What explains Alibaba's miraculous IPO success on the New York stock exchange?

Wei, K., Xiao, L., Fang, Y. and Jiang, C.

This is an accepted manuscript of an article published by Taylor & Francis in Asia Pacific Business Review, DOI: 10.1080/13602381.2022.2143640

The final definitive version is available online:

https://doi.org/10.1080/13602381.2022.2143640

What explains Alibaba's miraculous IPO success on the New York Stock Exchange?

Kailei Wei[a]*, Libo Xiao[b], Yang Fang[c], Chunxia Jiang[b]*

[a] *School of Management, Hainan University, Haikou, China;* [b] *Business School, University of Aberdeen, Aberdeen, AB24 3QY, UK;* [c] *School of Finance and Accounting, University of Westminster, London NW1 5LS, UK.* **Correspondence author, Email: kailei28@163.com (K Wei); chunxia.jiang@abdn.ac.uk (C Jiang).*

Disclosure statement

No potential conflict of interest was reported by the author(s).

Funding

This work was supported by the Natural Science Foundation of China under Grant 72173036; the Natural Science Foundation of Hainan Province under Grant 721RC515. The authors are solely responsible for any error or omission herein.

Notes on contributors

Kailei Wei is a Professor in Economics at the School of Management, Hainan University, China. Kailei holds PhD in Economics from Middlesex University Business School in the UK and was a visiting scholar at Michigan State University in the USA. Kailei's main research interests include FDI, regional economic development, rural tourism, and internationalisation of tropical agriculture. Her research work have been published in leading peer-reviewed academic journals such as the *Journal of Comparative Economics*.

Libo Xiao is a PhD candidate at Business School, University of Aberdeen, under Dr Chunxia Jiang's supervision.

Yang Fang holds PhD in Finance from University of Aberdeen, UK. She is currently a Lecturer in Finance at University of Westminste, UK. Her research interests include corporate finance, supply chain management, and cryptocurrencies.

Chunxia Jiang is a Senior Lecturer (Associate Professor) in Finance at the Business School, University of Aberdeen, UK. She holds PhD in Economics from Middlesex University Business School, UK. Her main research interest includes banking performance, financial stability, and

fintech. Her research works have appeared in leading peer-reviewed academic journals such as the *Journal of Banking and Finance*. She has published a research monograph: *Chinese Banking Reform - From the Pre-WTO to Financial Crisis and Beyond*, by Palgrave Macmillan.

Datets: March 15, 2022 (Submission); Oct. 30, 2022 (R&R); Nov. 1, 2022 (Acceptance)

Abstract

Shattering the all-time high record of $68.15 billion set by AT&T in April 2000, Alibaba became the world's largest IPO, raising $169.4 billion at the New York Stock Exchange in September 2014. Using this outstanding case, the underlying drivers for foreign IPO success were explored. Four propositions are elaborated on: (1) companies choose the capital market with the institutional environment accommodating their internal characteristics, thereby taking advantage of the institutional differences between home and host countries to facilitate their development strategy; and (2) companies' IPO success is largely driven by the industry growth potential, fundamentals, and strategic alliances.

Keywords: Alibaba; China; institutional environment; overseas IPO

Introduction

The US has the world's largest capital markets and has attracted worldwide companies hungry for capital and seeking overseas initial public offerings (IPOs), including companies from emerging markets, such as China and Korea. The first Chinese company – Shandong Huaneng Power Development – to go public on the New York Stock Exchange (NYSE) was in August 1994, and since then, more than 240 Chinese companies have been listed in the US capital markets with a total market capitalization of $2.1 trillion as of March 2021.[1] On 19 September 2014, Alibaba Group Holding Ltd. (hereafter Alibaba) shattered the NYSE's all-time high IPO record of $68.15 billion (set by AT&T in April 2000) and claimed the title of largest global IPO at $169.4 billion. The company reached a market capitalization of more than $230 billion based on the closing price on the IPO day, larger than any other high-tech giant (e.g., Facebook and Amazon) and large US firms (e.g., JPMorgan and Procter & Gamble).[2] A few years later, amid the COVID-19 pandemic, Didi Global Inc. from China and Coupang from South Korea revived capital market miracles. In March 2021, the South Korean e-commerce giant – Coupang – was listed on the NYSE with a price surge of more than 40% on the first day, becoming the second-largest foreign IPO in the US capital markets. Just three months later, this record was refreshed by Didi, which marks the fourth-largest IPO in NYSE history. To date, 4 out of the top 10 NYSE IPOs are foreign companies from emerging economies with a market value of $341 billion (48% of the total market of the top 10).[3]

Seeking IPOs in overseas capital markets is one of the most important forms of international corporate activities (Cheng and Schwienbacher 2016), as it offers a number of advantages, including greater market liquidity, fair sources of capital, institutional security and reputation and opportunities for foreign market expansion (Aggarwal et al. 2011; Zhang and Yu 2017). The literature suggests that foreign IPO companies tend to select a host capital market with an institutional environment that fits the companies' governance characteristics and third-party affiliations (Moore et al. 2012), and IPO performance depends on the institutional environment of both the 'host' country (country of listing exchange) and the 'home' country (country of origin) (Moore, Bell, and Filatotchev 2010). However, the extant literature primarily focuses on foreign IPOs from the developed world, which cannot adequately explain the successful foreign IPOs from emerging/developing countries. There is little literature exploring the contextual factors that may influence these choices (Moore et al. 2012). Moreover, previous literature mainly analyzes the differences in the institutional environment and corporate governance between the home country and the host country, focusing on a limited number of variables (Bell, Filatotchev, and Aguilera 2014).

With enormous differences in the institutional/regulatory environment and corporate governance standards between the advanced world of the US and developing economies, what are the motivating factors for companies from emerging markets to choose the US capital markets for their IPOs in the first place, and what are the key factors for their IPO success? This study aims to answer these two key questions through a case study of the largest foreign IPO in the US history – Alibaba, and, thereby, fill an important gap in the literature. As a preview, it has found that foreign companies choose the capital market with the institutional environment accommodating and facilitating their internal characteristics and development strategies. Firms effectively take advantage of the institutional and regulatory differences between home and host countries to optimize their access to finance and opportunity for global expansion. Successful IPO performance is driven by growing industrial factors (i.e., the new e-commerce sector) and companies' sound fundamentals and strategic alliances. The findings of our study have theoretical and practical implications from the perspective of emerging markets that provide guidance for future foreign IPOs not only in the US, but also in advanced capital markets in general.

Our study extends the entrepreneurship literature on overseas IPOs from the perspective of emerging economies. While domestic IPOs have received extensive research attention, there is a dearth of research on foreign IPOs, especially those from emerging economies. Multinational businesses usually suffer from high social costs due to the hazards arising from unfamiliarity, discrimination, and relational connections (Eden and Miller 2004). Companies undertaking IPOs in foreign capital markets face obstacles, such as the 'home bias' – domestic investors tend to prefer domestic stocks and ignore the benefits of international diversification (Grauer and Hakansson 1987). Companies from emerging markets are generally at a disadvantage when looking for overseas IPOs, especially in established advanced capital markets, such as the US (Cui et al. 2021). Our study enriches our understanding of the reasons why companies from emerging markets still choose capital markets in the developed world despite facing obstacles and why some of these IPOs are very successful. Oh, Koh, and Kim (2022) focus on Coupang in South Korea (a similar case to Alibaba in China) and explore the success factors of the IPO at the NYSE from the perspective of global venture capital (Softbank), which links actual e-commerce markets in East Asia with the global centres of IPOs in the US, along with the predictors and contextual conditions of IPOs at the NYSE. The authors also highlight the importance of corporate governance in the new e-commerce sector, the dual-class system of shares and financial structures, political risks, and labour union militancy from the perspective of the host country. Complementing Oh, Koh, and Kim's (2022) work, our research focuses on institutional and regulatory differences and Alibaba's internal strengths to explore the success factors of the IPO in the NYSE.

Our study also closely relates to the institutional literature in the field of international business (IB). A strand of literature focuses on the institutional effect on the internationalization strategy of multinationals from emerging markets, and existing theoretical contributions mainly explain the reasons why companies from emerging markets internationalize. For instance, the springboard view believes that multinationals from emerging markets employ international expansion as a springboard to pursure a global strategy (Luo and Tung 2007, 2018), while the institutional fragility view (Shi et al. 2017) argues that companies are pushed to internationalize due to the perceived institutional friction and conflict when doing business in emerging economies. Our study adds a new perspective to this strand of research – the institutional effect on foreign IPOs. Focusing on the issue of how firms from emerging economies may successfully pursue internationalization strategies, it is proposed that institutional and regulatory differences are an important driving factor for companies from emerging economies to go public in more developed capital markets.

The rest of this paper proceeds as follows. Section 2 provides background information on Alibaba. Section 3 explores the reasons for Alibaba choosing the US capital market for its IPO, and Section 4 gains insights into the factors explaining its successful IPO. Section 5 discusses implications, and Section 6 concludes.

Alibaba

Business structure, business model, and core competitive advantage

Alibaba, established in 1999, has become the dominant e-commerce business in China and one of the most influential e-commerce companies in the world that has expanded rapidly with its dynamic Web-based business strategy targeting small and medium-sized enterprises (SMEs) in global markets (Anwar 2017). Table 1 presents Alibaba's business structure, and as shown, Alibaba's main business operations overarch two main pillars. The first pillar is the e-commerce business, including Taobao as the main platform, Tmall for upscale products, Alimama for marketing, and AliExpress for the global retail market. The second pillar is infrastructure construction, including Ant Financial and Alipay for digital payment, Alibaba Cloud for cloud computing services, and Cainiao for logistics. More detailed chronological development is presented in Appendix Table A1.

[Table 1 near here]

Alibaba's development timeline clearly indicates that Alibaba relies on innovative high-tech technology to expand its business domain. Alibaba's core competitive advantage lies in its network coordination and data intelligence, supported by newly emerging technologies. For instance, to reduce operating costs and improve business efficiency, Alibaba launched intelligent chatbots in 2016 to conduct deep learning on product categories and platform operations focusing on order modification and return/exchange policies. Machine learning technologies effectively process data in real time, thereby dynamically and rapidly matching changing market conditions with customer preferences and needs. Huge data resources from the continuously expanding Alibaba business domain enable big data algorithms to more easily facilitate operational decisions.

