

The Decisions of the IPO Reviewing Committee – Causes and Consequences

Pei-Gi Shu

Department of Business Administration,
Fu Jen Catholic University

Yin-Hua Yeh

Corresponding author

Department of International Trade and Finance
Fu Jen Catholic University,
510, Chung Cheng Rd, Hsin-Chuang, Taipei, 242 Taiwan.
Tel: +886-2-2905-2725
Fax: +886-2-2901-9779
Email: trad1003@mail.fju.edu.tw

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Abstract

The IPO reviewing committee of the Stock Exchange, the very first independent surveillance intermediary, is intended to ameliorate the asymmetry of information between IPO firms and outside investors and, therefore, to facilitate capital market developments. How astonishing it is to find is that this important issue is sparsely covered in the literature. In this study, we investigate the causes and consequences of the decisions that are made by the IPO reviewing committee. From a unique dataset provided by the Taiwan Stock Exchange, we find that the firms that are approved for listing are associated with better financial performance measures and are larger in equity size prior to their applications. However, whether an IPO firm is unanimously approved by the committee depends on whether the firm's associated auditor changes or gives a non-unqualified report. In addition, electronics firms that are allowed favorable listing terms are prone to being approved, but not unanimously so. We find that the voting outcome provides a discernable effect in that the firms in the unanimously approved group are associated with higher financial performance measures (ROE, ROA, EPS, and P/E) than are the firms in the non-unanimously approved group, with the differences being more significant in the two years after the IPO. The overall results support the notion that the IPO reviewing committee provides a surveillance function that is effective in assuring the quality of an IPO firm.

Keywords: IPO, Stock Exchange, Emerging Market, IPO Reviewing Committee, Corporate Governance

1 Introduction

The information asymmetries that are commonly believed to arise at the time of an IPO give rise to an obvious setting in which to study the demand for potential signaling mechanisms.¹ The literature in this regard sheds light on the role of intermediaries in mitigating the information asymmetries for the benefit of both the issuing firms and outside investors. The intermediaries that usually catch the attention of academics include underwriters, venture capitalists, and auditors. However, their effectiveness in mitigating information asymmetries is sometimes contaminated by incentive problems, such as when they have a profound interest that is aligned with the IPO firms rather than with outside investors. Therefore, their status as independent is not without dispute. By analyzing a unique dataset excerpted from the IPO meeting minutes, in this study, we investigate the role of the IPO reviewing committee of the Stock Exchange. This committee is primarily composed of outside independent members who have been randomly selected from a pool. This provides a natural setting in which to investigate how effective a role a truly independent intermediary can play.

The certification hypothesis regarding underwriters suggests that reputable underwriters are associated with reduced uncertainty and, as a consequence, less underpricing (Booth and Smith, 1986; Carter and Manaster, 1990; Titman and Trueman, 1986; and Balvers, McDonald, and Miller, 1988). Moreover, IPO firms with shares that are placed by reputable underwriters would generally follow aftermarket analyst coverage, which is another important issue when IPO firms select underwriters (Krigman et al., 2001). In addition to underwriters, venture capitalists are

¹ Rock (1986) and Beatty and Ritter (1996) illustrate a positive relationship between IPO underpricing and the level of asymmetric information or uncertainty about IPO value.

also believed to be able to at least partly overcome information asymmetries through pre-investment screening, monitoring, and management support (Gompers and Lerner, 1999; Hellmann and Puri, 2002). Because venture capitalists tend to hold significant ownership and board positions (Barry et al., 1990) and continue to be involved in a firm's projects after it goes public (Megginson and Weiss, 1991), their presence gives a signal that the embedded information asymmetries can be mitigated. Yet another intermediary for the reference of outside investors is the firm's associated auditor. Jensen and Meckling (1976) and Dopuch and Simunic (1980) attest to the function that an audit can play in reducing information asymmetry and agency cost. Evidence that is provided in Johnson and Lys (1990) suggests that companies and auditors will be motivated by market competition to align themselves based on the audit firm and the needs of the company. Willenborg (1999) also notes that the audit market for new issues is segmented by issue size. Therefore, quality auditors verify the quality of the IPO firms.²

