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Explaining Communication Choices during Equity Offerings: Market Timing or Impression Management?

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Abstract

Opinions are divided on whether firms use corporate reports (1) to communicate with external parties in a clear and transparent manner (incremental information hypothesis), (2) to shape messages to suit their own agenda, or, worse still, (3) to mislead audiences (impression management hypothesis). Two competing hypotheses are considered in this chapter to explain why equity offerings coincide with stock overpricing. The dominant hypothesis to date – the market timing hypothesis – is that managers opportunistically time equity offerings to coincide with high stock prices. The empirical evidence supporting this hypothesis is ambiguous. The impression management hypothesis offers an alternative perspective. In this context, impression management entails the construction of an impression by organizations with the intention of influencing stockholders' view of the firm as reflected in the stock price. Managers may engage in impression management, using persuasive language in pre-equity-offering communications (e.g., narrative disclosures), to drive up the stock price in advance of planned equity offerings.

Keywords: equity offerings, communication, market timing, impression management, information asymmetry

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This chapter examines managers' communication choices in the decision to issue stock, focussing particularly on public equity offerings following the initial public offering (IPO) of listed companies. Such post-IPO equity offerings are called "seasoned" equity offerings (SEOs). Whereas the pricing of IPOs is necessarily judgmental, since a market for the stock does not preexist, firms conducting SEOs can use the quoted price of existing stock as a point of reference. In general, firms conducting SEOs sell newly registered stocks publicly to raise new capital for investment purposes. While the equity share of existing stockholders is diluted when an SEO is conducted (because the equity is shared among a greater number of stockholders), the additional capital is expected to fuel further growth, thereby enhancing the overall equity claim. Existing stockholders should be no better or worse off if an SEO is fairly priced. Under the assumption of efficient capital markets, the current quoted stock price is a fair price.

The assumption of capital market efficiency is challenged by mounting evidence that market prices are frequently biased. Investor irrationality produces valuation errors, which leads to stock mispricing. A key empirical finding, which supports this alternative perspective, is that SEOs tend to be conducted when the issuing firm's stock is overpriced (e.g., Hertzel & Li, 2010; Jung, Kim & Stulz, 1996). An offering of overpriced stock would benefit existing stockholders (who typically include the firm's managers) at the expense of investors buying into the issue. Prior literature attributes this finding to rational managers identifying stock overpricing by an irrational market and deciding to take advantage of it by issuing new stock. This is referred to as the "market timing hypothesis" (Baker & Wurgler, 2002).

We argue that the market timing hypothesis is inconsistent with concurrent evidence suggesting that the primary motivation for new equity issues is a pressing need for new capital (DeAngelo, DeAngelo & Stulz, 2010). Since the majority of offering firms raise capital out of necessity, it is questionable whether they have sufficient flexibility to wait for the stock to become overpriced. We adopt a competing hypothesis that managers, having decided to issue new stock, engage in a variety of practices, including strategic communication choices, to increase the price of the stock before the issue (impression management hypothesis). From a behavioral perspective, impression management concerns the deliberate attempt to influence the perceptions or opinions formed and held by others. Since SEOs are generally large, yet infrequent, corporate events, it is questionable whether issuers' management would remain passive price takers.

In the context of SEOs, impression management involves managers influencing current and potential stockholders' perceptions of organizational performance and prospects via strategic communication choices. The impression management hypothesis suggests that managers use persuasive language to "hype" the expectations of irrational investors, in order to inflate the stock price. The stock price is therefore endogenous (i.e., determined by) rather than exogenous to (i.e., an independent determinant of) the decision to conduct an SEO; managers hype investor expectations following the decision to issue new stock, rather than deciding to issue new stock because investor expectations are hyped. The impression management hypothesis is therefore consistent with both (1) the empirical finding that SEOs coincide with stock overpricing, and (2) the empirical finding that SEOs are primarily motivated by a pressing need for new capital.