Applying newly emerging technologies (e.g., big data, machine learning, and artificial intelligence), Alibaba has successfully created and mastered a new business model that differentiates itself from its competitors (Glowik 2017). This business model, named 'Smart Business' by Ming Zeng – the chairman of Alibaba's academic council (Zeng 2018), is a customer-centric, fast, intelligent, and efficient ecosystem, covering all functions related to retail businesses (such as sellers, marketers, service providers, and logistics companies). This more connected platform and interactive community have become a new retail environment for both online platforms and offline entities. By the end of March 2021, Alibaba's ecosystem reached more than 1 billion active consumers, according to the company overview (www.alibabagroup.com). This innovative core competence unsurprisingly boosted Alibaba's financial performance dramatically. Figure 1 shows Alibaba's revenue from different business segments over the period 2014-2021. As shown, China commerce is the main source of revenue, followed by revenue from rapidly expanding cloud computing infrastructure and other businesses.

[Figure 1 near here]

Corporate governance and equity structure

Alibaba has developed complex corporate governance and equity structures to facilitate its strategic ambition of global expansion. First, since 2010, Alibaba has started to operate under a unique partnership system – ‘Lakeside Partners’. This system grants core business managers greater decision-making power in strategic operations and facilitates senior executives to collaborate and overcome bureaucracy and hierarchy. By adding new members each year, this system induces the management team to be innovative, youthful, dynamic, and stable. It is believed that the most important job for leaders is to cultivate creativity and that the mission is to improve the success rate of innovation, not operational efficiency.

Second, Alibaba’s unique ‘Lakeside Partners’ system is similar to the dual-class ownership structure in that shareholders have different rights for the same shareholdings and the shareholdings of a small number of senior executives are associated with more control and voting rights. The dual-class structure is often used when founders foresee the growth opportunity, while they want to keep control of the company without enough capital (Abdullah, Jia'nan, and Shah 2017). The dual-class structure rendering the CEO control power is popular among innovative high-tech companies. A dual-class structure implies that the company has confidence in strategic planning and profitability in the long term and is attractive to investors. Table 2 shows its major shareholders before and after its IPO in 2014. This partnership governance structure effectively grants the Board more decision-making power, but the drawback of this structure is the lack of transparency.

[Table 2 near here]

Third, Alibaba adopts a variable interest entity (VIE) business structure to attract international capital to finance its growth. The VIE structure, where an investor has a controlling interest without majority voting rights, has long been popular for foreign investors to invest in sectors where domestic industrial policies restrict foreign investment (King and Wood 2011). Investors in Alibaba own no shares in Alibaba VIE but have contractual rights to its revenues (Lin and Mehaffy 2015). Figure 2 shows Alibaba’s VIE corporate governance structure. As shown, the VIE structure usually involves an offshore holding company (the Offshore SPV) – the Alibaba Group Holding that controls the onshore operating entities in China through a wholly foreign-owned enterprise established in China.

[Figure 2 near here]

Why Alibaba has chosen the US capital market for IPOs

The most important reason for companies to undertake IPOs is to acquire the necessary financial resources to grow (Daily et al. 2003). When foreign companies choose the host capital market, they need to consider the compatibility of their own corporate governance characteristics with the institutional environment of the host market (Moore et al. 2012). The company-level characteristics interact with the institutional environment and jointly influence the strategic choice of the company (Deephouse and Carter 2005). The literature indicates that companies tend to choose capital markets that have institutional backgrounds matching their governance characteristics. In this section, the reasons why Alibaba has chosen the NYSE for its IPO was explored from two facets: external factors from the perspective of the institutional and regulatory environment and Alibaba's internal characteristics.

The institutional and regulatory environment

At the time Alibaba considered going public, China's market-oriented IPO market reform had been well underway, whereas IPOs were subject to China Securities Regulatory Commission's (CSRC) approval under strict threshold standards (i.e., company size and performance) and complex procedures. The total number of IPOs was tightly controlled by the CSRC, with a huge backlog of candidates normally waiting for two or three years, and there are limits for the IPO company's P/E multiple of no more than 25% of the average P/E of industry peers (Liu, Uchida, and Gao 2014). On the other hand, the US has a registration-based dual financial supervision system. The Securities and Exchange Commission (SEC) only reviews documents required by legislation to verify the accuracy, authenticity, and integrity of the issuer's management, operation, and financial status, imposing no restrictions on the number of issuances, IPO price, the issuer's profitability, etc. The Public Company Accounting Oversight Board (PCAOB) cooperates with SEC to supervise the financial conditions of listed companies.

To avoid long waiting in China’s IPO market, many Chinese companies have chosen to go public in US capital markets. As shown in Figure 3, from 2010 to 2013, a total of 317 companies were listed in the US capital market, raising $81 billion. Speedy access to capital is especially important for companies to capture the growth opportunities in the dynamic high-tech industry. As shown in Table 3, among the top 20 Chinese companies listed in the US capital markets, 12 are technology companies and 2 are electric car producers based on high-tech. Following suit, Alibaba has also been attracted to the mature and highly marketized US stock market for quick access to capital, while circumventing obstacles in the IPO process in China.

[Figure 3 near here]

[Table 3 near here]

Companies can signal their legitimacy to host market stakeholders by choosing a socially recognized institutional environment for IPOs (Neilsen and Rao 1987). Foreign firms’ production and distribution systems, business networks, and other key features are clearly embedded in their home countries (Bell, Filatotchev, and Rasheed 2012), which can have a significant impact on investors’ perceptions of their value because of multiple logics (Dunn and Jones 2010). Legitimacy facilitates companies obtaining much-needed resources (Deeds, Decarolis, and Coombs 1997; Rao 1994), especially for foreign IPO companies to raise capital resources (Bell, Moore, and Al–Shammari 2008; Moore, Bell, and Filatotchev 2010). The working channel of the institutional effect is foreign IPO companies' monitoring and incentive-based corporate governance mechanisms, while the host country's institutional environment sets out the threshold conditions related to minority shareholder protection (Bell, Filatotchev, and Aguilera 2014). Adherence to high standards of corporate governance can improve foreign companies' stock valuations and plays a key strategic role in changing stakeholders' perceptions (Coffee 2002).

The regulatory requirements of investor protection could provide better conditions for companies to go public and gain access to capital (La Porta et al. 1997). Companies from less restrictive regulative environments need to have more corporate governance mechanisms (i.e., to the minimum threshold level set by host country regulators) to ensure investor protection (Bell, Filatotchev, and Rasheed 2012). The US market has a high level of information transparency with corporate governance standards. With strict disclosure requirements and corporate governance standards, companies face a more severe penalty for illegal fraud during the IPO process. Companies may choose certain stock markets for IPOs as a way of 'binding' to a different, arguably better, governance regime (Gordon 1988), such as the US capital markets (Coffee 2002). As shown in Table 2, Alibaba's largest shareholder is a venture capital firm from Japan – SoftBank. Hence, despite strict legislative and regulatory requirements and high compliance costs (i.e., required auditing costs), Alibaba has a strong incentive for choosing the US capital market, thereby 'borrowing' the stricter regulatory requirements and corporate governance standards to protect investors' interests. For foreign IPOs, signalling factors include country of origin (Bell, Moore, and Al–Shammari 2008) and the home and host country institutional environment (Alhorr, Moore, and Payne 2008; Moore, Bell, and Filatotchev 2010). By choosing the US capital market, foreign companies send a strong signal to investors of their commitment to comply with more stringent regulations, improve corporate governance, and protect shareholders' interests (Moore, Bell, and Filatotchev 2010).

In short, the evidence from Alibaba's case suggests that the choice of IPO at the NYSE is influenced by the external institutional and regulatory environment, which enables the first proposition as follows:

Proposition 1: A company's choice of IPO market is driven by fast-track access to finance, legitimacy signalling, and better investor protection in mature capital markets with a sound institutional environment.

Alibaba's internal characteristics

Alibaba has a complex dual-class ownership structure and a VIE corporate governance structure, as shown in Figure 2. The legality of the VIE structure has been highly controversial (Burke and Eaton 2016; Gillis and Lowry 2014; Ziegler 2016). Investors cast doubt on the viability of the VIE structure in the future due to risks associated with the VIE structure, such as regulatory risk, ownership risk, exchange risk, and tax risk. As such, governance structures are not allowed in the IPO markets in mainland China and Hong Kong, Alibaba had to turn to foreign capital markets, as most Chinese internet companies have done (Abdullah, Jia'nan, and Shah 2017). Relying on self-regulation, US capital markets can accommodate companies with high-risk equity structures, naturally becoming an ideal outlet for Alibaba's IPO. According to the Wall Street Journal, half of the dual-class IPOs in the US in 2015 were high-tech companies.

High-tech companies have been a widely acknowledged driver of foreign IPOs in the US, influencing investors along with corporate governance mechanisms (Bell, Filatotchev, and Aguilera 2014). High-tech companies tend to go public in western capital markets because analysts and investors make the flow of information more efficient and gain a deeper understanding of the nuances of technology and innovation (Hursti and

Maula 2007). Alibaba, as a high-tech company, has found that the US capital market offers an ideal global playing field to facilitate its long-term development ambition.

Proir to its IPO in 2014, Alibaba’s e-commerce pilar had taken shape, but mainly in the domestic market with limited awareness of the international marketplace. Thomson Reuters conducted a survey with a sample of 1,604 Americans interviewed online from 10 to 15 September 2014 and found that 88% of Americans had never heard of this Chinese e-commerce company. In 2014, China commerce contributed 86% of total revenue – nearly 10 times that of international commerce of 9%, as visually shown in Figure 1. Internationalization became an imminent task on Alibaba’s top agenda. Unlike large and resource-rich state-owned enterprises (SOEs) that have home country-specific advantages with government promotion support as part of the Chinese government’s ‘go global’ policy to support their internationalization process, Alibaba, as a rapidly growing private company, had no such advantages and had to formulate an internationalization strategy based on its strengths and available opportunities.