The monitoring effectiveness of an intermediary is not only dependent on its capability, but also on incentive. The aforementioned intermediaries are connected with IPO firms through a so-called client-agent relationship, which is relatively complicated and ranges from a simple contract-based relationship to one with profound interest involvement. When an interest-involved intermediary gets entangled in the IPO process, its presence may create another agency problem rather than serve as a problem solver. Questions about the independence of these types of intermediaries have been raised in the literature. For example, Chen and Ritter (2000)

²Even though Datar, Feltham, and Hughes (1991) propose a counter argument that audit quality serves as a substitute signal and predict that high firm-specific risky IPOs would demand the use of a high-quality audit firm, most empirical evidence lends little credence to this conjecture by showing that, if anything, firm-specific risk and audit quality are negatively correlated (Simunic and Stein, 1987; Beatty, 1989; Feltham, Hughes, and Simunic, 1991; Douthett and Copley, 1996). Feltham et al. (1991) suggest that the imposition of substantial potential litigation costs probably inhibit quality auditors from accessing risky IPOs.

indicate the possible collusion among underwriting syndicate members so as to assign a securities analyst to cover the company, produce research reports, and issue buy recommendations for the stock. Venture capitalists, like underwriters, share profound interest with startups and, therefore, find it difficult to maintain their expected independence. Auditors *de jure* are appointed by shareholders; however, *de facto* managers exert considerable influence over auditor appointments. Teoh (1992) identifies the fact that a manager may actively use an auditor switch decision to avoid receiving a non-unqualified report. In reality, though, independence is such a difficult state to uphold that it is improbable, although not impossible, to find it in these intermediaries.

We obtain an invaluable dataset that was excerpted from the minutes of the Taiwan Stock Exchange (TSEC), which is a corporation that is primarily in charge of listing, trading, clearing settlements, market surveillance, and providing market information. The TSEC irregularly calls reviewing meetings, depending on the accumulated number of IPO applications. The meeting comprises three or four TSEC representatives and more than eight outside independent members that are randomly selected from a pool and come from different backgrounds. Because the applicant needs to get the approval of at least half of the votes, the independence of this committee cannot be questioned. The voting outcome, therefore, provides a splendid setting in which to examine whether the reviewing committee provides a surveillance function to distinguish good IPO firms from bad ones. Moreover, the minutes also outline the backgrounds of the reviewing members. A different composition might yield different voting outcomes, and, therefore, a difference in the precision of discerning IPO firms. Based on the submitted materials, the reviewing members may raise versatile questions for the applicants to answer. Suggestions are also given for

further improvements. The number and type of questions/suggestions may also have informational content embedded within them.

In this paper, we investigate two issues regarding the reviewing committee. The first focuses on the possible determinants that affect the voting behavior of the reviewing members. From 142 IPO firms and 17 rejected/withdrawn firms in the 1997-2005 period, we find that the firms that are approved for listing are larger in size and demonstrate superior performance in terms of return on assets, return on equity, operating income-to-capitalization ratio, profit margin, earning per share, sales growth rate, and R&D expenses ratio. However, for those that are approved for listing, we use the cutoff of zero dissenting votes to classify the firms into two groups: unanimously approved versus non-unanimously approved. The results show that apart from total assets, the performance measures for the two groups are not significantly different. However, the firms that were unanimously approved are associated with a lower likelihood of experiencing auditor changes or being given a non-unqualified report. This implies that, when making the decision about whether the IPO firms should be unanimously approved, the reviewing committee takes seriously the actions made and signals given by auditors, given that auditor-initiated changes usually confer a negative signal.³ The results from logit regressions using alternative proxies verify the aforementioned postulation.

If the reviewing committee does provide a surveillance function, then we would surmise that the firms that were unanimously approved should outperform the firms that were not. We trace the post-listing performance measures and market valuations for the two groups of firms and find that the unanimously approved firms do

³DeFond et al. (1996) indicate that auditor-initiated switches occur when the financial health of the client deteriorates and when there are disagreements between the auditor and the client. Either factor could increase the risk of litigation for the auditor and lead to a resignation or re-pricing of the audit (Stice, 1991).

outperform those that were not unanimously approved, and the contrasts between the two groups are more significant up to two years after the IPOs. This indicates that the voting outcome of the reviewing committee provides an invaluable piece of information both for outside investors and the governing entity.