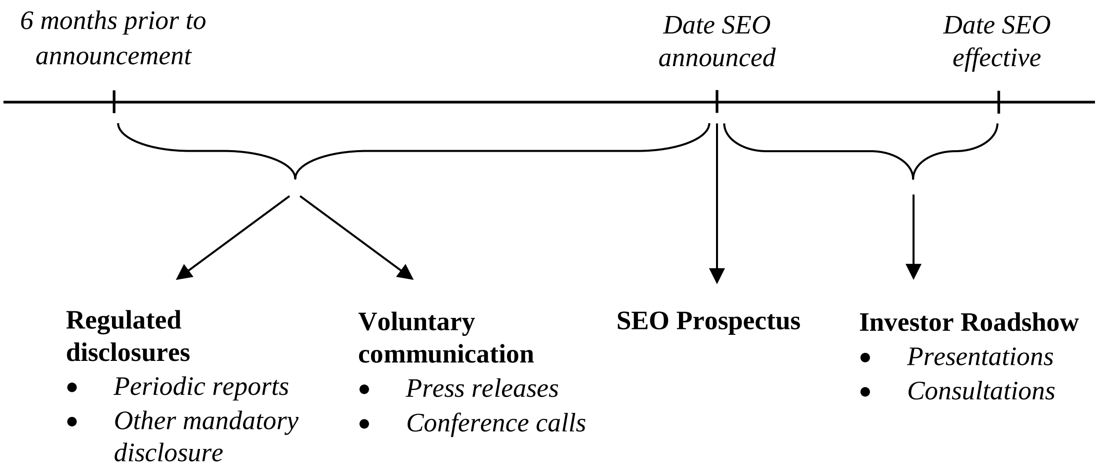
Consistent with the impression management hypothesis, Lang and Lundholm (2000) find that firms attempt to hype stock by increasing the level of information disclosure prior to an equity issue. Huang, Teoh and Zhang (2014) find that firms strategically manage disclosure tone in order to mislead investors about the firm's prospects, and that SEOs are particularly associated with upward perception management (i.e., creating a favorable impression of organizational performance). Hemmings (2016) demonstrates that overpricing of issuers' stock is strongly related to overly positively framed preoffering disclosures. While there seems to be ample support for the impression management hypothesis that managers engage in opportunistic communication choices to some degree (Merkl-Davies & Brennan, 2007), the current literature lacks a systematic consideration of how managers use rhetoric, persuasive language, and symbolic management within pre-equity-offering narrative disclosures.

Adopting a behavioral perspective based on psychological causes of irrationality in investor decision-making, the impression management hypothesis assumes rational, self-interested managers, irrational investors, and asymmetric, yet objective, information. Managers' use of impression management is assumed to be influenced by opportunistic incentives, perceived requirement to retain investor favor, and the degree of managerial discretion. Managers are assumed to have increased incentives to engage in impression management in the run-up to an equity offering to guard against threats to managers' reputation during a period of heightened scrutiny or public attention, to opportunistically benefit in the form of enhancements to managers' stockholdings, and to satisfy an increased need to demonstrate favorable performance.

The impression management hypothesis suggests that managers use persuasive language within preoffering communications so as to hype investor expectations. Figure 13.1 outlines the main forms of preoffering communication that may be used to hype stock. Huang et al. (2014) suggest that persuasive language may lead to inflated stock prices for as long as 6 months. Thus all communications (either regulated disclosures or voluntary communications) occurring within 6 months prior to an SEO announcement may potentially be used to hype the stock. A prospectus may be published by the issuing firm at the time that the SEO is announced, which may reasonably be expected to contain some degree of persuasive language or "sales talk" so as to promote the equity offering. Investors may, however, read the prospectus cautiously, as it is linked directly with the effort to push the stock.

Hanley and Hoberg (2010) argue that there are considerable costs associated with disclosure within the prospectus. The risk of litigation from stockholders who feel misled by the prospectus is considered to be high. Thus issuers may place additional effort into preoffering roadshows as an alternative to incremental disclosure in the prospectus. Issuing firms often conduct roadshows, where senior management travel around to meet face to face with potential investors, and give presentations to institutional investors. Investor roadshows are designed to generate excitement about an offering and are often described as a means for "marketing" SEOs (Gao & Ritter, 2010). Cook, Kieschnick and Van Ness (2006) suggest that issuers market equity offers (in their case IPOs) with the purpose of attracting irrational investors whose judgments are affected by sentiment.