Listing in the US capital market helps increase a company's visibility, improve consumer awareness, and establish a company image in the US and the world (Cui et al. 2021), which provides great opportunities for global expansion (Zhang and Yu 2017). As the springboard view indicates, multinationals from emerging markets employ international expansion as a springboard to pursue a global strategy, which can improve a firm’s global competitiveness while benefitting from favourable institutions in foreign countries (Luo and Tung 2007, 2018). The choice of IPO venue has become an important part of Alibaba’s internationalization strategy. The IPO venue is an important domain choice that may affect companies’ long-term strategic growth and development (Blass and Yafeh 2001; Ding, Nowak, and Zhang 2010). As the world's largest mature capital market, the US has greater market liquidity, more capital, fairer sources, better institutional guarantees, and a better reputation (Aggarwal et al. 2011; Hursti and Maula 2007). Hence, the US capital markets accommodate Alibaba's internal characteristics and provide great opportunities for its global expansion, which makes the NYSE a natural choice for Alibaba. For Alibaba, going public in the US is not only a fast way of tapping into abundant capital, but also an excellent platform for global expansion. As such, the second proposition is as follows:

> *Proposition 2: Companies seek an overseas IPO market that may accommodate their internal characteristics and facilitate their ambitious global development strategy.*

The factors for Alibaba's IPO success

As of 2021, Alibaba is among the world's top ten most valuable companies by market capitalization and the second most valuable e-commerce brand (only next to Amazon). However, not all foreign IPOs in the US capital market tell rosy stories. Sixty-eight percent of Chinese companies' IPOs in US capital markets experienced 'broken IPOs' (stock prices fell below the IPO offering prices), and 30.8% have been delisted. In this section, the key factors explaining Alibaba's successful IPO performance were performed at the industrial level and the company level.

The growing sectors: High-tech, IT, and E-commerce

The rapidly growing high-tech IT sector has been favoured by global investors. The IPO price of high-tech companies is usually inflated in the initial stages of trading on the US stock exchange (Certo, Daily, and Dalton 2001; Moore, Bell, and Filatotchev 2010). Technology companies have consistently topped the list of most valuable global brands. As shown in Table 4, as of 2021, seven of the world's top ten most valuable brands are from high-tech companies, of which five (Amazon, Google and Facebook, Alibaba and

Tencent) have been around for less than 30 years. These high-tech companies all have embraced new capabilities in network coordination and data intelligence to manage their economic efficiency and customer-focused centric ecosystems. Even during the COVID-19 pandemic, strong brands appear to be more resilient, quickly recover, and deliver to shareholders superior returns. Figure 3 shows the sectoral distribution of Chinese companies listed in the US capital market, highlighting the popularity of companies in the high-tech IT sector. As shown in Figure 4, among 31 companies with a market capitalization of more than $3 billion, the total market value of information technology companies accounts for more than 58%. When evaluating the performance of overseas IPOs, increasingly, the industry effect has become an emerging factor that may directly affect IPO performance. Daily, Certo, and Dalton (2005) argue that operating in a high-technology industry sector is an important factor when pricing IPOs and firms operating in such a 'hot' sector command a price premium at IPO. Bell, Filatotchev, and Aguilera (2014) highlight that high-technology firms may be another legitimate driver of foreign IPOs in the US, which influences investor perceptions along with governance mechanisms.

[Table 4 near here]

[Figure 4 near here]

As detailed in Section 2, Alibaba operates in the high-tech IT sector, focusing on e-commerce, cloud computing, digital streaming, and artificial intelligence. Its business model is similar to the industry leader Amazon – the world's most valuable brand, also known as 'one of the most influential economic and cultural forces in the world'. Prior to Alibaba's IPO, Amazon was valued at $140 billion, with the share price up by 45% in 2012 and 59% in 2013. At that time, Alibaba's annual revenue and net profit were more than $8 billion and $3.6 billion, respectively, while the corresponding figures of Amazon were $74.45 billion and $274 million. In other words, Alibaba only achieved 11% of Amazon's revenue but earned 13 times Amazon's net profit. The high-tech industry factor and the success stories of the industry leader Amazon together stimulated investors' expectations in Alibaba, contributing to the success of Alibaba's IPO. This trend seems to continue as with a similar case of the Korean E-commerce company, Coupang, which chronicled a huge IPO success at the NYSE in 2021. Based on the above discussion, the third proposition is as follows:

> *Proposition 3: The growing industries (*i.e.*, the high-tech IT sector) with outstanding capital market performance help attract global investors and contribute to Alibaba's overseas IPO success.*

The company's competitive advantages and strategic alliance

Over the years, Alibaba has grown as a comprehensive IT giant and has become the world's largest online and mobile commerce company. Figure 5 shows that Alibaba's gross merchandise volume (GMV) is larger than that of Amazon, eBay, and JD.com combined over the period 2013-2020. In 2013 (just before its IPO), Alibaba achieved a GMV of $249 billion (84% of China's total e-commerce market) and earned net profits of $3.6 billion (only next to Google among global internet companies). Alibaba's rapid growth has been driven by the rapid expansion of China's online shopping market, which increased from 1.1% in 2008 to 7.7% in 2013 in terms of total social retail sales (IResearch 2013). In a 12-month period ending on 30 June 2014, the Alibaba platform had more than 279 million active users – approximately one in every three internet users in China. These achievements are the result of its innovative global business concept – the combination of B2B/B2C business platforms and electronic payments (including financing instruments such as loans) (Glowik 2017).

[Figure 5 near here]

Alibaba’s growth potential is financed and strengthened by its strategic alliances and joint ventures with Softbank and Yahoo. In 2000, when Alibaba was a young start-up, SoftBank invested $20 million. In 2004, SoftBank invested another $60 million, and together, with Fidelity, GGV and TDF, injected a total of $82 million into Alibaba, which became the largest round of funding in the Chinese internet industry. In 2005, SoftBank introduced Yahoo to Alibaba with a deal in which Yahoo obtained 40% ownership and 35% voting rights in Alibaba Group for $1 billion in cash, Yahoo's China operations, and the right to use Yahoo's brand and technology in China. Yahoo became the largest owner of Alibaba at 40%, followed by Mr Ma's team at 31%, and SoftBank at 29%. Since 2011, Alibaba has been a super 'unicorn' knocking on the door of private equity with $2 billion in September 2011 and $4.3 billion in 2012. On the eve of its IPO in 2014, SoftBank became the largest shareholder (34.4%), followed by Yahoo at 22.6% and Mr Ma (approximately 13%). Table 5 provides details of Alibaba’s financing process.

[Table 5 near here]

The endorsement of reputable venture capital indicates third-party certification and critical external monitoring (Bruton et al. 2010), which boosts the performance of IPOs (Certo et al. 2003). Venture capital can have a powerful reputational effect among large investors because of their early involvement in the strategic development of fast-growing companies (Moore et al. 2012). As Rao (1994) points out, ‘the very act of endorsement embeds an organization in a status hierarchy and thereby builds their reputation .’ The relationship with a high-status partner can be considered a strong endorsement of an unfamiliar company, serving as a reputational source of legitimacy (Baum and Oliver 1991). SoftBank has been playing a certification and supervisory role throughout Alibaba’s development, which is a critical factor for its successful IPO.

While Alibaba's IPO success is supported by solid financial fundamentals and the endorsement from reputable global venture capitals, the IPO-promotional campaign has been well planned and executed by world-class teams. Alibaba employed a designated team of bankers, lawyers, and accountants to draft Alibaba's S-1 document – the legal document required by the SEC to ensure the fair and high-quality disclosure of necessary information to comply with all requirements. The reputation of the underwriter (usually investment banks) can have a significant impact on the success of an IPO, i.e., a supervisory cascade effect (Carter, Dark, and Singh 1998; Jain and Kini 1999; Loughran and Ritter 2004). Underwriters use their reputations to certify the quality of foreign IPOs and help reduce adverse selection problems and postlisting moral hazard problems, which help attract more analysts' attention (Pollock, Porac, and Wade 2004). Alibaba assembled an excellent underwriter team of six highly prestigious investment banks, including Credit Suisse, Morgan Stanley, JP Morgan Chase, Deutsche Bank, Goldman Sachs, and Citigroup. Two separate teams ran roadshows in the US and Europe, which successfully boosted investor confidence and attracted multiple large institutional investors, including Blackrock BLK. In short, the final proposition is as follows:

Proposition 4: Companies' sound fundamentals and strategic alliances, coupled with effective IPO campaign activities, are the key driving force for their overseas IPO success.

The domain choice for the IPO at the NYSE puts Alibaba into the global marketplace arena and facilitates their long-term global development strategy, leading to super post-IPO performance. Alibaba's total revenue increased from $8.5 billion in 2014 to $110 billion in 2021. Figure 6 shows the annual net income of three major global e-commerce companies over the period 2011-2020. As shown, after the IPO, Alibaba's annual net income took a giant leap and increased three times from $3.81 billion in 2014 to $11.45 billion in 2015, outperforming eBay and Amazon since 2014 (except for 2016 next to eBay and 2020 next to Amazon).

[Figure 6 near here]

Implications of the case of Alibaba

Theoretical implications

Mainstream institutional theories on foreign IPOs hold a negative view of the performance of emerging market companies listing in mature capital markets (e.g., Bell, Filatotchev, and Aguilera 2014; Moore, Bell, and Filatotchev 2010; Zhang and Yu 2017). Foreign companies from emerging countries face extra social costs, such as higher underwriting and professional fees, fewer analyst reports, and negative evaluations due to information asymmetry, less familiarity, and home bias with local investors (e.g., Bell, Filatotchev, and Aguilera 2014; Eden and Miller 2004; Huang, Liu, and Yeung 2018; Tupper, Guldiken, and Benischke 2018). Alibaba and other similar cases, such as Coupang in South Korea and Didi in China, show that companies from emerging economies can overcome institutional disadvantages and extra social costs. These companies' choice of IPO in a developed mature market not only brings in capital, but also serves the function of certifying legitimacy and signalling the commitment to protect investor interests, thereby taking advantage of institutional differences between the developed host country and home country to attract global investors.