This paper contributes to the literature of financial intermediation in the following aspects. Firstly, the issue of reviewing committees has been sparsely covered in the literature. To the best of our knowledge, there is no one who explicitly explores how a reviewing committee could play the role of an intermediary. Secondly, the minutes that are provided by the TSEC cover abundant information, with content ranging from voting outcome to membership background and questions raised by and suggestions given to the applicants. The dataset allows a thorough investigation of how the background and the composition of the reviewing members and the issues about which they show concern affect their voting behavior and, therefore, dictate the follow-on performance of the firm after it initially goes public. Last, but not least, we find that whether or not an IPO is unanimously approved appears to be indicative of the firm's long-term performance, which suggests that this information should be released to the public. The rest of this paper is organized as follows. Section 1 introduces the subject. Section 2 describes data and methodology. Section 3 reports the empirical results. Section 4 concludes.

2. Data and Methodology

2.1 The IPO Process in Taiwan

The TSEC was granted the authority to review IPO applications and make final decisions on approval in the 1990s. Firms that plan to go public need to find an associate underwriter to help them fulfill preliminary requirements, such as providing information on the number of years that have elapsed since founding, capitalization, profitability, and dispersion of shareholdings. The application is then sent to the listing department of the TSEC to check the validity of the submitted materials. When a meeting is called to review IPO applications, the materials will be sent to the reviewing members five working days before the meeting. The reviewing members can raise questions about the submitted materials. On the day of the reviewing meeting, the IPO firms, associated underwriters, and auditors need to answer the proposed questions immediately after the company briefing. The reviewing members can also ask questions on the spot. An anonymous vote is held after this interrogation. Firms that meet the minimum criteria are approved if they receive more than half of the votes. Firms that fail to meet the requirements require two-thirds of the assenting votes. Based on the submitted materials and on-the-spot interrogations, the reviewing members will propose items for continuous improvement, which are endorsed by the IPO firms. The voting results are proposed to the board of directors for further review and then presented to the SEC to finalize the bureaucratic process. Therefore, the decision is crucially dependent on the reviewing committee, which is primarily composed of independent and professional members.

2.2 The Data

Our dataset is hand collected from the IPO meeting minutes that were provided by the Taiwan Stock Exchange. The sample, which covers the 1997-2005 period, is composed of 171 firms that applied for listing and 154 approved IPO firms.⁴ The final sample consists of 142 IPO firms; 12 financial firms that are characterized as highly levered in nature and subject to different regulatory requirements are excluded. Table 1 summarizes the sample distribution broken down by year and industry. The IPO cases are basically evenly distributed across the years with the exception of 2002 in which there were 33 IPOs (23%). Moreover, the electronics industry in our sampling period contributed to the development of the Taiwanese economy, so the government applied less stringent IPO application conditions to electronics firms. It is therefore not surprising to find that the majority of our sample (around 70%) is made up of electronics firms.

<< Insert Table 1 Here >>

2.3 The Reviewing Committee

The meeting minutes are provided by the Taiwan Securities Exchange Corporation. The meetings are irregularly called, depending on the number of applications. Each committee comprises three to four representatives from the TSEC and more than eight independent professionals who – as explicitly specified in the minutes – must have backgrounds as academics, attorneys, or auditors or have

⁴Seventeen firms were rejected by the reviewing committee. Among the 154 approved firms, there were nine that were initially rejected by the committee or voluntarily withdrew their applications. These firms were finally approved after a couple of trials.

experience in finance or industry. We first tabulate the backgrounds of the members of each meeting.

The minutes also cover questions that are raised by the reviewing members. We classify these questions into three main categories: company superstructure, operation, and others. Questions concerning the firm's board composition, related-party transactions, ownership structure, and centralized custody of shares⁵ are classified as company superstructure. Questions concerning the firm's operational risk, litigation, and the attainability of its financial forecast are classified as operation. Finally, changes in auditor or accounting rules and equity investment are classified as others. The data is hand collected. Note that most of the firms were asked multiple questions, and these questions are put into different categories. We also count the number of questions to see if they provide any additional information other than the question type.

For each firm that is approved for listing, the reviewing committee provides suggestions for continuous improvements. These items, like the questions that are raised, are put into three categories.