Figure 13.1 Investor communication around seasoned equity offerings (SEOs).



(Source: Figure produced by the authors)

This chapter contributes to the literature in two ways. First, the proactive use of impression management may clarify the puzzling empirical coincidence that equity issues coincide with both high stock prices and heightened requirement for capital. Second, the proposed impression management hypothesis contributes to the disclosure literature generally by illustrating the pervasive effect that strategic communication choices may have on investors' judgments within an equity-offering context. As a result, we propose a deeper understanding of how preoffering communication between managers, analysts, and investors leads to the overpricing of issuers' stock.

Literature review

Equity issues occur at times of high stock prices (e.g., Hertzel & Li, 2010; Jung et al., 1996). The literature attributes this to high stock prices driving new equity issues (Baker & Wurgler, 2002). Referred to as the market timing hypothesis, this view considers the initial decision to conduct an equity issue to be opportunistic. We raise the question as to whether firms necessarily decide to issue new stock with the sole objective of capitalizing on mispricing by inefficient markets. It seems equally plausible that managers may attempt to drive up the stock price following the internal decision to issue equity. We refer to this alternative view as the impression management hypothesis. Table 13.1 summarizes the competing hypotheses.

Table 13.1 Comparison of the market timing and impression management hypotheses

	Market Timing Hypothesis	**Impression Management Hypothesis**
Managers	Rational, self-interested agents	Rational self-interested agents
Investors	Irrational, subject to systematic bias	Irrational, subject to systematic bias
Stock Price	Exogenous	Endogenous
Timing of seasoned equity offering	At times of high stock prices	At times of funding requirements
Why High Offer Price?	Opportunistically exploited, to maximize offer proceeds	Induced, to guard against reputational scrutiny

Information asymmetry

The rationale for a manager's ability to "boost" the stock price prior to the announcement of an SEO is based on the assumptions that investors are irrational but that managers are rational. Myers and Majluf (1984) predict that fully rational investors who do not have access to the same amount of information as managers will interpret an offering of new equity as a signal that the stock is currently overpriced. Managers face incentives to conduct SEOs when they consider the firm's stock to be overpriced, but to refrain from conducting SEOs when they consider the stock to be underpriced. Myers and Majluf's (1984) pecking-order theory thus argues that management's decision to issue equity signals to investors that management has unfavorable information of which the market is currently unaware (i.e., given the undisclosed information, the stock would be priced lower). If managers anticipated a downward revision of the price by investors following SEO announcements, they would only conduct new equity offerings as a last resort (preferring to source new capital from internal resources and debt first). Managers reluctant to issue stock may forego good investment opportunities if the value of the firm's assets is, in fact, greater than its market capitalization. As adverse selection costs (i.e., costs of asymmetrical information between buyers and sellers) are higher for equity than for debt, Myers and Majluf (1984) show that issuing new stock is never optimal.

However, time-varying adverse selection, a derivative of the pecking-order theory, presumes that the level of information asymmetry fluctuates over time, such that these adverse selection costs are also relatively higher or lower at times. Time-varying adverse selection may offer a rationale for issuing equity on the basis of fully rational managers and investors, but in the presence of asymmetric information. Accordingly, a firm may issue stock at times when the stock price is high, as long as adverse selection costs are coincidentally low. The firm may then benefit existing stockholders by issuing equity at a high price, without significant stock price erosion on announcement of the issue. If this theory holds, then we may reasonably expect a relatively small negative announcement effect when adverse selection costs are low. Adverse selection costs are low when information asymmetry is low. It follows that, if managers hold positive inside information, it would be beneficial to release this information prior to an SEO. The prior release of favorable information would serve to both increase the stock price prior to the issue and decrease the level of information asymmetry and thus adverse selection costs. There is empirical evidence to support the time-varying adverse selection hypothesis (Bayless & Chaplinsky, 1996; Choe, Masulis & Nanda, 1993). Thus, there seem to be "windows of opportunity" (Ritter, 1991, p. 4) where firms seemingly derive benefit from issuing equity at specific times. However, the economic rationale for the systematically lower information asymmetry, which leads to a window of opportunity, depends on macroeconomic variables, such as factors dependent on the particular stage in the firm's business cycle. Firm-specific information releases do not seem to be part of the argument.