A strand of IB literature on the internationalization of multinationals focuses on emerging markets and institutional issues. Emerging economies are heterogeneous in institutional development and generally lack institutional mechanisms to promote the effective management of business activities (Peng, Wang, and Jiang 2008). Alibaba's choice of IPO in the US capital market is consistent with the literature on internationalization strategy. The institution-based view (Peng, Wang, and Jiang 2008) argues that the differences in institutional frameworks in emerging economies are a driving factor shaping firms' internationalization strategy and performance. According to the springboard view (Luo and Tung 2007, 2018), companies from emerging economies may use international expansion (i.e., to global leading capital markets) as a springboard to overcome their competitive disadvantages. The institutional fragility view suggests that firms are pushed to internationalize to escape their domestic institutional regimes because of institutional fragility and that the progressing pace of different institutional dimensions varies, which creates internal friction and conflict during development (Shi et al. 2017). However, the escalated trade war and regulatory disbutes between the US and China have brought Alibaba and other US-listed Chinese firms back into the spotlight due to the rising delisting risk. Alibaba's share price dropped from more than $300 in October 2020 to the current price of approximately $80, along with all US-listed Chinese firms that experienced share price plunges. Alibaba's case, as an example, highlights the important role of political and regulatory risks, which are complex, rapidly changing, and intertwined with other aspects of the institutional environment. While firms may take advantage of institutional differences in formulating internationalization strategies, the real impact should be considered in conjunction with associated political and regulatory risks (a direction for future research).

Signalling theory, among other theoretical perspectives to explain IPO pricing, suggests that firms demonstrate unobservable capabilities and future value through observable, expensive or hard-to-imitate external signals (Deeds, Decarolis, and Coombs 1997; Spence 1973). Stock market reactions reflect different audiences' subjective perceptions of substantive and symbolic signals of legitimate corporate behaviour (Westphal and Zajac 1998). In Alibaba's case, a wide range of signals are implicitly or explicitly employed to influence its IPO pricing, including reputable underwriters, outstanding financial performance, commitment to investor protection, and strategic alliances. These signals are all interlinked, with firm-level characteristics interacting with the institutional environment (Deephouse and Carter 2005), collectively providing a valuation reference for investors and influencing the market performance of foreign IPOs. It is not possible to quantify the contribution of each predictive signal to IPO performance. These signalling factors should not be considered in isolation but as a 'bundle', jointly determining IPO performance.

Alibaba's case reinforces the importance of company fundamentals for overseas IPO success. Alibaba's mission is 'To make it easy to do business anywhere', particularly targeting SMEs and other businesses around the world. Alibaba platforms provide small and medium enterprises (SMEs) opportunities to enter new markets, while would otherwise be difficult for them to expand into the global markets. This raised the global awareness of the company among a large number of SMEs and entrepreneurs across the world. Alibaba's core competitiveness and outstanding financial performance, relative to those global leading companies in the industry (such as Amazon and eBay), are the solid fundamentals to attract global investors. The super stock performance of the new e-commerce industry leader Amazon also boosts investors' expectations of Alibaba, contributing to Alibaba's IPO success.

Another key factor for Alibaba's IPO success on the NYSE is its strategic alliances. Alibaba has been supported by SoftBank and actively engaged in strategic investments and joint ventures with global leading companies, such as Yahoo and Microsoft. In line with the literature, the prior IPO endorsement by reputable venture capital and alliances served as third-party assurance (Bruton et al. 2010; Certo et al. 2003) to boost investors' confidence. This is because of their early involvement in the strategic development of fast-growing companies and the informal regulatory role they provide. After the IPO, Alibaba expanded rapidly by establishing strategic cooperation with government trade agents and massive acquisitions in many countries and regions (e.g., India, the US, Japan, New Zealand, and Western Europe). Alibaba’s rapid global expansion has continuously fuelled investors’ interest in supporting its outstanding post-IPO performance, until political and regulatory risks become the dominant factor in the market.

In short, this paper offers a visual representation of the importance of multiple factors for the choice of IPO venue and IPO success on the NYSE, enriching the literature on foreign IPO success and internationalization strategy from the perspective of companies coming from emerging economies.

Practical implications

Effective campaign activities play a vital role in IPO success on the NYSE. Alibaba’s core competitiveness, outstanding financial performance, and prominent IPO size have attracted six world-leading investment banks to form a legendary underwriting team. With reputable underwriters’ certification, Alibaba not only benefits from lower underwriting fees (at 1% of market value compared to typically 3-5% for higher-quality IPOs) but also mitigates asymmetric information problems. With the concerted efforts of the six underwriters, two separate teams ran successful roadshows in New York, Boston, San Francisco, Denver, Kansas City, Chicago, London, Hong Kong, and Singapore. This is a critical step in the IPO process, mainly targeting institutional investors and a small number of individual investors. In New York, more than 900 investors attended the roadshow, compared with 50 to 100 investors for a typical mid-size company. Well-planned roadshow campaigns effectively promoted Alibaba to potential investors and helped attract key institutional investors and analysts’ coverage.

Alibaba's case also underscores the regulatory and political risks associated with foreign IPOs faced by foreign companies, especially those from emerging economies. One difficulty with cross-listing regulation lies in cross-border enforcement due to different regulatory systems between the home country and the host country. For instance, China restricts companies listed in overseas capital markets in providing relevant documents to overseas regulators. The financial results from Alibaba's two most important e-commerce platforms – Taobao and T-mall – are presented under one aggregate heading of ‘China Commerce’, making detailed financial analysis impossible. The lack of financial transparency is a major concern of the US SEC, and regulatory restrictions may impede the fair market valuation of foreign companies. At the time of the IPO, Alibaba employed a professional team of lawyers and accountants to address regulatory issues, such as the disclosure of the company's business model, proceeds, competition, corporate governance, risks, and executive compensation.

Foreign companies may be caught in a crossfire due to political and economic tensions between the host country and the home country. For instance, Chinese companies face intensified political risk during trade disputes between China and the US with market sentiment in the US against Chinese companies, leading to significant undervaluation. In 2011, Alibaba’s online platform Taobao was listed by the US Trade Representative (USTR) as a ‘notorious market’, harming US businesses and workers through intellectual property violations. Instead of having a corporate office in Washington, Alibaba hired two lobbying companies (including former USTR General Counsel James Mendenhall) and built key relationships with influential Washington-based companies to resolve disputes. After effective lobbying activities and joint effort, the USTR removed Taobao from its ‘notorious markets’ list from 2012 to 2015, but it was put back on the list again from 2016.

Trump's trade war with China has manifested in capital markets. In December 2020, Donald J. Trump signed into law the Holding Foreign Companies Accountable Act (the 'HFCAA') and under the law, companies for which U.S. regulators cannot inspect their auditors' work and practice for three consecutive years will be delisted. This has stimulated the looming risk of Chiense firms delisting from US capital markets, including Alibaba.[4] Given little progress in talks between China and the US to resolve this longstanding issue, some Chinese firms have opted for dual listing or preparing for dual listings, i.e., in Hong Kong. In response, Alibaba applied for a primary listing in Hong Kong, which was approved in August 2022.

In short, for companies desiring successful foreign IPOs, practical issues, such as promotional campaigns, need to be managed carefully to mitigate the potential negative publicity that would induce discounts in IPO pricing/valuation.

Limitations and future suggestions

Readers should bear in mind this caveat. The study employs the case study approach based on the literature and secondary data from industry-specific surveys/reports and press releases (e.g., Financial Times, Kantar, The Wall Street Journal, iRearch, etc.). It focuses on a single case study rather than a large-scale empirical analysis; hence, it is of limited scientific inference value for other similar cases. To alleviate these methodological limitations, many previous studies have been shown to theoretically underpin our case study. With a larger dataset on foreign IPOs, future research efforts can be made to test our propositions. Moreover, the goal of this study is to highlight a few significant reasons why Alibaba has chosen to go public in the US capital market and factors that explain its IPO success. Future research could comprehensively explore the latest developments in the field, such as a firm's strategy of dual-primary listing when facing delisting risk. Future research should also take a broad view of the institutional framework and bring together the political risk literature for the political environment and the IB literature for the business and market environment. This would, thereby, provide a more balanced and accurate assessment of their impacts on a firm's strategy and performance.

Conclusion

In this study, the special case of Alibaba was the focus. It demonstrated how a company from an emerging economy overcame many hurdles and achieved successful IPO at the NYSE, becoming the largest IPO in NYSE history. Adopting a dynamic Web-based business strategy, Alibaba has developed e-commere as the business mainstay, supported by its rapidly expanding infrastructure construction business pillar. Alibaba operates under a complex dual-class corporate governance and VIE ownership structures, which bring Alibaba both challenges and opportunities during the IPO process.

Focusing on the case of Alibaba, the reasons why companies from emerging economies choose capital markets in the developed world (i.e., NYSE) were explored, as well as the factors driving IPO success. It was found that companies carefully choose their foreign IPO market that accommodates and fits their internal characteristics, as well as facilitates their long-term global development strategy. The factors for IPO success include companies' core competitiveness, sound financial performance, the growth potential of the industry, and strategic alliances. Moreover, practical-side issues, such as well-planned and well-targeted roadshow and professional lobbying activities, are also vital for IPO success. The study contributes to the literature on strategic corporate management with important theoretical and practical implications. The findings may provide useful guidance for companies in emerging countries seeking overseas IPOs in mature capital markets.

Notes

---

[1] Among these Chinese companies, 68.4% experienced "broken IPOs" (stock prices fell below the IPO offering prices) and 30.8% have been delisted. As of March 2021, there were 494 non-US issuers from 45 countries listed on the NYSE, of which 78 are Chinese firms.

[2] On the IPO day, the company's shares delayed trading for more than two hours simply because banks struggled to find sellers to meet the strong demand, setting another record in the NYSE history as the longest delay in trading. Alibaba’s IPO offering price was $68, rocketed to $99 at opening, and closed at $93.89 (up by 38%).

[3] See Oh, Koh, and Kim (2022) for more details.

[4] At the second half of 2022, more than 150 US-listed Chinese firms having been conclusively identified as Commission-Identified Issuers in 2022, including Alibaba.

References

Abdullah, Z. Jia'nan, and M. H. Shah. 2017. "Dual-Class Firms: Evidence from IPOs of Chinese Firms Cross-Listed on US Exchanges." *Emerging Markets Finance and Trade* 53 (7): 1691–1704. doi:10.1080/1540496x.2017.1307103.