Table 2 summarizes the statistics of the reviewing board, including the members' backgrounds, questions, and suggestions. Note that the categories are not mutually exclusive. For example, one member might have experience in the financial/banking sector and also possess a certificate of accountancy. The IPO firms are, more often than not, asked more than one question. The results in Table 2 show that, other than the three TSEC representatives, the majority of the reviewing members, who are randomly selected from a pool, are academics and/or have financial or banking

⁵If the top management has substantively changed in the year or two prior to application, then a certain percentage of the shareholdings of the directors, supervisors, and large shareholders needs to be under the custody of a centralized securities depository enterprise.

experience. Because there are only three TSEC representatives in each meeting, the final decision on whether to approve the listing application is crucially dependent on outside committee members.

Regarding the questions that are raised by reviewing members, operational risk is the most frequently asked item with an average of 5.4 out of the total 7.5 questions that are asked. The next most frequently asked question concerns the board structure of the IPO firms. After reviewing the firms that have applied, the committee members propose suggestions for continuous improvements. The frequency of the suggestions almost replicates that of the questions.

<<Insert Table 2 Here>>

We also collect the voting outcomes. According to TSEC rules, firms cannot be accepted for listing without approval votes from at least half of the reviewing members. A dummy variable is used to capture the committee decision: the value 1 is assigned when all of the participating members unanimously approve the application and 0 otherwise. For a robustness check, we also use alternative cutoffs, which will be covered in the empirical section.

2.4 Corporate Governance of the IPO Firms

Reviewing members are confined to a limited set of information with which to make a judgment about whether an applicant should be granted permission to trade on the TSEC. We surmise that a firm's governance structure, which dictates the controller's motives and resource allocation, is an invaluable reference resource. The

first variable by which to discern a firm's governance quality is its associated auditor. If the associated auditor gives a non-unqualified report or the firm experiences a change of associated auditors, then the firm's governance structure is questionable and its financial reports are less credible. We use the accounting-change dummy with an assigned value of 1 when there is a non-unqualified report or the firm experiences a change of associated auditors in the two years prior to the IPO, and 0 otherwise.

The second proxy variable is the total shareholdings of the directors and supervisors. Leland and Pyle (1977) indicate that a firm's value is a function of managerial shareholdings, which provide managers with a positive incentive to have the firm run properly. Under concentrated ownership, a pervasive phenomenon that was documented by La Porta et al. (1999) and Claessens et al. (2000), directors and supervisors are more representative than managers of the central agency problem.

The third variable of interest is the pledge ratio of director/supervisor shareholdings. The higher the ratio, the higher the leverage effect and the entrenching motive that is associated with these directors/supervisors.

The fourth variable is the number of changes in the financial forecast, which signifies the possibility that the underlying firm engages in earnings management and takes the best advantage of released financial information.

The fifth variable is the CEO/chairman duality dummy. A firm's governance structure is commonly assumed to be inferior if its CEO simultaneously chairs the board, even though the effect on the firm's performance is mixed in the literature.⁶

⁶Pi and Timme (1993) find that separating the role of CEO and chairman is beneficial to a bank's performance. Byrd et al. (2002) also find that failed thrifts during the thrift crisis were more likely to have had CEO-chairman duality. In contrast, Baliga et al. (1996) find no evidence that separating the CEO and chairman posts provides benefits to firms.

2.5 The IPO Valuation Metrics, Relative Wealth Effect, and Post-listing Performance Measures

We calculate the IPO offer price valuation relative to the intrinsic value (OP/V) using the price multiples of comparable firms, following a similar procedure to that used by Kim and Ritter (1999) and Purnanandam and Swaminathan (2004).⁷ First, we calculate the offer price multiples of the IPO firms relative to per share sales, earnings, and book value in the previous year. The price multiples are further divided by the corresponding price multiples of non-IPO industry peers in a cohort year that are comparable in asset value to the sample firms, have been publicly listed for more than a year, and have not issued any new shares within two months of the IPO. In effect, we obtain the ratio of the IPO offer price valuation relative to the intrinsic value

$$(OP/V)_{Sales} = [(OP/S)_{IPO\ Firm} / (P/S)_{Matching\ Firm}]$$

$$(OP/V)_{EPS} = [(OP/EPS)_{IPO\ Firm} / (P/EPS)_{Matching\ Firm}]$$

$$(OP/V)_{book} = [(OP/B)_{IPO\ Firm} / (P/B)_{Matching\ Firm}].$$

We conduct analyses of the IPO offer price valuation based on financial data for both the one-year and three-year averages before the IPO, and the empirical results are similar.

