRC, KazMunaiGas, Kazakhmys, Alliance Bank, Halyk Bank, KazakhAltyn, and Kazkommertsbank entered the stock market from 2005 until 2008. The increasing activity of Kazakh issuers on national and international financial markets makes sense. As a result of ongoing economic reforms in Kazakhstan, a certain legal, economic, and organizational basis for the development of the domestic market for the IPOs has developed. At the same time the formation and development of the IPO market in Kazakhstan took place gradually with growing volume of transactions, new market participants and improvements in the legislation (Waters n.d.).

Stage 5 – The People's IPO (2008–2014)

This stage can be characterized by the development of the stock market during the financial crisis. The creation of the "Joint Action Plan of the Government, the National Bank of Kazakhstan and the Agency" to stabilize the economy and financial system for 2009–2010 included actions and procedures to develop the securities market. Under this policy, at the XIII Congress of the People's Democratic Party, "Nur Otan" in February 2011, President Nursultan Nazarbaev announced "The People's IPO" program—the offering of shares of the largest Kazakh companies to the population—which it was hoped would have a powerful impact on the development of the economy. The IPO mechanism (to be more precise, state-owned enterprises [SOEs] to the public) was introduced. In particular, as an official statement of the government, the People's IPO was adopted in February 2011. It was intended to provide citizens with the chance to buy shares in the country's major enterprises; to create a new tool for investing and augmenting personal savings, further developing the stock market; and to

increase/improve businesses by offering additional funding in their pursuit of successful investment plans. The People's IPO involved offering the public stakes in some of the companies of Samruk-Kazyna Holding. The People's IPO campaign was planned to continue until 2015, and KazTransOil was the first company to float its shares when it was listed in autumn 2012.

Stage 6 – The Reform of SOEs through IPO (2015–2020)

By 2020, the share of state ownership should be reduced to the level of other OECD countries (i.e., 15% of GDP). This reduction should give a new impetus to economic growth. By 2020, the private sector will be the main generator of economic growth and the share of state participation in the economy will be no more than 15% in gross value added. On 3 March 2016, during the session of the State Commission on the issues of modernizing the economy, the decision was taken to create the Delivery Offices under the Ministry of Finance of Kazakhstan, the joint-stock companies (JSC) Samruk-Kazyna, Baiterek, and KazAgro.

There were eight sessions of the State Commission on the Issues of Modernization of the Economy concerning Privatization. The Privatization Plan for 2016–2020 (the Resolution of the Government of Kazakhstan of 30 December 2015 No. 1141) was to develop the draft concept of the law “On the Introduction of Changes and Amendments to Certain Legislative Acts on the Issues of Reforming the Structure of State Ownership.” The national welfare fund, which is the sole shareholder of the Samruk-Kazyna company, offered to acquire 15% of the total number of shares issued by the company.

According to the current legislation, at least 20% of the total securities offer should be offered in Kazakhstan. The Astana International Exchange (AIX) of the Astana International Financial Center will be offered both common shares and global depository receipts (GDRs) in accordance with the rules and regulations. Nevertheless, for the Samruk-Kazyna Fund and government, an important aspect is getting the highest possible selling price, which, in fact, requires a double listing in both London and Astana. To achieve this goal without the help of the international capital markets is impossible. In 2018, Kazaktomprom, the world's largest uranium producer, was floated in the first listing of a large Kazakh state company in more than a decade. However, Kazakhstan has deferred an IPO of the national oil firm KazmunayGaz to beyond 2019, partly due to a tepid investor appetite for stock offerings, uncertainty about Brexit, political tensions, and a global economic slowdown, topped off by the trade war between the United States (US) and the People's Republic of China and sanctions against Iran and the Russian Federation (8 Feb 2019, Reuters).