Korajczyk, Lucas and McDonald (1991), however, find that firms prefer to issue equity just after a major release of firm-specific information. Equity issues tend to occur immediately after the release of earnings announcements or the firm's annual report. They argue that information asymmetry is lowest at these times and thus that adverse selection costs are also particularly low. The negative announcement effect – the drop in the stock price on announcement of an issue – typically increases with the time lag between the equity issue and the previous information release. A subtle point to note is that Korajczyk et al. (1991) identify that earnings announcements made in the year prior to equity issues seem to be particularly informative and seem to convey generally more positive news about a firm. This seems to be consistent with the assumption that managers decide to release either favorable or additional information prior to the announcement of an issue. This raises the question of whether negative news releases are postponed until after an issue. If this is the case, it may account for both the medium-term negative abnormal returns and the announcement effect, to some degree, if anticipated by investors.

Disclosure literature

This question (the deliberate release of good news and withholding of bad news by managers) is addressed by Lang and Lundholm (2000), who find evidence that specific firms attempt to increase hype about their stock by increasing the level of information disclosed in the 6 months prior to an equity issue. They argue that firms tend to significantly increase the level of disclosure prior to an equity issue, especially discretionary disclosures. Interestingly, they find that firms that increase their disclosure benefit from greater abnormal stock price rises by the time of the issue announcement; conversely, they suffer a proportionally greater negative announcement effect than firms that maintain a consistent pattern of disclosure. This implies that firms are initially successful in boosting market sentiment in time for an issue. However, when the increase in disclosure subsequently becomes associated with the stock issue, investors see though this strategy and perceive it as hyping. Furthermore, Lang and Lundholm (2000) identify that firms that increase their informative disclosures prior to an equity issue suffer greater medium-term negative abnormal returns than consistent disclosers. While they indicate that this may further support the conclusion that investors subsequently correct for perceived hyping, they offer an alternative possible explanation that hyping firms may have been successful in lowering the cost of equity capital. Stock that seems more desirable requires a lower return from investors.

Lang and Lundholm's (2000) findings implicitly raise some interesting points on the potentially persuasive nature of information disclosures. The question of whether a firm's stock is hyped by managers implies the use of persuasive communication, rather than the release of incremental information. This implies a decoupling between the inside information held by managers and the impression they attempt to convey to investors. Furthermore, the assumption of stock hyping by managers implies that investors may at times be irrational. If investors were rational, they would instantly see through this practice. If markets were always informationally efficient, the consequences of the contradiction between the decoupled external managerial account and other publicly available information would be the sanctioning of opportunistic managers.

The assumption of decoupled internal and external information in stock hyping by opportunistic managers implies persuasive communication by managers (i.e., impression management) rather than the release of objective useful information (i.e., incremental information). Impression management is concerned with “how individuals present themselves to others in order to be perceived favourably by others” (Hooghiemstra, 2000, p. 60). That is, impression management involves the management of corporate image, or the way the firm is perceived by outside parties. Ashforth and Gibbs (1990) suggest that managers may influence the impression of the firm held by outsiders either via actual change in the firm’s activities (substantive management) or by changing perceptions of the firm’s activities (symbolic management). Impression management may thus be synonymous with symbolic management. Symbolic management considers that managers will structure their communications with outsiders in such a way that investors will generate biased or unduly positive evaluations of the firm by interpreting particular information sets in a managerially desirable way. For example, managers may use thematic manipulation (Clatworthy & Jones, 2001), attribution (Aerts & Cheng, 2011), or account making (Elsbach, 1994) to generate biased investor evaluations of firms. Tan, Wang and Zhou (2014) demonstrate in an experimental setting that the judgments formed by unsophisticated audiences are positively affected by disclosure tone (optimistic language), even when information content is held constant.