Moreover, following a similar procedure for calculating the offer price valuation

⁷Both the valuation measures of price valuation relative to intrinsic value (as computed using comparable price multiples) and IPO underpricing are widely used in the IPO and related literature. Kim and Ritter (1999) and Purnanandam and Swaminathan (2004) report results on the valuation of IPO firms using comparable firm multiples. Studies, such as those of Liu, Nissim, and Thomas (2002) and Bhojraj and Lee (2002) also make use of comparable firm multiples in the valuation of mature firms. A wide set of determinants has been reported for IPO underpricing. Various theoretical studies have postulated that IPO underpricing results from the existence of information asymmetry between certain parties in the IPO process (Allen and Faulhaber, 1989; Rock, 1986; Benveniste and Spindt, 1989). Another strand of IPO literature (Brennan and Franks, 1997; Zingales, 1995; Mello and Parsons, 1998; Stoughton and Zechner, 1998; Smart and Zutter, 2003) proposes that existing shareholders consider maintaining control after the firm's shares have been publicly traded to be important in the pricing of IPO shares.

metric, we first calculate multiples of the initial IPO market price over the per share value of sales, EPS, and book value. These price multiples are then divided by the corresponding price multiples of non-IPO industry peers in a cohort year. Note that, as there is a 7% limit on price changes for stocks that are listed on the Taiwan market, we replace the closing price of the first aftermarket trading day with that of the first day that the price closed within the 7% limit.

The relative wealth effect of an IPO firm, which is referred to by Ritter (1991), occurs when the IPO firm's three-year-buy-and-hold return is comparable to that of a matching firm in the same industry that has equivalent equity size and has been listed for more than one year. Specifically, the relative wealth (WR) is defined as

$$WR = \frac{(1 + \text{3-year buy-and-hold return of an IPO firm})}{(1 + \text{3-year buy-and-hold return of a matching firm})}.$$

The financial performance measures of interest include four major categories with specific items from each category in parentheses: (1) financial structure (debt ratio, total capitalization to fixed asset ratio, and number of times interest was earned), (2) profitability (return on assets, return on equity, operating income to total capitalization, return on total capitalization, earnings per share), (3) asset efficiency (accounts receivable turnover, inventory turnover), and (4) growth potential (sales growth rate and R&D expenses ratio). These variables serve two purposes: on the one hand, they are determinants for the reviewing committee to make decisions, and, on the other, they are performance measures of the IPO firms. Except for the variable of the reviewing committee, all other variables are collected from the Taiwan Economic Journal (TEJ), a data company in Taiwan.

3. Empirical Results

3.1 Approved versus Not Approved

We first examine the discerning variables to contrast the firms that were approved for listing (142) with the ones that were not (17). Because the TEJ data only covers approved firms, we have to collect additional financial information for the firms that were rejected by the committee or that withdrew their applications before the reviewing meetings. Fortunately, the 17 firms that were rejected or withdrew are public firms. We manually collect the data from the hard copies of the firms' financial reports. The results in Table 4 show that those firms that were rejected exhibit lower profitability and growth potential than did those that were approved. Specifically, compared with the approved firms, the rejected/withdrawn firms significantly underperformed in terms of ROA, ROE, capital utilization (operating income/capitalization), return on capitalization, and earnings per share. Moreover, large-cap firms are more likely to be approved for listing. The differences between the two groups are significant both in means and medians. Moreover, the rejected/withdrawn cases seem to have lower growth potential that is manifested in the sales growth rate and the R&D expenses ratio.

<<Insert Table 3 Here>>

3.1 Unanimously versus Non-unanimously Approved

The 59 unanimously approved firms contrast with the rest of the 83 non-unanimously approved ones in number, types of questions/suggestions, and prior financial measures and corporate governance. The purpose of comparing them is to

identify the possible factors that affect the voting outcome of the reviewing committee. The results that are summarized in Table 3 show that the firms that were unanimously approved were, on average, questioned about fewer items and given fewer suggestions than those that were not unanimously approved. The differences are marginally significant at the 10% level. Among the financial performance measures, the firms that were unanimously approved are, on average, associated with higher returns on capitalization, significant at the 10% level. The majority of variables in panels A, B, and C are insignificant in contrasting unanimously approved firms with non-unanimously approved firms. If unanimity truly reveals the members' concerns over a firm's prosperity or risk, then our results seem to indicate that neither the number of questions/suggestions nor the performance measures truly depict those concerns in the decision-making process. In contrast, large-cap firms and firms without a change in associated auditors or a non-unqualified report are more likely to be unanimously approved by the committee. The significance levels in contrasting the firm size and the accounting-change dummy are 5% and 1%, respectively.