Aggarwal, R., I. Erel, M. Ferreira, and P. Matos. 2011. "Does Governance Travel Around the World? Evidence from Institutional Investors." *Journal of Financial Economics* 100 (1): 154–181. doi:10.1016/j.jfineco.2010.10.018.

Alhorr, H. S., C. B. Moore, and G. T. Payne. 2008. "The Impact of Economic Integration on Cross–Border Venture Capital Investments: Evidence from the European Union." *Entrepreneurship Theory and Practice* 32 (5): 897–917. doi:10.1111/j.1540-6520.2008.00261.x.

Anwar, S. T. 2017. "Alibaba: Entrepreneurial Growth and Global Expansion in B2B/B2C Markets." *Journal of International Entrepreneurship* 15 (4): 366–389. doi:10.1007/s10843-017-0207-2.

Baum, J. A. C., and C. Oliver. 1991. "Institutional Linkages and Organizational Mortality." *Administrative Science Quarterly* 36 (2): 187–218. doi:10.2307/2393353.

Bell, R. G., I. Filatotchev, and R. V. Aguilera. 2014. "Corporate Governance and Investors' Perceptions of Foreign IPO Value: An Institutional Perspective." *Academy of Management Journal* 57 (1): 301–320. doi:10.5465/amj.2011.0146.

Bell, R. G., I. Filatotchev, and A. A. Rasheed. 2012. "The Liability of Foreignness in Capital Markets: Sources and Remedies." *Journal of International Business Studies* 43 (2): 107–122. doi:10.1057/jibs.2011.55.

Bell, R. G., C. B. Moore, and H. A. Al–Shammari. 2008. "Country of Origin and Foreign IPO Legitimacy: Understanding the Role of Geographic Scope and Insider Ownership." *Entrepreneurship Theory and Practice* 32 (1): 185–202. doi:10.1111/j.1540-6520.2007.00221.x.

Blass, A., and Y. Yafeh. 2001. "Vagabond Shoes Longing to Stray: Why Foreign Firms List in the United States." *Journal of Banking & Finance* 25 (3): 555–572. doi:10.1016/s0378-4266(00)00090-x.

Bruton, G. D., I. Filatotchev, S. Chahine, and M. Wright. 2010. "Governance, Ownership Structure, and Performance of IPO Firms: The Impact of Different Types of

Private Equity Investors and Institutional Environments." *Strategic Management Journal* 31 (5): 491–509. doi:10.1002/smj.822.

Burke, Q. L., and T. V. Eaton. 2016. "Alibaba Group Initial Public Offering: A Case Study of Financial Reporting Issues." *Issues in Accounting Education Teaching Notes* 31 (4): 75–90. doi:10.5555/iace-51430TN.

Carter, R. B., F. H. Dark, and A. K. Singh. 1998. "Underwriter Reputation, Initial Returns, and the Long-Run Performance of IPO Stocks." *The Journal of Finance* 53 (1): 285–311. doi:10.1111/0022-1082.104624.

Certo, S. T., C. M. Daily, A. A. Cannella, and D. R. Dalton. 2003. "Giving Money to Get Money: How CEO Stock Options and CEO Equity Enhance IPO Valuations." *Academy of Management Journal* 46 (5): 643–653. doi:10.5465/30040655.

Certo, S. T., C. M. Daily, and D. R. Dalton. 2001. "Signaling Firm Value through Board Structure: An Investigation of Initial Public Offerings." *Entrepreneurship Theory and Practice* 26 (2): 33–50. doi:10.1177/104225870102600202.

Cheng, C., and A. Schwienbacher. 2016. "Venture Capital Investors and Foreign Listing Choices of Chinese Companies." *Emerging Markets Review* 29: 42–67. doi:10.1016/j.ememar.2016.08.007.

Coffee, J. C. 2002. "Racing Towards the Top?: The Impact of Cross-Listings and Stock Market Competition on International Corporate Governance." *Columbia Law Review* 102 (7): 1757–1775. doi:10.2307/1123661.

Cui, N., P. Xie, Y. Jiang, and L. Xu. 2021. "How Home Country Identity Salience Affects Emerging Market Companies' Overseas IPO Performance: An Empirical Investigation from China." *International Marketing Review* 38 (4): 780–799. doi:10.1108/imr-02-2019-0066.

Daily, C. M., S. T. Certo, and D. R. Dalton. 2005. "Investment Bankers and IPO Pricing: Does Prospectus Information Matter?" *Journal of Business Venturing* 20 (1): 93–111. doi:10.1016/j.jbusvent.2003.10.003.

Daily, C. M., S. T. Certo, D. R. Dalton, and R. Roengpitya. 2003. "IPO Underpricing: A Meta–Analysis and Research Synthesis." *Entrepreneurship Theory and Practice* 27 (3): 271–295. doi:10.1111/1540-8520.t01-1-00004.

Deeds, D. L., D. Decarolis, and J. E. Coombs. 1997. "The Impact of Firmspecific Capabilities on the Amount of Capital Raised in an Initial Public Offering: Evidence from the Biotechnology Industry." *Journal of Business Venturing* 12 (1): 31–46. doi:10.1016/s0883-9026(97)84970-1.

Deephouse, D. L., and S. M. Carter. 2005. "An Examination of Differences between Organizational Legitimacy and Organizational Reputation." *Journal of Management Studies* 42 (2): 329–360. doi:10.1111/j.1467-6486.2005.00499.x.

Ding, Y., E. Nowak, and H. Zhang. 2010. "Foreign vs. Domestic Listing: An Entrepreneurial Decision." *Journal of Business Venturing* 25 (2): 175–191. doi:10.1016/j.jbusvent.2008.05.002.

Dunn, M. B., and C. Jones. 2010. "Institutional Logics and Institutional Pluralism: The Contestation of Care and Science Logics in Medical Education, 1967–2005." *Administrative Science Quarterly* 55 (1): 114–149. doi:10.2189/asqu.2010.55.1.114.

Eden, L., and S. R. Miller. 2004. "Distance Matters: Liability of Foreignness, Institutional Distance and Ownership Strategy." In *Theories of the Multinational Enterprise: Diversity, Complexity and Relevance*, edited by M. A. Hitt and J. L. C. Cheng, 187–221. Bingley: Emerald Group Publishing Limited.

Gillis, P., and M. R. Lowry. 2014. "Son of Enron: Investors Weigh the Risks of Chinese Variable Interest Entities." *Journal of Applied Corporate Finance* 26 (3): 61–66. doi:10.1111/jacf.12080.

Glowik, M. 2017. "Case Study: Alibaba Group." In *Global Strategy in the Service Industries: Dynamics, Analysis, Growth*, 96–105. Routledge.

Gordon, J. N. 1988. "Ties That Bond: Dual Class Common Stock and the Problem of Shareholder Choice." *California Law Review* 76 (1): 1–85. doi:10.2307/3480497.

Grauer, R. R., and N. H. Hakansson. 1987. "Gains from International Diversification: 1968-85 Returns on Portfolios of Stocks and Bonds." *The Journal of Finance* 42 (3): 721–739. doi:10.1111/j.1540-6261.1987.tb04581.x.

Huang, F., X. Liu, and H. Yeung. 2018. "Coordinated Efforts to Regulate Overseas Listed Chinese Companies: A Historical Perspective and Recent Developments." *Journal of Corporate Law Studies* 18 (1): 43–74. doi:10.1080/14735970.2017.1320023.

Hursti, J., and M. V. J. Maula. 2007. "Acquiring Financial Resources from Foreign Equity Capital Markets: An Examination of Factors Influencing Foreign Initial Public Offerings." *Journal of Business Venturing* 22 (6): 833–851. doi:10.1016/j.jbusvent.2006.09.001.

IResearch. 2013. "2012-2013 China Online Shopping Report." *IResearch Consulting Group.* Accessed 14 March 2022. https://www.iresearchchina.com/down/5152.pdf.

Jain, B. A., and O. Kini. 1999. "On Investment Banker Monitoring in the New Issues Market." *Journal of Banking & Finance* 23 (1): 49–84. doi:10.1016/s0378-4266(98)00077-6.

King and Wood. 2011. "Variable Interest Entity (VIE) Structure for Foreign Investment in the PRC May Face Challenge." *China Law Insight,* October 20. Accessed 14 March 2022. https://www.chinalawinsight.com/2011/10/articles/foreign-investment/variable-interest-entity-vie-structure-for-foreign-investment-in-the-prc-may-face-challenge/.

La Porta, R., F. Lopez-De-Silanes, A. Shleifer, and R. W. Vishny. 1997. "Legal Determinants of External Finance." *The Journal of Finance* 52 (3): 1131–1150. doi:10.1111/j.1540-6261.1997.tb02727.x.

Lin, Y. H., and T. Mehaffy. 2015. "Open Sesame: The Myth of Alibaba's Extreme Corporate Governance and Control." *Brooklyn Journal of Corporate, Financial & Commercial Law* 10: 437.

Liu, J., K. Uchida, and R. Gao. 2014. "Earnings Management of Initial Public Offering Firms: Evidence from Regulation Changes in China." *Accounting & Finance* 54 (2): 505–537. doi:10.1111/acfi.12006.

Loughran, T., and J. Ritter. 2004. "Why Has IPO Underpricing Changed over Time?" *Financial Management* 33 (3): 5–37.

Luo, Y., and R. L. Tung. 2007. "International Expansion of Emerging Market Enterprises: A Springboard Perspective." *Journal of International Business Studies* 38 (4): 481–498. doi:10.1057/palgrave.jibs.8400275.

Luo, Y., and R. L. Tung. 2018. "A General Theory of Springboard MNEs." *Journal of International Business Studies* 49 (2): 129–152. doi:10.1057/s41267-017-0114-8.

Moore, C. B., R. G. Bell, and I. Filatotchev. 2010. "Institutions and Foreign IPO Firms: The Effects of “Home” and “Host” Country Institutions on Performance." *Entrepreneurship Theory and Practice* 34 (3): 469–490. doi:10.1111/j.1540-6520.2010.00383.x.

Moore, C. B., R. G. Bell, I. Filatotchev, and A. A. Rasheed. 2012. "Foreign IPO Capital Market Choice: Understanding the Institutional Fit of Corporate Governance." *Strategic Management Journal* 33 (8): 914–937. doi:10.1002/smj.1953.