Thus, while Lang and Lundholm (2000) establish a link between the volume of information disclosure and investor reaction, they may have missed a crucial dynamic in terms of the content or tone of the information releases. Disclosures may have contained, or may have deflected attention from, favorable or unfavorable information. Equally, disclosures may have been constructed in a more or less persuasive fashion. The information releases may or may not have been consistent with other financial or nonfinancial indicators of firm performance. Also, disclosures may have been accompanied by the manipulation or the favorable presentation of discretionary financial disclosures, or by more general boosting of the firm’s image in the public perception. Lang and Lundholm (2000) find that firms that retain constant volumes of information disclosure (do not increase disclosure volumes) also see significant increases in their stock price in the months leading up to an issue announcement. Could it be the case that, while disclosure volumes remain constant, the content or framing of these releases convey a considerably more favorable perception of the firm than previously? Could it also be the case that managers signal positive perceptions in ways other than through direct informational disclosure?

The hypothesis that managers engage in impression management predicts that managers will artificially inflate the stock price to optimize the flow of capital into the firm during the subsequent equity issue. This assumes that investor demand and investor sentiment are endogenous variables in the decision to raise equity. The impression management hypothesis assumes that the decision to raise new equity is made independently of the current stock price; rather, the stock price is inflated in advance of the equity issue, and as a consequence of the decision to raise equity. Conversely, the market timing hypothesis assumes that investor sentiment is an exogenous variable in the decision to raise new equity. Since managers have no influence on the irrational conclusions of investors, they must make the best of opportunities to exploit incidental overpricing.

Further support for the impression management hypothesis, therefore, may lead to more profound implications for understanding manager–investor relations. It may also highlight the exploitation of naive investors by opportunistic managerial discretion. If managers are successful in manipulating investor perceptions of the firm, this may indicate capital market inefficiency relating to the systematic allocation of resources in an inefficient and biased manner to firms with inflated public images. If the impression management hypothesis is valid, then the question of "why firms decide to issue new stock" becomes distinct from the question of "why issuers' stock is overpriced". If the impression management hypothesis can explain the overpricing of issuers' stock, then researchers may freely explore factors other than the stock price as determinants of the decision to conduct an SEO.

A rigorous understanding of how preoffering communication between managers, analysts, and investors leads to the overpricing of issuers' stock is therefore called for. Impression management may be central to the way that managers endogenously attain high equity offer prices. Prior research has not systematically investigated the use of impression management by managers within an equity-offering context.

Impression Management and the Equity-Offering Decision

The impression management hypothesis considers that a firm's stock price may be an endogenous choice variable within the decision to conduct an equity offering. This implies that investor perceptions of firm value are susceptible to manipulation by managers' strategic communication choices. Adopting a behavioral perspective, the impression management hypothesis considers that investors are irrational and may form biased views and opinions. Abrahamson and Park (1994) suggest that managers may influence the views held by outside audiences (even rational audiences) by selective disclosure or timing in the release of objective information. They consider that managers may inflate investors' evaluations of a firm by releasing favorable inside information and by withholding the release of unfavorable information. While rational investors are influenced only by the objective information content of corporate disclosures, irrational investors may also be influenced by persuasive language or managerial "spin". Under the assumption of investor irrationality, investment decisions may be influenced by "noise" as well as "news". For instance, positively framed information releases may hype the opinions of irrational investors (Tan et al., 2014).

