

ESG Ratings and their Impact on the Underpricing Effect. Comparison of the European and Us Capital Markets

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Abstract

Purpose: The aim of this paper is to examine the extent to which ESG ratings can influence the underpricing effect. It will be investigated to what extent the level of ESG ratings can have an effect on a rated sample. It will also be investigated whether the existence of a neutral to positive rating in the entire sample can have a significant effect on underpricing. A comparison of two large capital markets (USA and Europe) will also be used to analyze whether there are differences in terms of possible effects. The aim is to make a contribution that can create more transparency on the capital markets. Furthermore, this paper should provide conclusions on different investor behavior on the capital markets.

Design / Methodology / Approach: The RepRisk rating of approx. 360 sub-frames is used to determine the influence of these variables on underpricing using linear regression. Control variables are used to take into account influencing factors that have already been researched. The influence of these variables on underpricing is then determined in a linear regression analysis. Statistical robustness tests validate the results. The focus is placed on the US and European capital markets, whereby only companies that have completed a successful IPO and provided key financial figures at the time of the IPO are considered.

Findings: A comprehensive statement on the question of whether ESG ratings can lead to a reduction of information asymmetries in the IPO process or represent a qualitative signal in the sense of signaling theory. Expanded to include a statement on whether there are differences with regard to the US and European capital markets.

Originality / Value: This paper provides new and important insights into the relationship between ESG ratings and the phenomenon of underpricing. It aims to support existing theories and to analyze and compare different capital markets.

Keywords

ESG, sustainability, underpricing, IPO, Signaling Theory.

JEL Classification: G11, Q56.