Neilsen, E. H., and M. V. H. Rao. 1987. "The Strategy-Legitimacy Nexus: A Thick Description." *Academy of Management Review* 12 (3): 523–533. doi:10.5465/amr.1987.4306567.

Oh, I., Y. Koh, and Y. K. Kim. 2022. "A New Global Division of Labour in Venture Capital Flows: Coupang's IPO Success at the New York Stock Exchange." *Asia Pacific Business Review* 1–20. doi:10.1080/13602381.2022.2034297.

Peng, M. W., D. Y. L. Wang, and Y. Jiang. 2008. "An Institution-Based View of International Business Strategy: A Focus on Emerging Economies." *Journal of International Business Studies* 39 (5): 920–936. doi:10.1057/palgrave.jibs.8400377.

Pollock, T. G., J. F. Porac, and J. B. Wade. 2004. "Constructing Deal Networks: Brokers as Network "Architects" in the U.S. IPO Market and Other Examples." *The Academy of Management Review* 29 (1): 50–72. doi:10.2307/20159008.

Rao, H. 1994. "The Social Construction of Reputation: Certification Contests, Legitimation, and the Survival of Organizations in the American Automobile Industry: 1895–1912." *Strategic Management Journal* 15 (S1): 29–44. doi:10.1002/smj.4250150904.

Shi, W., S. L. Sun, D. Yan, and Z. Zhu. 2017. "Institutional Fragility and Outward Foreign Direct Investment from China." *Journal of International Business Studies* 48 (4): 452–476. doi:10.1057/s41267-016-0050-z.

Spence, M. 1973. "Job Market Signaling." *The Quarterly Journal of Economics* 87 (3): 355–379. doi:10.2307/1882010.

Tupper, C. H., O. Guldiken, and M. Benischke. 2018. "Capital Market Liability of Foreignness of IPO Firms." *Journal of World Business* 53 (4): 555–567. doi:10.1016/j.jwb.2018.03.001.

Westphal, J. D., and E. J. Zajac. 1998. "The Symbolic Management of Stockholders: Corporate Governance Reforms and Shareholder Reactions." *Administrative Science Quarterly* 43 (1): 127–153. doi:10.2307/2393593.

Zeng, M. 2018. "Alibaba and the Future of Business." *Harvard Business Review* 96 (5): 88–96.

Zhang, J., and H. Yu. 2017. "Venture Capitalists' Experience and Foreign IPOs: Evidence from China." *Entrepreneurship Theory and Practice* 41 (5): 677–707. doi:10.1111/etap.12228.

Ziegler, S. F. 2016. "China's Variable Interest Entity Problem: How Americans have Illegally Invested Billions in China and How to Fix it." *The George Washington Law Review* 84: 539.

Tables

Table 1. Alibaba’s profile and business structure.

Panel A: E-commerce pilar	
China Commerce Retail	Taobao, established in 2003, applies big-data analytics and technology to provide domestic consumers personalized and optimized shopping experiences.
	Alimama, established in 2007, uses Alibaba Group’s proprietary technology to match the marketing demands for merchants, brands, and retailers within the Alibaba Ecosystem with the media resources on Alibaba’s platforms and third-party properties, which enables Alibaba to monetize its commerce, digital media, entertainment, and other businesses.
	Tmall, established in 2008, is a platform to meet consumers’ demand for high-quality products and a premium shopping experience.
	Juhuasuan, established in 2010, is a marketing and group-buying platform. It offers daily flash sales to promote heavily discounted products.
	Freshippo (Haema), established in 2016, is a self-operated retail chain that integrates online and offline retail capabilities, using its storefronts as a warehouse to fulfil online orders and satisfy consumer demands in-store.
China Commerce Wholesale	1688.com, established in 1999, is a leading integrated domestic wholesale marketplace.
International Commerce Retail	AliExpress, established in 2010, is a global retail marketplace enabling consumers to buy directly from manufacturers and distributors in China and around the world.
	Lazada, established in 2012, is an e-commerce platform in Southeast Asia.
International Commerce Wholesale	Alibaba.com, established in 1999, is a wholesale marketplace for global trade, connecting Chinese and overseas suppliers to overseas wholesale buyers. It provides sourcing, online transaction, digital marketing, and digital supply chain fulfilment services.
Consumer Services	ELE.ME, established in 2018, is a services and on-demand food delivery platform in China.
Panel B: Infrastructure pilar	
Digital Media and Entertainment	Youku, established in 2016, is an online long-form video platform in China. It enables users to search, view and share high-quality video content across multiple devices.
	UC Browser, established in 2014, is a fast, smart, and secure web browser.
Infrastructure Construction	Alibaba Cloud, established in 2009, is the digital technology and intellectual backbone of Alibaba Group. It offers a complete suite of cloud services to customers worldwide.
	Cainiao, established in 2013, is a smart logistics network in China.
	DingTalk, established in 2014, is a digital collaboration workplace and application development platform. It offers new ways of working, sharing, and collaborating for enterprises and organizations, including schools and education institutions.
	Ant Group, established in 2014, is the parent company of Alipay – a world-leading mobile payment platform. Ant Group is committed to driving the digital upgrading of the global service industry and providing inclusive, green, and sustainable services to consumers and small businesses.

Source: https://www.alibabagroup.com/en/about/businesses

Table 2. Alibaba’s major shareholders before and after its NYSE IPO in 2014.

Shareholders	Ordinary shares beneficially owned prior to the IPO		Ordinary shares available for the IPO		O ov
	Number	%	Number	%	N
Panel A: Principal and/or selling shareholding					
SoftBank	797,742,980	34.1%	–	–	79
Yahoo	523,565,416	22.4%	121,739,130	4.9%	40
Jack Yun Ma	206,100,673	8.8%	12,750,000	0.5%	19
Fengmao Investment Corporation	66,451,613	2.8%	14,285,700	0.6%	52
Panel B: Directors and executives shareholding					
Jack Yun Ma	206,100,673	8.8%	12,750,000	0.5%	19
Joseph C. TSAI	83,499,896	3.6%	4,250,000	0.2%	79
Director and executive team	341,920,826	14.6%	18,700,000	0.8%	32

Source: Alibaba’s IPO prospectus submitted to the US Securities and Exchange Commission

Table 3. Top 20 Chinese companies in the US (by sector and market capitalization, Dec 2021).

Company Name	IPO Year	TRBC Sector	Sector	Market Cap ($ Million)
Alibaba Group Holding Ltd	2014	Technology	Business Services	614,827
Pinduoduo Inc	2018	Technology	Business Services	164,319
China Life Insurance Company Limited	2003	Financials	Finance	121,534
JD.com Inc	2014	Technology	Consumer Services	117,766
PetroChina Company Limited	2000	Energy	Energy	114,444
China Petroleum & Chemical Corporation	2000	Energy	Energy	76,662
NetEase Inc	2000	Technology	Business Services	72,258
Baidu Inc	2005	Technology	Technology	68,229
NIO Inc	2018	Industrials	Consumer Durables	61,789
Ke Holdings Inc	2020	Real Estate	Real Estate Services	58,624
Bilibili Inc	2018	Technology	Technology	39,956
TAL Education Group	2010	Academic and Educational	Consumer Services	32,532
BeiGene	2016	Health care	Health Care	28,363
Lufax Holding Ltd	2020	Technology	Finance	28,021
Tencent Music Entertainment Group	2018	Technology	Technology	27,352
ZTO Express (Cayman) Inc	2016	Industrials	Transportation	26,650
Yum China Holdings Inc	2016	Consumer Cyclicals	Consumer Non-Durables	26,027
New Oriental Education & Technology Group Inc	2006	Academic and Educational	Consumer Services	24,856
Trip.com Group Ltd	2003	Consumer Cyclicals	Business Services	24,334
Xpeng Inc	2020	Industrials	Consumer Durables	22,461

Source: The U.S. Securities and Exchange Commission (SEC) www.sec.gov.

Table 4. Top 10 world's most valuable brands in 2021.

Rank 2021	Brand	Brand Value in 2021 (USD million)	% Increase 2021 vs. 2020
1	Amazon	683,852	64%
2	Apple	611,997	74%
3	Google	457,998	42%
4	Microsoft	410,271	26%
5	Tencent	240,931	60%
6	Facebook	226,744	54%
7	Alibaba	196,912	29%
8	Visa	191,285	2%
9	McDonald's	154,921	20%
10	MasterCard	112,876	4%

Source: www.kantar.com

Table 5. Alibaba's financing prior to its NYSE IPO in 2014.

Financing rounds	Year	Amount and investors
Angle Investment	1999	$5 million from Goldman Sachs, Fidelity Investments, TDF Capital, and Investor AB.
Venture capital	2000	$25 million from Softbank ($20 million), Fidelity Investments, Transpac Capital, Japan Asia Investment, TDF Capital, etc.
	2004	$82 million from Softbank ($60 million), Fidelity Investments, GGV Capital, and TDF Capital.
	2005	$1 billion, plus all businesses of Yahoo China, and the right to use Yahoo brand and technology in China (Yahoo obtained 40% ownership and 35% of voting rights).
IPO in Hong Kong Stock Exchange	2007	$1.7 billion, Hong Kong Exchanges and Clearing Limited.
Private equity	2011	$2 billion from Silver Lake, DST Global, Temasek, and Shanghai Yunfeng Capital Management.
	2012	$4.3 billion from China Investment Corporation, CITIC Capital, Boyu Capital Investment Management, CDB Capital and other financial institutions. Silver Lake, DST Global, and Temasek also increased their holdings, respectively.
IPO in New York Stock Exchange	2014	$25 billion

Source: Alibaba's website and press release.