3. LITERATURE REVIEW

Phi et al. (2019) examine whether ownership identity is related to firm performance in terms of profitability and solvency. Public firms are less efficient than private firms, at least in terms of profitability. Cross-sectional comparisons also show that government firms tend to be more labor-intensive and have a higher labor cost than nongovernment ones. They suggest that privatization could be considered a driver for firm efficiency. Privatization as a policy could motivate private and public firms to cope with future changes in economic systems and encourage SOEs to shift their management toward maximizing profitability and efficiency in order to survive. Taghizadeh-Hesary et al. (2019) show that solvency, per capita costs, and per employee productivity have more deterministic power over the success or failure of SOEs than profitability. While profit

making is important for SOEs, focusing on profitability as the sole assessment criterion will mislead policy makers, bearing in mind that the nature of many SOEs is to generate social welfare and not profit.

In addition, it is widely argued that companies with a good corporate governance system have better financial performance in comparison to other firms. Several studies have been conducted in different economically developed and emerging countries (Wang 2005; Wu 2010) to examine the relationship between corporate governance and firm performance. Previous studies have mainly concentrated on share issue privatization. The evolution of ownership concentration after privatization and its antecedents are also documented in prior studies. Boubakri et al. (2011) show that private ownership concentration grows over time after privatization, as does firm performance. This is particularly the case in countries with weaker investor protection. They also find that cross-section differences in ownership concentration can be accounted for by firm size and growth, industry affiliation, privatization method, and level of institutional development.

Although there are some studies on control privatization published in the People's Republic of China (Zeng 2004; Fang et al. 2006; Dai 2007), they mainly focus on pre-and post-privatization performance comparison, use small and mixed samples (including three types of control transfer), and have little involvement with changes in incentives. Firm performance improvement after privatization is better in fully rather than partially privatized firms (Fang et al. 2006; Dai 2007).

The board of directors is an important internal corporate governance mechanism. Changes in ownership structure, for example after going public, are usually accompanied by changes in the composition of the board of directors. These changes play a significant role for the Chinese firms because any changes in ownership structure lead to a reduction of the government's influence on the corporate governance of the company (Li, Naughton, and Hovey 2011). The empirical studies of large public companies have shown a negative correlation between the size of the board and company performance (O'Connell and Cramer 2010). Since a small board size (BS) is documented in the literature as being more effective in monitoring corporate decisions (Yermack 1996), we expect a positive relationship between BS and overinvestment.

According to Yu (2008), the CEO plays an important role in the corporate governance system. However, empirical tests show that CEO duality has not only a positive but also a negative impact on firms' performance. So, by using multiple theories, we examine the relations of leadership structure, ownership structure, agency control mechanisms and agency problems with firm performance (Al-Matari et al. 2012).

Board independence is reflected by the percentage of independent directors serving on the board. A higher percentage of independent directors reduces the agency problem stemming from the conflict of interest between shareholders and board members who are also insiders.

Unfortunately, underdevelopment of the domestic market and a lack of the necessary financial resources do not allow for large company and lead to the fact that most national issuers prefer to be placed abroad. Most of Kazakhstan's largest companies choose to list on the LSE rather than the KASE because they seek access to international investors in the fields of banking, natural resources, and real estate. The largest proportion of IPOs come to resource industries such as metals and mining and oil and gas. For Kazakhstan, this is an explainable trend as the economy of the country is based on importing and exporting in the natural resources industry. As Appendix 1 shows, 9 IPOs traded on the

LSE in GDRs,² 9 IPOs on the alternative investment market (AIM)³ and 3 in the US and the Russian Federation.

This brief literature review has shown that, although progress has been made in our understanding of how firm age, firm size, board size, CEO duality, leverage, IPO, and ownership concentration affect financial performance (return of asset (ROA) and return of equity (ROE)), there are still many opportunities to improve our perception of how a firm's behavior changes under the influence of these factors (Table 1).

The hypotheses below are suggested based on the review of the literature:

- H1: There is a significant relationship between IPO and financial performance.
- H2: There is a significant relationship between ownership concentration and financial performance.
- H3: There is a significant relationship between board size and financial performance.
- H4: There is a significant relationship between CEO duality and financial performance.
- H5: There is a significant relationship between independent directors and the financial performance.