Figure 13.2 summarizes the implications of manager/investor rationality/irrationality in four quadrants, A to D. Impression management for a rational audience (e.g., Abrahamson & Park, 1994) derives from selective disclosure and timing of disclosures, when information asymmetries exist between managers and outsiders. If investors were rational, the announcement of an SEO would signal to them that managers consider the firm's stock to be overpriced and the price of the stock would correct accordingly (Myers & Majluf, 1984). In other words, impression management would be ineffective in an SEO context under the assumption of rational investors and when adverse selection costs are high (Figure 13.2, scenario A). Thus, the impression management hypothesis assumes that investors are irrational and are thus unable to see through strategic communication choices (e.g., persuasive language or framing), resulting in biased evaluations (Figure 13.2, scenario B). Of course, managers may also be assumed to be irrational and may believe in an excessively optimistic firm valuation. If investors were rational, they would view expressions of excessive optimism as mere executive hyperbole, and thus investors' decisions would be unaffected (Figure 13.2, scenario C). On the other hand, if both managers and investors were irrational, investors might be persuaded by excessively optimistic managerial talk. However, since this transmission of excessive optimism is subconscious on the part of the irrational managers (they also believe it), it constitutes hubris, rather than impression management, since irrational managers' communication choices are naïve and nonstrategic (Figure 13.2, scenario D).

Figure 13.2 Underlying assumptions of investor and manager rationality.

Investors

Managers

A Rational managers Rational investors Pecking-order theory →No impression management	B Rational managers Irrational investors Hyping the stock →Impression management
C Irrational managers Rational investors Executive hyperbole →No impression management	D Irrational managers Irrational investors Subconscious bias (hubris) →No impression management

(Source: Figure produced by the authors)

Since impression management is considered to be a strategic function performed by rational managers, consideration of the underlying economic incentives (i.e., the influence of contextual factors that drive opportunistic managerial behavior) is required. Managers engage in impression management to promote an intended image. When managers are rational self-interested agents, engagement in impression management depends on the incentives to opportunistically manage the firm for their own interests, the level of discretion available or their ability to manage investor perceptions, and the perceived requirement to retain the favor of stockholders. It stands to reason that each of these factors may vary depending on circumstances. For instance, Rutherford (2003) suggests an increased use of impression management when managers stand to benefit from expiring stock options or stock-price-related bonuses. Rutherford (2003) argues that "… in an environment in which [managers'] remuneration and wealth is linked to the financial performance of the companies that employ them, managements have economic incentives to disclose messages conveying good performance more clearly than those conveying poor performance" (p. 189).

Similarly, Davidson, Jiraporn, Kim and Nemec (2004) suggest that there may be an increased incentive for newly hired managers to engage in impression management, since the high scrutiny they face may lead to a larger decrease in reputation and future remuneration if their performance is perceived to be unsatisfactory. Thus, the formation of the intended image, and the degree of impression management exercised by managers to obtain the intended image, may reasonably be expected to vary according to the opportunistic incentives present within a particular organizational setting.

Davidson et al. (2004) further identify the degree of impression management exercised to be related to the degree of discretion available to managers, as well as to the relative expectations of outsiders. They find that, when both the CEO and the chairman are replaced with a single dual-role officer, there is a greater tendency for impression management than when these positions remain separate. They suggest the increased use of impression management is due to the greater level of discretion the CEO attains through obtaining power over the board. Furthermore, they find that the use of impression management also increases when the firm has a prior history of poor performance. In such circumstances, the increase in impression management relates to greater external scrutiny and expectations that the duality-creating succession will lead to the recovery of firm performance. Davidson et al.'s (2004) findings explain how the intended image and the use of impression management depend on the contextual particularities of varying managers' incentives, managers' discretion, and the perceived requirement to attain investor favor.

The decision to conduct SEOs may put managers in a situation where increased levels of impression management are desirable. First, the greater levels of scrutiny or public attention that an equity offering will generate may provide managers with increased incentives to be seen as effective stewards. Anticipating greater levels of attention and performance evaluation by investors, analysts, and the media, managers may be motivated to proactively enhance the firm's image in order to guard against personal criticism and reputational blemish. The desire to be viewed as effective stewards may also motivate managers to maximize existing (rather than prospective) stockholder impressions, subsequently capitalizing on high issue prices. Second, managers may be motivated to maximize the proceeds of an issue to grow a larger, more powerful firm. Managers of larger firms may be better positioned to command higher levels of remuneration.