Note that the number and type of questions/suggestions that were excerpted from the minutes may fail to capture qualitative differences in members' concerns. For example, two or more members showing a similar concern is recorded as one concern. Moreover, from the minutes, we are unable to distinguish how important the issue being raised in the meeting is. Therefore, we would be reserved about quantifying the reviewing members' concerns from our findings.

Contrasting the findings in Tables 3 and 4, we find that the reviewing committee's utmost concerns about a firm's profitability and growth potential help to finalize the rejection/approval decision. However, for those firms that were unanimously approved for listing, the most critical issues for the reviewing members

were the firm's size and whether there had been a change in the associated auditor or the associated auditor had given a non-unqualified report.

<<Insert Table 4 Here>>

3.3 The Logit Regressions

In this section, we use the logit regression to locate the possible determinants that affect the decision of the reviewing committee. A forward stepwise procedure is applied to select the preliminary variables that satisfy the 10%-significance criteria. For robustness, we alternatively define the dependent dummy as: unanimously approved (model 1), approved (model 2), approved with two or fewer dissenting votes (model 3), approved at the first application (model 4), and approved at the first application with two or fewer dissenting votes (model 5). The results of parsimonious models are summarized in Table 5.

The results indicate that the accounting-change dummy is negatively associated with the possibility of an applicant being unanimously approved by the committee at the 1% significance level, whereas it is less significant on the decision of whether an IPO application would be approved for listing. This implies that an auditor's reluctance to endorse a firm would attract the attention of some, but not all, of the members and result in some dissenting votes, but not enough to refuse the IPO application. Firms with higher profitability that were larger in size and had a lower leverage effect would be more likely to draw favorable considerations from the reviewing committee. Being the first goalkeeper for investors, the reviewing committee's concerns were not only about the firm's profitability (return on

capitalization), but also about the risks that are manifested in its debt ratio and assets.

Note that the electronics dummy is negative in model 1 and positive in models 4 and 5. This may be due to the fact that electronics firms are encouraged by the government to meet less stringent criteria for IPO application. They are prone to be approved at the first IPO application. However, some of the electronics applicants are associated with higher risk, such as fewer years of operation, unpersuasive profitability records, and a smaller size, and this may result in one or two dissenting votes. Our results with alternative definitions yield similar results, which indicates that firms with higher return on capitalization and larger assets are more likely to be considered favorably by the reviewing committee.

In our sample, there are four cases in which the time that elapsed between the first application and final approval was more than four years. Another robustness check is to treat the two applications independently: the first application is deemed as a failure and the second application as a success. We rerun model 2 (yes=142, no=21) and model 3 (yes=120, no=43). The results from the robustness check are basically intact. Firm size in model 2 and debt ratio in model 3 are even more significant at the 1% level. Note that our results remain intact after controlling for the reputation effect of other intermediaries, which include auditors, venture capitalists, and underwriters (refer to the Appendix⁸).

<<Insert Table 5 Here>>

⁸For model 2 through model 5, the data of other intermediaries for the 17 firms that failed to be approved for listing are unavailable.

3.4 Voting Outcome and IPO Performance Measures

In this section, we investigate the issue of whether the decision that is made by the reviewing committee provides informational content. If this is the case, we would expect to find that firms that were unanimously approved would outperform those that were not. Table 6 summarizes the ex-post performance measures and the tests of differences for these IPO firms. The observation period is extended to three years post IPO. The results seem to indicate that the reviewing committee made the right decisions, as they show that the unanimously approved group outperforms the non-unanimously approved one. The differences of performance measures between the two groups are more and more significant the more time that goes by after the IPOs. Specifically, the unanimously approved firms are associated with higher accounts receivable turnover, ROA, and EPS one year after the IPOs. The differences of such performance measures as ROA, ROE, and EPS are far more significant in the second year after the IPOs. Taking ROA as an example, the average is 14.68% for the unanimously approved firms and 12.09% for the non-unanimously approved firms one year prior to the IPOs. The difference between the two groups is insignificant. In contrast, in the second year after the IPOs, the average ROA is 11.92% for the former and 4.30% for the latter, with the difference significant at the 1% level. The results indicate that, compared to firms that were not unanimously approved, firms that were unanimously approved are subject to a lesser extent of performance deterioration. For a robustness check, we also conduct the difference test using industry-adjusted measures and take into account the possible confounding effects from the market and the industry. The average industry-adjusted ROA is 6.22% for the unanimously approved firms and -1.62% for the non-unanimously approved firms. The difference between the two is significant at the 1% level.