4. SAMPLE AND METHODOLOGY

4.1 Sample

This study uses a sample of 21 IPOs of Kazakhstan SOEs listed on the AIM Markets and the LSE in the United Kingdom during the period from 2004 to 2017. Corporate governance and most variables used for this study have been manually collected from the annual reports of the firms. The data contain 536 observations of a listed non-financial companies on the KASE and LSE, including board size, proportion of nonexecutive directors (or independent directors), CEO/chair duality, institution ownership, government shareholding, and managerial ownership.

4.2 Methodology

This study investigates the performance of SOEs after IPO on the international financial market (i.e., LSE) to analyze the structure of ownership structure, corporate governance, and factors affecting companies' performance in comparison to non-financial firms in KASE. The statistical analysis used fixed effects methods to investigate within the dummy variables industry and year. The use of fixed effects is to capture the unobservable variables and the correlation between unobservables and observables.

² Global Depository Receipts (GDRs) are negotiable certificates issued by depository banks, which represent ownership of a given number of a company's shares, which can be listed and traded independently from the underlying shares.

³ AIM is a submarket that allows smaller firms to float shares with a more flexible regulatory system than is applicable to the main market.

$$ROA_{it} = \alpha_0 + \alpha_1(BS)_{it} + \alpha_2(ID)_{it} + \alpha_3(DUAL)_{it} + \alpha_4(IN)_{it} + \alpha_5(GO)_{it} + \alpha_6(MO)_{it} + \alpha_7(Year) + \alpha_7(SIZE) + \varepsilon_{it}, \quad (1)$$

$$ROE_{it} = \alpha_0 + \alpha_1(BS)_{it} + \alpha_2(ID)_{it} + \alpha_3(DUAL)_{it} + \alpha_4(IN)_{it} + \alpha_5(GO)_{it} + \alpha_6(MO)_{it} + \alpha_7(Year) + \alpha_7(SIZE) + \varepsilon_{it}, \quad (2)$$

The corporate governance variables are board size (BS), proportion of nonexecutive directors or independent directors (ID), CEO/chair duality (DUAL). Institutional ownership (IN) and government ownership (GO). Managerial ownership (MO). The results will be controlled for firm years (YEAR), firm size (SIZE), year dummy and industry dummy. Table 1 presents the variables with their abbreviations and definitions.

Table 1: List of Definitions of Variables

Variable Definition	Variable Abbreviation	Variable Measurement
Board Size	BS	The total number of directors sitting on the board at the shareholders' annual meeting
Independent directors	ID	The total number of nonexecutive directors or independent directors
CEO duality	DUAL	A dummy variable that takes on 1 if the CEO is also the chairman of the board and 0 otherwise
Institutional ownership	IN	Percentage of equity owned by institutions
Government ownership	GO	Percentage of equity owned by government or sovereign wealth fund
Managerial ownership	MO	Percentage of equity owned by CEO and executive directors
Firm age	AGE	Years since establishment
Firm size	SIZE	Total assets
Return on equity	ROE	Net income divided by total equity
Return on assets	ROA	Net income divided by total assets

Source: Compiled by author.

5. ANALYSIS AND FINDINGS

The first result of the investigation into this model is the descriptive statistics of the IPOs of Kazakhstani SOEs on the LSE shown in Table 2. The second result is the descriptive statistics of the Kazakhstani companies listed on the KASE in Table 3, and the third result is the multivariate regression analysis, shown in Table 4.

Table 2 shows the descriptive statistics of the main variables in the IPO of Kazakhstani SOEs listed on the LSE. The mean ROA is -7% while the mean ROE is 45.6% . The corporate of governance of variables show that board size (BS) the largest number of board members is 15, with a mean BS of 6.6. The mean of independent directors (IDs) is 1.9. Managerial ownership (MO) is approximately 48% ; government ownership (GO) is more than 25% ; and institutional ownership (IN) is 35% .