Third, the incentives to increase the issue price may intensify when managers have significant stockholdings in the firm. When managers can benefit alongside existing stockholders from an issue at a higher offer price, they may face greater incentives to engage in impression management. Fourth, managers may anticipate that investors require issuing firms to display exceptional levels of performance or positive abnormal returns in order to convince them of the viability of sustained performance and to compensate for the risk that the equity offering may indicate impending financial distress. Since the announcement of an equity offering may signal to investors that managers foresee near-term illiquidity problems, the equity-offering context may provide a greater onus for managers to demonstrate a healthy performance. The proactive use of impression management may thus be used to guard against such negative perceptions in order to retain the favor of investors.

The Impression Management Hypothesis

Contrary to prior research, we assume stock price to be an endogenous choice variable in the decision to conduct an equity offering. We conceptualize impression management as an attempt to mislead outside parties via strategic communication choices that run counter to the notion that firms disclose objective, unbiased information to aid investor decision-making. From a behavioral perspective, impression management may entail the selective disclosure of incremental information or the use of persuasive language in order to influence evaluations of firm value via exploitation of investors' cognitive biases.

An equity-offering context may generate additional contextual factors that influence rational managers to engage in impression management, namely, the opportunistic incentives for stock price maximization are increased and the increased scrutiny generates a greater need for managers to proactively seek investor favor. Such factors may prompt managers to revise the intended image upwards and consequently engage in increased impression management. If the impression management strategies employed by managers are effective in enhancing investor evaluations, the stock price may be considered to be an endogenous choice variable. By implication, managers may have more freedom to conduct equity offerings at times when additional funding is most required, while still benefiting from a high issue price. The impression management hypothesis assumes that the timing of the equity offering is decided independently of the stock price. Increasing levels of impression management in corporate narrative disclosures prior to the equity offering hypes the stock price in time for the issue.

Conclusion

The impression management hypothesis explains the long-standing empirical observation that SEOs tend to occur at times when issuers' stock prices are abnormally high (Hertzel & Li, 2010; Jung et al., 1996). While the market timing hypothesis suggests that managers exploit exogenously derived investor sentiment, the impression management hypothesis argues that investor demand is inflated by managers' use of persuasive language and selective disclosure. Under the impression management hypothesis, investor demand and sentiment are endogenous choice variables in the decision to conduct an equity offering. We argue that a planned SEO provides incentives for issuing firms to hype investor perceptions of their prospects and that this explains SEO overpricing.

Since SEOs are generally large (in terms of relative capital raised), yet infrequent corporate events, it is questionable whether issuers' management would remain passive price takers. Moreover, it is implausible that they would conduct such a substantial equity offering without a convincing business case to support their capital requirement. Considering the mounting evidence of effective impression management by corporates in a variety of contexts (Merkl-Davies & Brennan, 2007), it is reasonable to consider that managers might attempt to influence outsiders' perceptions prior to equity offerings, when the stakes are high. Advocates of the market timing hypothesis consider financial markets to be inefficient and prone to the pricing of irrational sentiment and managers to be rational and calculating opportunists. The impression management hypothesis extends this scenario only slightly, but its implications change the dynamics of the event almost entirely.

Implications for future research

Predictions of the impression management hypothesis against those of the market timing hypothesis need to be empirically tested. Are firms' stock prices endogenous choice variables in the decision to conduct an SEO (as predicted by the impression management hypothesis)? The impression management hypothesis implies a number of interrelated questions: (1) Does the level of impression management increase in the period immediately preceding an SEO? (2) Is impression management effective in raising the stock price prior to an SEO? (3) Do any factors, such as the level of discretion available to managers, affect the ability to influence the stock price? (4) Why is the stock price a factor in the decision to conduct an SEO (i.e., are overpriced issues sought in order to benefit existing shareholders through the exploitation of new investors, or alternatively to guard against reputational blemish during a period of high scrutiny, etc.)? And (5) do SEOs occur at times when funding is most required? On this basis we recommend researchers explore this line of reasoning further.

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