Figures

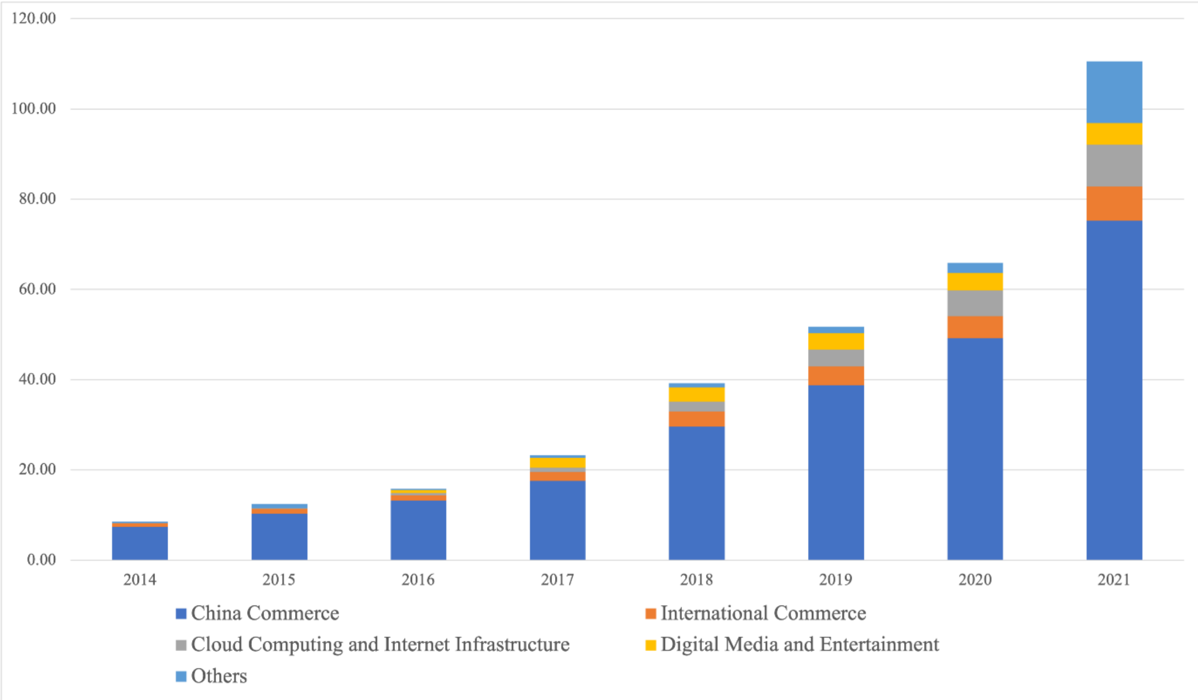

Figure 1. Alibaba’s annual revenue by business segment (2014 to 2021 in USD billion).

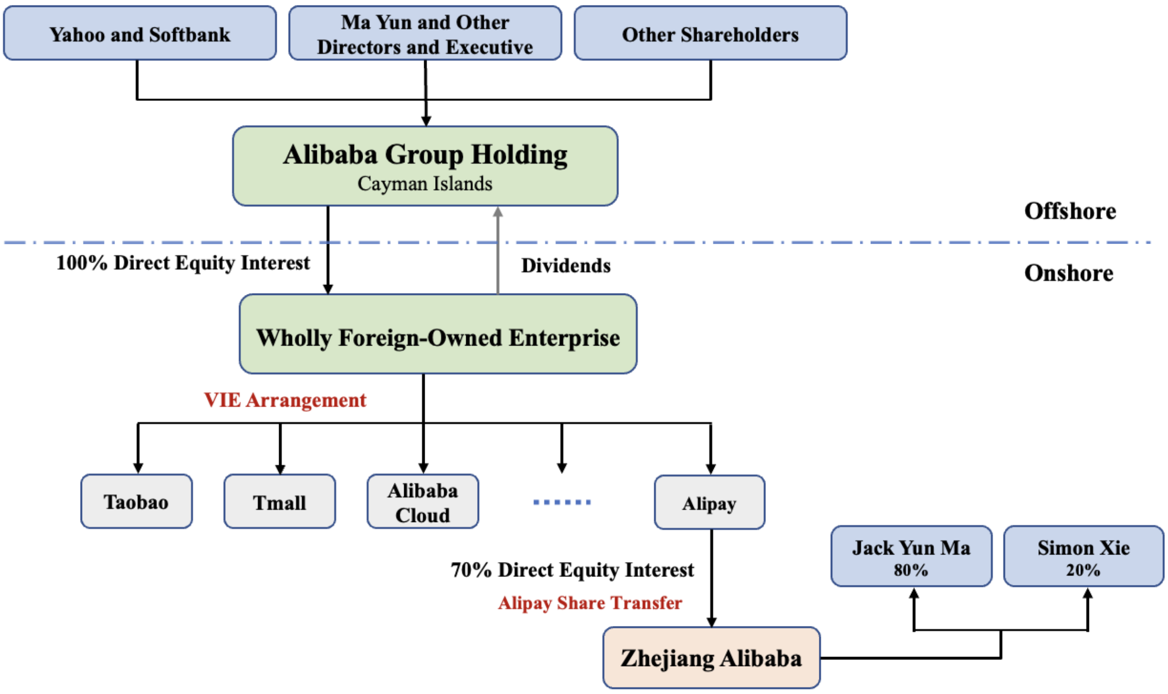

Figure 2. Alibaba VIE corporate governance structure.

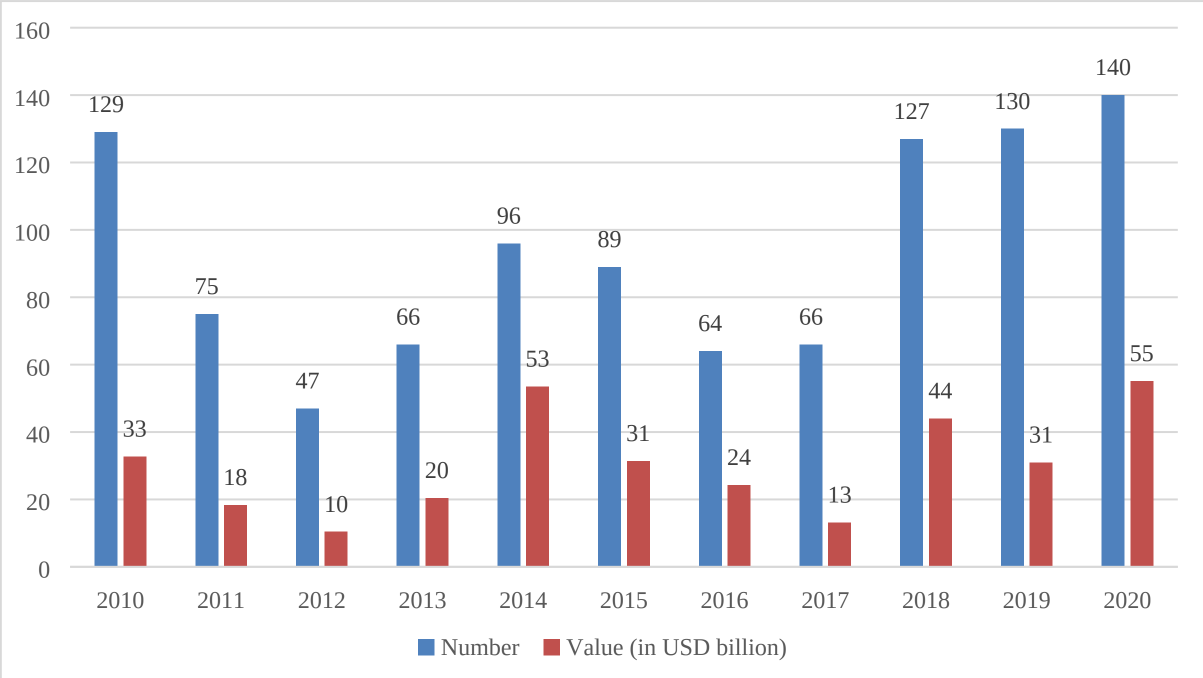

Figure 3. The number and value of Chinese companies’ IPOs from 2010 to 2020.

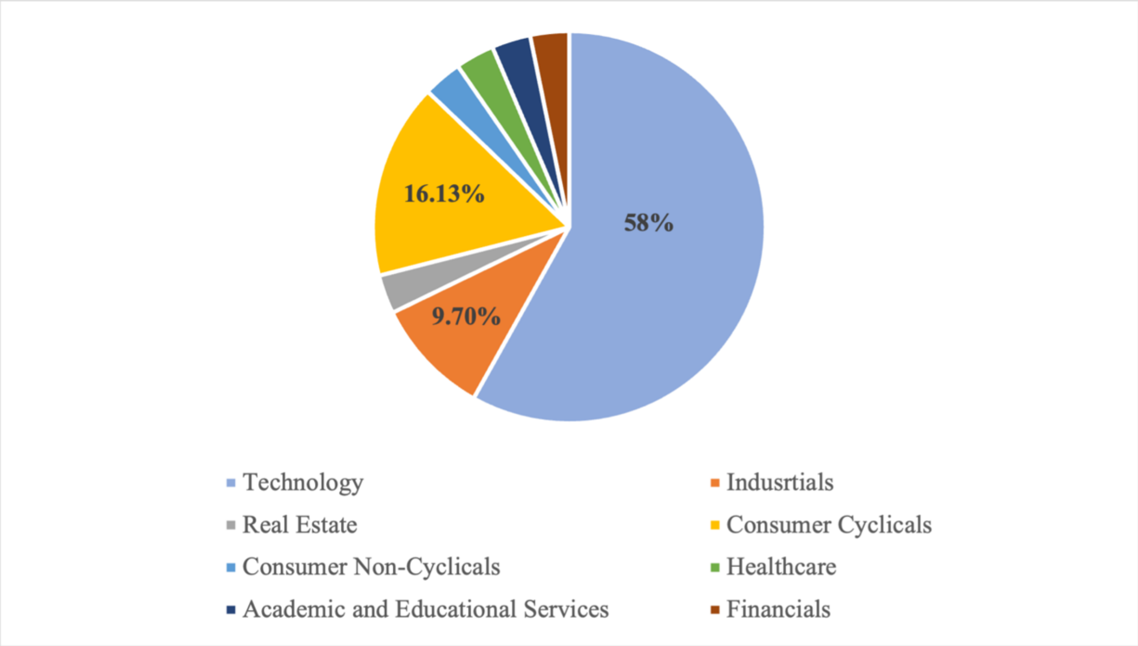

Figure 4. The distribution of Chinese companies listed in the US in 2021 (Market Cap > $30 billion).