Table 2: The Descriptive Statistics of Kazakhstani Companies Listed on the LSE

Variables	ROA	ROE	IN	GO	MO	ID	DUAL	BS	SIZE	AGE
Mean	– 0.071	0.456	0.350	0.253	0.485	1.93	0.190	6.630	2,168.30	11.854
SD	0.503	4.776	2.015	2.147	0.434	0.2335	0.450	2.175	3,590.42	5.353
Median	0.003	0.0410	0.290	0.203	0.350	1.000	0.000	7.000	160.00	12.000
Min.	– 3.025	–5.350	0.17	0.170	0.000	1.000	0.000	3.000	13.000	5.000
Max.	3.026	45.250	0.460	0.350	0.690	3.000	1.000	15.000	12,410	21.000
No. firms	96	96	96	96	96	96	96	96	96	96

AGE = age of the company, BS = board size, DUAL = CEO duality, GO = government ownership, ID = independent directors, IN = institutional ownership, MO = managerial ownership, ROA = return on assets, ROE = return on equity, SIZE = total assets.

Source: Compiled by author.

Table 3 reports the descriptive statistics of the main variables in Kazakhstani companies listed on the KASE. The mean ROA is 11.4% while the mean ROE is 13.4%. The corporate of governance of variables show that the BS in Kazakh listed companies has a maximum of 11 board members awhile the smallest BS is 2 (which is the statutory lower limit for a public company). Independent directors (ID) constitute an average of 25% of boards, which is a fairly good representation for Kazakh companies. Managerial ownership (MO) is approximately 45%, which is significantly high in the companies that represent retail business and significantly low in the oil and gas sectors and communication industries. Government ownership (GO) is more than 50% and institutional ownership (IN) is 35%.

Table 3: The Descriptive Statistic of Kazakhstani Companies Listed on KASE

Variables	ROA	ROE	IN	GO	MO	ID	DUAL	BS	SIZE	AGE
Mean	0.114	0.134	0.353	0.503	0.452	2.350	0.2990	6.450	18.20	15.28
Std.D	0.350	0.208	0.450	0.354	0.650	0.530	0.220	0	1.80	1.520
Median	0.030	0.090	0.209	0.580	0.394	3.000	0.250	7.034	18.200	14.520
Min.	–0.380	0.024	0.024	0.000	0.000	1.000	0.000	2.000	14.810	1.000
Max.	11.680	9.770	5.007	1.000	1.000	3.000	6.000	11.000	21.660	22.000
No. firms	440	440	440	440	440	440	440	440	440	440

AGE = age of the company, BS = board size, DUAL = CEO duality, GO = government ownership, ID = independent directors, IN = institutional ownership, MO = managerial ownership, ROA = return on assets, ROE = return on equity, SIZE = total assets.

Source: Compiled by author.

Multivariate regression analysis was used to investigate the relationship between corporate governance and company's financial performance measurements. The results indicate that there is a strongly statistically significant relationship in the case of ownership structure and no significant relationship between corporate governance variables and firm performance.

In Table 4 (Model 2), ROE is significantly affected by ownership structure in the relationship between corporate performance and institutional ownership (IN) in the listed Kazakhstani firms on the LSE. This result in Model 2 also indicates a significantly positive relationship between firm performance and managerial ownership (MO).

Table 4: The Corporate Performance and Corporate Governance After IPO

Variables	IPO-LSE (1)	IPO-LSE (2)	IPO-KASE (3)	IPO-KASE (4)
	ROA	ROE	ROA	ROE
GO	0.005 (0.251)	0.045 (1.005)	0.020 (0.137)	0.203 (1.040)
IN	0.255** (1.503)	0.450*** (2.054)	0.085 (0.460)	0.343** (1.953)
MO	0.605*** (5.357)	1.795* (1.664)	0.011 (0.152)	0.214* (1.975)
ID	-0.034 (-0.187)	-0.138 (-0.071)	0.020 (0.350)	0.090 (0.201)
DUAL	-0.131 (-1.065)	-1.428 (-1.055)	0.014 (0.219)	0.094 (1.509)
BS	-0.035 (-1.394)	0.039 (0.014)	-0.035 (-0.468)	-0.099 (-1.377)
SIZE	0.001 (0.065)	-0.006 (-0.325)	0.040 (0.598)	0.048 (0.743)
AGE	0.023* (0.666)	0.004 (0.033)	0.026** (0.450)	0.054* (0.045)
Industry Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
R-Squared	0.37	0.41	0.37	0.45
Observations	96	96	440	440