The contrast in the second year after the IPOs shows that the unanimously approved firms not only outperform the non-unanimously approved ones in terms of ROA, ROE, and EPS, but also have lower debt ratios and more instances of interest earned. The differences in performance measures between the two groups remain significant in the third year after IPOs. To sum up, the univariate test shows that the reviewing committee seems to do a splendid job of discerning between the post-IPO performance of the firms that were unanimously approved and those that were not.

<<Insert Table 6 Here>>

3.5 Voting Outcome and IPO Valuation Metrics

Following Kim and Ritter (1999) and Purnanandam and Swaminathan (2004), we calculate the valuation metric of the IPO offer price relative to the intrinsic value (OP/V) using the price multiples of comparable firms as benchmarks. A similar approach to calculating (IP/V) is conducted that replaces the price with the initial price, which is defined as the first day closed price within the 7% limit. We would like to know whether the decision that is made by the reviewing committee is related to the IPO valuation metric. The results that are summarized in Table 7 indicate that the differences in offer price metrics between the unanimously approved and non-unanimously approved firms are not significant, which implies that, during the negotiation of the offer price, the IPO firm and its associated underwriter may not be able to consistently perceive the voting outcome of the reviewing committee. The difference of $(IP/V)_{Sales}$ between the two groups is marginally significant at the 10% level. This implies that investors would prefer the unanimous group to the

non-unanimous one had they been given the information. The insignificant result is not surprising, as the voting outcome is not readily available to the market.

We trace the market valuation for these IPO firms up to three years post-listing using the price-to-book ratio, which is a proxy of a firm's Tobin's q. The unanimously approved firms, on average, have a higher proxy q than do the non-unanimously approved ones up to two years after listing. The difference is significant at the 5% level in the second year post listing. The results from the consecutively relative wealth effect that is proposed by Ritter (1991) further verifies the informational content of the voting outcome, in that the unanimously approved firms are associated with a superior measure.

<<Insert Table 7 Here>>

3.6 Number of Dissenting Votes

The aforementioned analyses are based on the dichotomous variable of whether the IPO firms were unanimously approved or not. Even though we have found evidence that the firms that were unanimously approved outperform the firms that were not, a potential fallacy may arise if the firms that received one or two dissenting votes end up as the superior performers. If this were the case, we would have reservations about promoting the notion that a positive function is performed by the reviewing committee. In Table 8, we partition the IPO firms based on the number of dissenting votes from the reviewing members. The means and medians of the market valuation measures (panel A), the financial performance measures (panel B), and price volatility (panel C) for these firms are reported accordingly. Multiple comparisons of

Scheffe and Games-Howell are used to examine the inter-group differences.

Fortunately, we find that the firms that received zero dissenting votes (unanimously approved) still outperform the other groups. For example, one year post listing, the mean price-to-book ratio for firms with zero dissenting votes (3.49) is significantly higher than that for firms with one dissenting vote (2.62) or that for firms with three or more dissenting votes (2.40). Both are significant at the 5% level. In the second year post listing, the difference between firms with zero dissenting votes and one dissenting vote remains significant. In panel B, the results show that the contrasts of ROA, ROE, and EPS between firms with zero dissenting votes and firms with one or more dissenting votes mount in the second year post listing. For robustness, we also use industry-adjusted measures to test the differences. The results remain intact. In panel C, we calculate the price volatility for these firms and find no significance among groups.

The overall picture so far verifies the positive function of the reviewing committee. At the least, their voting outcome embeds informational content that contrasts unanimously approved firms with firms that had dissenting votes.

We also explore the issue of whether the number and/or type of the questions/suggestions that are raised by the committee members provide informational content that contrasts the listed firms. However, the empirical results fail to lend supporting evidence to this issue. Moreover, another interesting issue that is worthy of investigation is how the composition and background of the reviewing members may affect the performance and risk of the listed firms. Neither of these issues receives a convergent result.

