

The Exploration of the Reasons for Alibaba to List on the New York Stock Exchange (NYSE) in 2014

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Abstract: Alibaba made an important announcement on August 8 in 2022, showing that its requirement about applying to the Hong Kong Stock Exchange for a dual primary listing in Hong Kong and New York had been confirmed and approved by the Hong Kong Stock Exchange. Unquestionably it's such a crucial action that was done by Alibaba to expand its market and finance further after its first controversial large-scale Initial Public Offerings (IPO) on the New York Stock Exchange (NYSE) in 2014. The listing process of Alibaba created a sensation in the world that gave rise to the discussion about the reasons and effects of this decision for the company itself and the IPO market in China in recent years. The current study summarized the previous professional articles on these discussions to explore the key reasons for Alibaba to choose to list on the NYSE and the changes in the thoughts of this decision due to the changing times. Although this decision let Alibaba slip into a more competitive global business environment and resulted in the query for its unique governance structure, listing on the NYSE was still more beneficial for Alibaba at that time. The proper unprecedented determination brought greater growth opportunities for Alibaba and provided guidance for future companies. With the development of the times and policy reform in China, the methods of Initial Public Offerings in the companies certainly tend to be more varied and exoteric that need to be innovated and dialectically treated.

Keywords: Alibaba, list up, New York stock exchange, reasons

1. Introduction

The initial public offering (IPO) is a crucial part of the life cycle of entrepreneurial companies all over the world. An IPO is a point of entry giving enterprises expanded access to equity capital and allowing them to emerge and grow [1]. Nowadays more and more companies choose to make IPO expand their equity trading and business, especially in China. According to the statistical data, the number of IPOs of Chinese companies reached 669 in 2021, up 16.3 percent from 575 in 2020. Among them, 524 are A-shares, 97 are Hong Kong shares, 39 are US shares, and 9 are Taiwan shares. More than Rmb900 billion was raised, accounting for about a third of global IPO proceeds. Considering the enormous input and impacts of IPO, most companies consider all kinds of factors prudently to make the most proper decision to list including the time, place, price, the IPO rules, and other significant elements. Among all the factors, where to list has always been an important question

to think about. Chinese companies always choose to list on the Shanghai Stock Exchange, Shenzhen Stock Exchange, Beijing Stock Exchange, and Hongkong Stock Exchange. However, eight years ago, in a period time in which the world economy is not yet closely connected, Alibaba chose to list on the New York Stock Exchange (NYSE) instead of insisting on deliberating with the Hongkong Stock Exchange which was the first choice for them. On the basis of detailed statistical data, Reuters reported that even with insiders selling shares, the Alibaba IPO was well subscribed, generating a 38% return on the first day. Moreover, with additional shares sold (i.e. the overallotment option), the Alibaba IPO is reportedly the biggest IPO in history, raising \$25 billion. It's clear that the IPO of Alibaba in 2014 on the NYSE achieved tremendous success and provided a splendid precedent for the later companies. So why Alibaba chose to list on the New York Market in 2014, but not on the Hong Kong Stock Exchange or other inland stock exchanges, the scholars and specialists had analyzed for years to study the frame of mind of leaders in Alibaba to give advice for relevant companies and researchers. The previous studies focused on the main causes and influences of the decision by Alibaba based on the investigation of different IPO policies between China and the US, the analysis of the company itself, and other affecting factors in 2014. However, the reasons should also be connected with distinct backgrounds to think about the strategic decision-making of Alibaba. The current study reviews the relevant literature on the topic of the listing process of Alibaba on the NYSE and tries to sum up the key reasons as well as relate them to the changing times and background until today to provide advice for other companies.

2. Analysis of Reasons for Listing the NYSE Based on Previous Studies

Alibaba was founded in 1999 by 18 founders led by Jack Ma in Hangzhou, Zhejiang province. Alibaba Group operates a wide range of businesses and also draws on the business and services of its affiliates to support its business ecosystem. In 2013, one of its operations Alipay even handled 70% of China's electronic payments [2]. After more than ten-year rapid development, Alibaba decided to go public on the NYSE. Although in mid-2013, Alibaba already opened informal discussions with financial authorities in Hong Kong, no consensus was reached finally. The previous related articles mainly probed into the causes of the Alibaba IPO process in terms of the company itself and the forcing policies in 2014.

2.1. The Characteristics of Alibaba

2.1.1. The Governance Structure of Alibaba

For Alibaba itself, the company preferred to keep its partnership approach and innovative governance structure to maintain excellence, innovation, and sustainability. So that in the company, a small number of people want to hold the one hundred control rights to decide the strategies and actions of the operation, forming the construction of 28 "partners" [3]. According to Luckerson, "Alibaba maintained the partnership of its employees of this large firm, especially Ma and his right-hand man Joe Tsai, who exerts incredible control over the company's activities".