AGE = age of the company, BS = board size, DUAL = CEO duality, GO = government ownership, ID = independent directors, IN = institutional ownership, IPO-KASE = initial public offering on the Kazakhstani Stock Exchange, IPO-LSE = initial public offering on the London Stock Exchange, MO = managerial ownership, ROA = return on assets, ROE = return on equity, SIZE = amount of assets.

Note: ***, **, and * indicate the significance level at the 0.01, 0.05, and 0.1, respectively, based on two-tailed tests.

Source: Compiled by author.

In Table 4 (Model 4), ROE is significantly affected by ownership structure in the relationship between corporate performance and corporate governance in the listed Kazakhstani firms on KASE. A 1% increase in institutional ownership will lead to a 34.3% increase in ROE. This may be due to the fact that institutional ownership provides more tangible assets on the balance sheet, meaning more overall assets and thus higher ROE.

5.1 Robust Test

For the H1 test: There is a significant relationship between IPO and financial performance, the event-time approach is used because it measures the post-listing share price behavior. Event-time returns are more important than calendar-time returns due to the following reasons. First, calendar-time returns do not measure investor experience (Barber and Lyon 1997); second, calendar-time returns are generally not correctly specified in random samples (Lyon, Barber, and Tsai 1999) and third, calendar-time returns have low power (Loughran and Ritter 2002). In the event-time approach, the buy and hold return (BHR) is used to measure the long-term market performance after IPO.

The advantages of BHR over other performance measures are as follows. Firstly, the monthly portfolio rebalancing assumption may establish a downward bias in the long term in other measurements; and secondly, this may lead to cross-sectional correlation problems. BHR was used to reduce the statistical bias in the measurement of cumulative performance (Conrad and Kaul 1993). Fama (1998) has also argued that BHRs accurately measure long-term returns. BHR is defined as the geometrically compounded

return. Geometric mean return is considered better than arithmetic mean return because it avoids negative return problems in long-term returns (Ljungqvist 1997). The return measures were calculated under equally weighted schemes up to three years after going public. Therefore, the long-term market performance measures were calculated for three post-listing time periods: year one (12 months); year two (24 months); and year three (36 months).

Following Loughran and Ritter (1995) and Nazgul Kondybayeva (2015), the BHR was calculated as follows:

$$\begin{aligned} \text{Ln}[BHR]_{it} = & \alpha_0 + \alpha_1(MR)_{it} + \alpha_2(PRIV)_{it} + \alpha_3(INTLR)_{it} + \alpha_4(ROE)_{it} \\ & + \alpha_5(SIZE)_{it} + \alpha_6(AGE)_{it} + \varepsilon_t \end{aligned}$$

The explanatory determinants in this study are market return (MR), corporate condition of the company (PRIV), initial return (INTLR), return of equity (ROE), size of the company (SIZE) and age of the company (AGE). These are presented in Table 5.

Table 5: Summary of Independent Variables

Independent Variables	Variable in the Model	Variable Measure
Market return	MR	Post-day market return calculated based on FTSE 100 index for the same sample period
Corporate condition	PRIV	Takes the value 1 if partially or fully owned by the state before IPO, value 0 if fully private company
Initial return	INTLR	Calculated using the cumulative abnormal return (CAR) for the first trading day
Return on equity	ROE	Shows the operational profitability of the company. Calculated from the financial reports of the companies
Company size	SIZE	The size of the IPO company calculated as the logarithm of total assets at the end of the year preceding the IPO issuance
Company age	AGE	Number of years between the year of creation and listing

Source: Compiled by author.