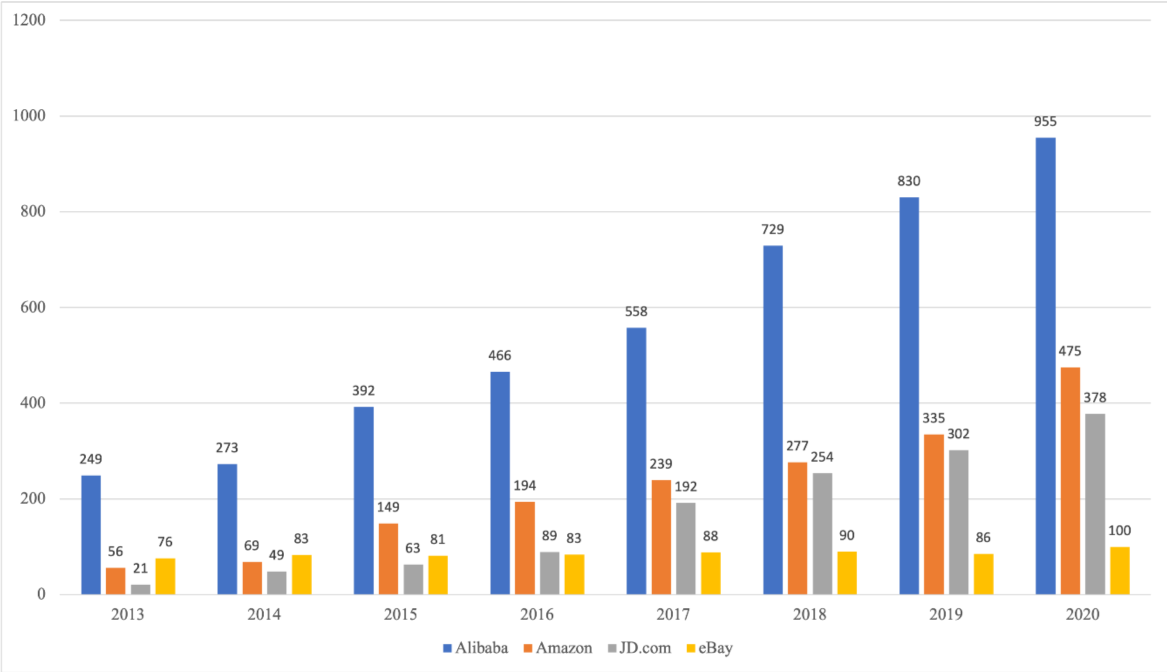

Figure 5. Gross merchandise volume (GMV) of major e-commerce in 2013-2020 (in USD billion).

Sources: The official websites of Alibaba, eBay, JD.com, and Amazon.

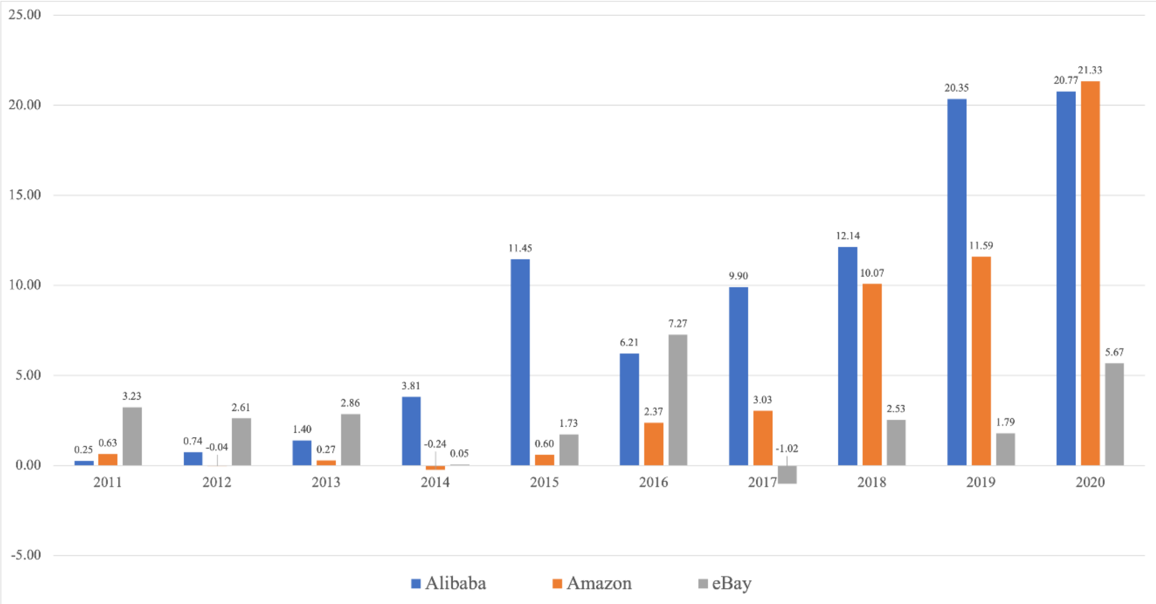

Figure 6. Annual net income of major e-commerce in 2011-2020 (in USD billion).

Appendix

Table A1. The chronological development of Alibaba.

Year	Milestone event and achievement
Panel A: International strategic partnership and alliances	
2005.8	Yahoo – an American web services provider, leveraging Alibaba to Yahoo's global resources.
2008.4	Infomedia –India's largest b2b media company, improving Alibaba's online B2B in India.
2015.3	Ezbob and Iwoca – UK innovative lenders, bringing Alibaba to the UK and European markets.
2015.8	Macy's – a US department store retail giant, allowing Alibaba to enter the US market.
2015.9	Metro –Germany's largest retail group, working closely on the merchandise supply chain, cross-border e-commerce, and big data, becoming a key partner in Alibaba's European strategy.
2016.2	S.M. Entertainment – a Korean entertainment company, creating synergies in various areas.
2016.4	New Zealand Trade and Enterprise (NZTE) – the New Zealand government's international business development agency, supporting businesses to enter the Chinese consumer market and strengthen trade between China and New Zealand.
2017.11	Auchan Retail – a French multinational retail group and Ruentex – a Taiwan-based textile business, forming a new retail strategic alliance to offer a new consumer experience in China
2018.8	Kroger – the largest US supermarket operator, supporting US retail companies to enter the Chinese consumer market and strengthen trade between China and the US (especially SMEs).
2019.11	The Government of Ethiopia, established an eWTP Hub in Ethiopia to promote inclusive global trade, regional commerce, and capacity building.
2020.8	Total (China) Investment – a French multinational integrated oil and gas company, promoting the digital transformation of Total's operations in China.
2020.11	Farfetch – a British-Portuguese online luxury fashion retail platform, forming a global partnership to accelerate the digitization of the luxury industry.
Panel B: Joint Ventures and Acquisitions	
2009	HiChina – a China's leading internet services provider, helping Alibaba gain knowledge on web domain technology and management.
2010.6	Vendio – a US e-commerce company that helps online merchants manage sales. This first acquisition in the American market helps Alibaba to gain access to small businesses in the US.
2010.8	Auctiva – a developer of tools for eBay sellers, opening avenues for American small businesses to use Alibaba's e-commerce resources.
2010	One-Touch – a leading provider of export-related services tailored to the needs of small businesses in China, gaining a wide range of export-related value-added service businesses.
2013	Sina Weibo – a Chinese microblogging website, enhances Alibaba's presence on social networks thereby bringing more web traffic to the Taobao marketplace.
2014.3	Intime – a large retail company in China engaged in the operation and management of department stores, shopping centres, and online retail. This partnership combines Alibaba's internet commerce technology and platforms with Intime's presence in high-end department stores/shopping malls and the retail website Yintai.com.
2014.6	UCWeb – a large mobile-browser company in China, leading to technological synergy gains.
2014.6	ChinaVision – a TV and movie company, attracting more users to Ali TV.
2014.7	AutoNavi Holdings – Chinese digital mapping and navigation company, boosting revenue by integrating AutoNavi's technology and data on locations of establishments into maps.
2015.12	South China Morning Post (SCMP) and other media assets of SCMP Group Limited, extending Alibaba's business into the cultural and entertainment segment.

2015	Suning – one of the largest consumer electronics retail chains in China, building up synergies in e-commerce, logistics, and incremental business through joint omnichannel initiatives.
2015	Youku Tudou – one of China's top online video and streaming service platforms. This acquisition enables Alibaba to offer high-quality films and series to its consumers and strengthen its dominant position in Chinese e-commerce.
2015.1	AdChina – the biggest ad tech company and leading digital marketing platform in China, strengthening Alibaba's online and mobile marketing ecosystem to promote the development of digital marketing and data-driven marketing initiatives in China.
2015.6	Alibaba and Foxconn invested in SoftBank's Robotics Business, jointly promoting the global adoption of robotics.
2015.7	Glamour Sales – a UK promotional shopping website focused on high-end clothing, accessories, skincare, and home furnishings, integrating Tmall with Glamour Sales' offerings.
2016.4	Lazada Group – Singapore E-Commerce Company, accelerating the growth of Southeast Asia's largest e-commerce platform to enter e-commerce in Southeast Asia.
2016.5	SB Cloud Corporation and SoftBank, forming Joint Venture to launch cloud computing services in Japan.
2018.5	Daraz – a Pakistani e-commerce company, promoting cross-border e-commerce between China and Pakistan and facilitating Alibaba's expansion into the South Asian market.
2019.2	China International Capital Corporation (CICC) – one of China's leading investment banking companies, extending to the fintech sector.
2019.9	Richemont (YOOX NET-A-PORTER) – a platform dedicated to the world's leading luxury and fashion brands, offering new online luxury and fashion shopping experiences for Chinese consumers.
2019.1	Data Artisans – a German start-up that provides distributed systems and large-scale data streaming services for enterprises, strengthening the growth of the Flink community and accelerating the data-processing technologies.
2020.10	Sun Art – an investment holding company that engages in the operation of hypermarket stores and E-commerce platforms in China, accelerating new retail strategy to capture opportunities in China's retail sector.

Notes. This table is compiled by Authors based on information mainly from the official websites of Alibaba (www.alibabagroup.com) and SoftBank and press releases (such as Reuters).