Although Alibaba has a board of directors as well, the Alibaba partnership still reserves the right to nominate most of the board members, meaning the partnership essentially controls the activities of the company by proxy without the need for input from other shareholders. Just like what was stated by Ma, the customers, and employees of Alibaba have priority over the issues in the company, but not the shareholders. If the shareholders don't accept the concept of the company, they can just give up investing. To keep the cooperation structure and absolute control of the company, Alibaba, therefore, had the demand of issuing dual-class shares during the IPO process in 2014. It's a kind of share that means offering two classes of stocks, one class for management, with more voting rights per dollar of equity than the other class, which would be sold to outside investors. All these actions

reflect the governance structure of Alibaba, which deeply influenced its listing up choice. However, due to the differences in legal registrations, the Hong Kong Stock Exchange did not approve its special governance structure of 28 “partners”. While both the NYSE and Nasdaq admitted this structure fit the requirements of Alibaba. As a result, the NYSE showed great goodwill for the unique structure of the company to prompt its listing choice.

2.1.2. The Mission of Alibaba

Each successful enterprise has its unswerving mission to make the whole united together. Ma, in the capacity of the founder and leader of Alibaba, had deeply influenced the mission of this company. He describes Alibaba as “a value-based company driven by the mission ‘to make it easy to do business anywhere’ [3]. So that its strategic target had always centered on global trade and business, not only in China. The objective can be seen from the behavior of Alibaba, for example, the establishment of Alipay, Taobao, and Alimama, reflecting the ambition and powerful strength of Alibaba. Clearly that choosing Hongkong Stock Exchange or other inland stock exchanges, Alibaba would certainly receive bigger domestic government support in China. However, compared to the domestic market, the New York market is more international with investors from all over the world that Alibaba paid more attention to ever since it was founded. Listing on NYSE meant that Alibaba would be seen all over the world. As a result, Alibaba would get bigger finance and promote its international impact by listing on NYSE to promote its worldwide trading stratagem. Also improves the company’s transparency, as well as being beneficial for extending the public status in the Chinese capital market. All these factors connected to the company’s mission had been discreetly considered by the leaders of Alibaba.

Apart from the features of Alibaba itself, the peremptory listing policies for companies at that time were also necessarily thought about to make the right choices in 2014. The differences in the regulations in China and America not only showed the advocated ideas of the governments but also deeply influenced Alibaba’s listing process for selecting the most appropriate platform.

2.2. There Were Huge Distinctions between NYSE and Hong Kong Stock Exchange.

2.2.1. NYSE Is More Exoteric and Inclusive for the Listing Process.

According to Delos and Osawa, “Alibaba requested the U.S. that other than the nomination of the board’s majority by its partners, all shareholders, including the partners, would have rights similar to what they had in other public companies”. This claim shows the governance structure above and it had finally been passed by NYSE and Nasdaq. Here also has to mention the VIE structure. It usually refers to the fact that the foreign SPV controls a domestic company through its wholly-owned subsidiary (wholly foreign-owned enterprise, WFOE) in China in a manner controlled by agreement, to realize the merger of the foreign SPV with the domestic company, on which the foreign SPV can raise funds or list overseas. Alibaba wanted to get foreign investment and profit using the VIE structure to maintain and further develop its business.

Taking these factors into consideration, the law regulations for the IPO were the crucial points. In Hong Kong or inland would be too complex compared to the NYSE, including later monitoring, which would influence the result of the IPO and the development of the company. On the contrary, the listing up the environment of NYSE was more open with fewer regulations despite tougher punishment. That showed the different styles of the NYSE and Hong Kong Stock Exchange that the NYSE has fewer requirements for the companies to list. In developed stock markets, such as NYSE and the National Association of Securities Dealers Automated Quotation (NASDAQ), the IPO process is highly transparent and open to all eligible companies. That’s because the established norms

and procedures for stock-market access limit the discretionary power of gatekeeper institutions and make access more predictable. In addition, a watchful community of market analysts and other legal checks and balances monitor the implementation of these norms [4]. That means the market is more open for companies all over the world to provide various kinds of opportunities for them to get investment and progress. However, it also has a much harder punishment to dispose of the companies that break the rules later. That would be a challenge for Alibaba after its listing, even so, the inclusiveness and openness of NYSE were what Alibaba wanted most in 2014.

2.2.2. The Regulations of the Hong Kong Stock Exchange Are Hard and Fast.

On the contrary, the regulations of the Hong Kong Stock Exchange were more rigorous in 2014. The majority of emerging stock markets, including China, employ a market entry process that draws more heavily on a case-by-case evaluation by government-appointed stock-market gatekeepers [5]. The Chinese government keeps such gatekeepers aiming to guarantee market stability and growth by controlling the quality and size of new listings. So that the gatekeepers may even suspend new listings for a period [6]. According to Palepu, due to the differences in legal registrations, the Hong Kong Stock Exchange did not approve Alibaba's special governance structure of 28 "partners", and also had been strict about its VIE structure. Alibaba must complete the necessary government approvals so that all the format and description of terms shall conform to the internal standards of the SAFE office. So if Alibaba chose to list on Hong Kong Stock Exchange, the possibility of success might be less with the probability to lose its specialties which could impede the development of the company. Certainly, Alibaba needed to make compromises with the Hong Kong Stock Exchange for changing its managerial structure to successfully went public. For Alibaba, compared to undertaking the risk of being castigated by the NYSE, it preferred to satisfy the needs of its strategy.