The results show that most companies have a negative sign, which means that they underperform in the long term. A few, like Orsu Metals, KazMunaiGas, Nostrun Oil & Gas, and Central Asia Metals, have a positive performance in the long-term market, with both short-term (first 3 trading days cumulative abnormal returns) and long-term returns. The short-term performance was evaluated with the initial returns as the independent variable.

Table 6 shows how the long-term performance can be analyzed by industry. Two companies from the mineral resources sector—Orsu Metals and Central Asia Metals—performed positively in three years after going IPO, while Frontier Mining and Kaz Minerals underperformed in the long run. In the oil and gas industry, KazMunaiGas and Nostrum Oil & Gas performed positively, but Max Petroleum and Roxi Petroleum had a negative performance. Companies in other industries—Steppe Cement, Chagala Group, Kazakhstan Kagazy—also underperform in the long-term market. The whole picture shows that the most underperforming and overperforming companies were both from the oil and gas industry. In addition, it can be said that metal and mining and oil and gas sector companies are good in long-term market performance.

Table 6: Buy-and-Hold Returns for Three Years

	IPO Name	Industry	Trading Floor	Placement Volume (Min. USD)	Year of Placement	BHR
1	ORSU, METALS	Metal and Mining	LSE's AIM	103	2004	0.0292
2	FRONTIER, MINING	Gold and Diamonds	LSE's AIM	6	2004	-0.0187
3	STEPPE, CEMENT	Construction Material	LSE's AIM	21	2005	-0.0112
4	KAZ, MINERALS	Metal and Mining	LSE	1,365	2005	-0.0233
5	MAX, PETROLEUM	Oil and Gas	LSE's AIM	46	2005	0.0023
6	KAZMUNAIGAS	Oil and Gas	LSE	2,255	2006	0.0135
7	KAZKOMMERTSBANK	Financial Services	LSE	846	2006	-0.0243
8	HALYK, BANK	Financial Services	LSE	748	2006	-0.0092
9	CHAGALA, GROUP	Real Estate and Property Development	LSE	120	2007	-0.0210
10	ROXI, PETROLEUM	Oil and Gas	LSE's AIM	77	2007	0.0203
11	KAZAKHSTAN, KAGAZY	Paper and Cardboard	LSE	273	2007	-0.0659
12	NOSTRUM, OIL&, GAS	Oil and Gas	LSE	100	2008	0.0389
13	CENTRALASIA, METALS	Copper and Gold	LSE's AIM	60	2010	0.0065

Source: Compiled by author.

Table 7 shows that there is a statistically significant positive association between BHR with market return and ROE. In addition, the empirical results confirm a significant negative association between BHR and initial return. The regression results for the model are discussed in the methodology, where BHR is the dependent variable. The MR affects BHR positively. The MR beta coefficient is 0.439, which means that one unit increase in MR increases BHR by 0.439 units, while other determinants held constant. The statistical significance of MR on BHR is 0.001, which is less than 0.05. This means that MR predicts the effect on ROE with almost 99.9% probability. Last, INTLR affects the BHR negatively. Its beta coefficient is -0.039. This means that a one unit increase in INTLR results in a 0.039 unit decrease in BHR. The statistical significance is quite high.

In conclusion, the analysis of the relationship between BHR and independent variables MR and ROE affects the BHR positively for IPO companies. The results show that INTLR has a negative relationship with BHR.

Table 7: The Long-Run Performance of Kazakhstani IPOs Listed on the LSE

	BHR			
	Coefficient (beta)	Std. Error	t-Statistic	Prob. (p- value)
MR	0.439***	0.574	3.034	0,001
AGE	0.364	0.001	0.124	0,913
PRIV	-0.769	0.009	-0.136	0,897
SIZE	0.356	0.005	1.033	0,329
ROE	0.019***	0.001	5.232	0,000
INTLR	-0.039**	0.016	-1.985	0,084
R-Squared	0.751			
Adjusted R-Square	0.701			

Note: Abbreviations as shown in Table 5 above. ***, **, and * indicate the significance level at the 0.01, 0.05, and 0.1, respectively, based on two-tailed tests.

