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DISTRACTIONS, MONITORING, AND AGENCY COSTS IN THE INITIAL PUBLIC OFFERING (INTERACTIVE PAPER)

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Principal Topic
The initial public offering (IPO) represents an important transition in the life of an organization. Being publicly traded increases the scrutiny of the organization and requires greater transparency in many facets and this increases the governance burden. While the transition from being private to publicly traded naturally increases the governance burden, we contend that the IPO process itself represents a distraction for directors in the first place. In the build up toward the IPO it is common for organizations to upgrade their accounting and financial reporting systems, hire professional managers, and add new directors. The IPO process for each firm is different and can be prolonged. Importantly, when the process is overly long or onerous, the attention of directors may be focused away from the normal oversight of the organization. In this situation monitoring of the TMT will naturally suffer and so investors may worry about potential agency costs going forward. We therefore examine whether distractions in the IPO process negatively affect valuation.

Method
We first identified new ventures going through an IPO in the U.S. between 2001-2003. We next identified proxies for distractions for each respective IPO firm such as the length of time in the IPO process, and the number of updates to IPO information. We examined board structure of the firm and then examined whether greater distractions affected IPO valuation. Using OLS regression we found mixed support for our findings.

Results and Implications
While the IPO process is a unique event in the life of a firm, it can have a lasting effect on the organization. More specifically, when the IPO process requires greater attention from the board, or when the board is distracted, valuation of the IPO firm may be affected. On the other hand, when the IPO process is drawn out, this allows potential investors more time to form opinions of the venture and as a result, valuation tends to be higher. Given the mixed nature of our results, we believe it is important to examine whether longer-term performance and survival are affected by IPO events.

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