2.3. The Evaluation of the Choice by Alibaba to List on the NYSE.

2.3.1. There Were Still Some Costs of Listing on the NYSE for Alibaba.

Despite thinking over the above reasons that seem to be the beneficial aspects of the company itself and the institutional environment, there are still some costs for Alibaba to list on NYSE. Firstly, there were still many people who were suspicious of the special structure of Alibaba after it went public and not being sure about the balance of investing money and getting control rights. They thought that if the public shareholders would not have voting rights or the power to make decisions no matter how much money they contribute, maybe their interests were uncertain too. This would deeply influence the investment choices of the investors after IPO. Secondly, there would be a bigger risk on NYSE than on the Hong Kong Stock Exchange. NYSE is such a worldwide famous equity market in the developed country, that the most famous companies in the world are here all the time. The competition pressure would be bigger compared to China. While also the tougher punishment that stemmed from the mature stipulations in NYSE should be paid attention to by the company [7]. Above all, Alibaba took the greater international risk to some degree, however, after balancing the costs and advantages, it still chose the NYSE.

2.3.2. The Best Choice Based on Alibaba's Circumstances and the Institutional Framework

Listing on NYSE in 2014 is the best choice for Alibaba based on its circumstances and the institutional framework of the time but wasn't the reflection of "poor" or "good" regulations.

Many previous articles talked about the reasons why Alibaba gave up the consult with Hong Kong Stock Exchange were the strict Chinese rules and tried to enumerate the advantages of choosing the NYSE stood on Alibaba's point. They led to confusion among other Chinese companies that whether

they should follow the steps of Alibaba to keep away from the regulations or whether private enterprises in China are sternly treated compared to the state-owned business. we need to admit that in transition economies such as China, there exist poor institutions, such as excessive government intervention and a weak legal system [5]. Unquestionably China is a developing country with weaker economic strength especially eight years ago. And due to the different state systems, the rules can be varied between China and the US. However, more openness doesn't mean more beneficial, and more strict doesn't mean worse. According to the survey, political connections are significantly and positively associated with the initial returns of IPOs in state-controlled firms but are just moderately related to IPO short-term returns in other private firms [5]. It shows that strict rules don't signify more helpful for IPO state-controlled firms in China. And with the development of the Chinese economy in recent years, the IPO policies have become more and more polybasic and comprehensive to help all the companies get brilliant harvest through IPO. All there should be mentioned is that the companies should find the most suitable method for themselves to go public, considering their characteristics and strategic targets to help companies get sustainable development. Turn to Alibaba itself, it wanted to keep the governance structure to insulate management from short-term pressures that would hurt a company's ability to focus on long-term value creation. That was the key mission that Alibaba wanted to maintain through development. What's more, Alibaba already had the ability to control the competitive cost of listing in America at that time due to its powerful strength in the areas of trading and financing. These factors all should be paid attention to by the other companies.

3. Conclusion

This paper aimed to identify the main reasons for Alibaba's listing choice on the New York Stock Exchange in 2014. The findings hint that the leaders of the company made this vital decision on the basis of the characteristics of Alibaba and the regulatory framework in China and the US at that time. Alibaba has always kept an innovative governance structure that leaves a small group of people administering the whole company whatever how much equity they own. The management of the company includes significant areas of voting rights on the board of directors (BOD) as well as strategy making, controlled by the 28 "partners". Besides, the mission of making trades easier for people around the world let Alibaba focus more on the international market in America to improve its global impact in 2014. The results also demonstrated that in developed countries like the US, the stock exchanges were more on-limits with fewer enrollment policies while the regulations in China had been more rigorous to protect the domestic economy, like the Hong Kong stock exchange. All these factors made up Alibaba's mind to list on the NYSE. The previous studies confirmed the findings of reasons and benefits of Alibaba's listing choice, however, the result also highlights that little is known about the lessons for the other Chinese companies. The rules of stock exchanges in China restrict the companies while also protecting them from fierce competition with specialized policies, whether eight years ago or today. The choice of Alibaba brought it better chances but also bigger challenges of facing pressure from competitors all over the world in the eight years.

This study systematically analyzed the listing method and reasons chosen by Alibaba as a well-known large company including internal company cultures and development prospect and external national policy environment. Mightily providing reference material for decisions of listing in other related companies while providing guidance that the firms need to pay close attention to their own conditions and times background to decide on the IPO processes. Besides, the viewpoints of doing multi-angle analysis of reasons are ought to be beneficial for further related IPO studies.

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