Source: Compiled by author.

6. CONCLUSION AND RECOMMENDATION

This study investigated the long-term stock performance of Kazakhstani companies listed on the London Stock Exchange (LSE) and the Kazakhstan Stock Exchange (KASE) in order to determine whether the IPOs of SOEs are underperforming or overperforming in the long term and to identify their determinants of their performance. The results show that return on equity (ROE) is significantly affected by the ownership structure (institutional ownership and managerial ownership) of Kazakhstani firms listed on the LSE. The metals and mining and oil and gas industries show a strong relationship of buy and hold return (BHR) with market return, firm size, ROE, and initial return on long-term performance. Corporate governance structure (board size, independent directors, and CEO duality) do not affect the financial performance (ROA and ROE).

The successful implementation of the IPO program also implies broad outreach of the possibilities and modalities of the IPO and the potential risks of corporate governance structure. Efforts should be made to improve the financial literacy of the population, explaining the benefits of investing in stocks. Of particular importance are the issues regarding analyzing and predicting the financial market, as well as transparency of the companies that put their shares up for sale.

Companies should provide transparent accountability and clear reporting mechanisms for disclosure of information, including on the results of financial/economic activities. Informational transparency of companies participating in a national IPO should be much higher than that of other firms. The government needs to make policies related to privatization that will help the corporate governance system mature from its current situation of having a lack of standard practices, distorted or inaccurate stock markets information, a lack of qualified corporate governance professionals, etc.

Developing corporate governance practices will improve the transparency and accountability of board members and top executives and ultimately help to improve organizational performance. It will also enable potential investors to trust companies while thinking of investing in them. This will help Kazakhstan's capital market to flourish as people will buy shares in local companies. Better governance practices will improve the reputation of Kazakhstan as a country that runs businesses in fair way as well as being a good governance indicator.

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APPENDIX 1

IPO Market in Kazakhstan

IPO Name	Industry	Trading Floor	Placement Volume (USD million)	Year of Placement
Alliance Bank	Financial services	LSE	704	2007
Caspian Holdings	Oil and gas	LSE's AIM	7	2004
Chagala	Real estate and property development	LSE	120	2007
EPAM Systems	Technologies, telecommunications, and media	NYSE	72	2012
Eurasian Natural Resources	Metal and mining, Power industry, Transport and logistics	LSE	3,037	2007
Frontier Mining	Gold, Diamonds and Gemstones mining	LSE's AIM	6	2004
Halyk Bank	Financial services	LSE	748	2006
Hambledon Mining	Gold, Diamonds and Gemstones mining	LSE's AIM	5	2004
KazakhGold	Gold, Diamonds and Gemstones mining	LSE	197	2005
Kazakhmys	Metal and mining	LSE	1,365	2005
Kazkommertsbank	Financial services	LSE	846	2006
KazMunaiGas	Oil and gas	KASE, LSE	2,255	2006
KazTransOil	Oil and gas	LSE	186	2012
Kcell	Technologies, telecommunications, and media	KASE, LSE	525	2012
Max Petroleum	Oil and gas	LSE's AIM	46	2005
Orsu Metals	Metal and mining	LSE's AIM		2004
Roxi Petroleum	Oil and gas	LSE's AIM	77	2007
Russian Navigation Technologies	Technologies, telecommunications, and media	MICEX	9,694,000	2010
Shalkiya Zinc	Metal and mining	LSE	105	2006
Steppe Cement	Construction materials	LSE's AIM		2005
Sunkar Resources	Chemicals and Petrochemicals	LSE's AIM	67	2008
Tau Capital	Financial services	LSE's AIM	250	2007
Victoria Oil and Gas	Oil and gas	LSE's AIM	18	2004
Yandex	Technologies, telecommunications, and media	NASDAQ	1,435	2011
Zhaikmunai	Oil and gas	LSE	100	2008

Source: www.preqveca.ru.