<<Insert Table 8 Here>>

4. Concluding Remarks

In this paper, we explore the sparsely investigated issue of the intermediary role of the IPO reviewing committee of the Stock Exchange. The first part focuses on the possible determinants that affect the members' voting behavior. Following on from this issue, we further portray the informational content that could be derived from the voting outcome. From 159 IPO applications, we find that the reviewing members as a whole would broadly cover a firm's financial performance measures before making their final acceptance/rejection decision. However, for those firms that are approved for listing, the reviewing members do seriously take into consideration whether they have experienced changes in their associated auditors and/or whether auditors have given them a non-unqualified report. These factors make a firm's financial data less credible, and it draws dissenting votes. Note that the firms that were unanimously approved outperform the firms that were not, both in financial performance measures and in market valuation up to two years post listing, even though their financial performance measures prior to their IPO applications have shown no significant differences. Therefore, the voting outcome, especially on the issue of whether a firm is unanimously approved, provides invaluable information to investors. Our empirical findings have a managerial implication for the governing entity to explore the possibility of making this information public.

However, other than the voting outcome, we fail to extract additional information from the TSEC minutes. For example, we do not find a strict connection between an IPO firm's performance/valuation and membership background or composition. The

number and types of questions that are raised or the suggestions that are given by the committee members do not directly connect to a firm's performance measures or market valuation. This is partly due to the fact that the information that is excerpted from the minutes fails to reflect the qualitative differences among the questions/suggestions raised in the meetings. Another possibility is that reviewing members that are randomly selected from a pool and bear different backgrounds and types of expertise are likely to yield an indifferent contrast in questions and suggestions. It is, therefore, interesting to launch a qualitative study that investigates the issue of how the members reach their verdicts, given that their decision has been proved to be informational.

One final suggestion for further research is to explore the interactive effect between the reviewing committee and other intermediaries, such as venture capitalists, underwriters, banks, and others that could provide a surveillance function and mitigate the information asymmetry between the issuing firms and outside investors. For example, we find that the reviewing committee takes the actions of the associated auditor into consideration when voting for or against an IPO application. We believe that a comprehensive exploration of the surveillance function that is provided by different intermediaries needs to be further addressed.

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Table 1: The Sample Distribution - Breakdown by Year and Industry

The sample provided by the Taiwan Stock Exchange covers the 1997-2005 periods. There were 171 firms applying to be listed and traded in TSEC, and 154 of them were finally approved and 17 of them were rejected or withdrew their applications. The final sample consists of 142 IPO firms, after excluding 12 financial firms that are characterized as highly levered in nature and subject to different regulatory requirements. Panel A reports the yearly breakdown; the industry breakdown is in Panel B.

Panel A: Breakdown by Year

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Approved	11	18	18	12	17	33	19	10	4	142
Not Approved	0	3	3	2	0	2	2	4	1	17

Panel B: Breakdown by Industry

Industry	Textile	Electric Machinery	Chemistry	Electronic	Other	Total
Approved	8	12	6	99	17	142
Not Approved	2	0	0	10	5	17

Table 2: Summary of the Reviewing Committee -- Composition, Questions, and Suggestions

This Table summarizes the statistics of the reviewing committee regarding the members' backgrounds (panel A) and the number of questions/suggestions (panel B) recorded in the meeting minutes. In each cell, we report the counts. The categories are not mutually exclusive, meaning that a member could be qualified for two or more posts and a company could be asked more than one question or given multiple suggestions. Note that the minutes summarizing aggregate opinions rather than the word-for-word record may fail to exhibit qualitative differences. For example, two or more members showing a similar concern or giving a similar suggestion are recorded as one concern (suggestion). Moreover, the degree of members' concerns is also indistinguishable from the minutes.

Panel A: Membership Composition							
	Total participants	TSEC Representatives	Outside Members	Outside Members			
				Academics	Auditor and/or Attorney	Banking and Finance	Industry
Mean	13.19	3.35	9.84	4.7	2.73	4.94	1.92
Median	13	3	10	5	2	5	2

Panel B: Number of Questions and Suggestions					
	# of Questions		# of Suggestions		
	Mean	Median	Mean	Median	
Superstructure	1.06	1	1.15	1	
Board Structure	0.48	0	0.71	1	
Related-Party Transaction	0.30	0	0.23	0	
Ownership Structure and Centralized Custody of Shareholdings	0.29	0	0.21	0	
Operation	5.85	6	3.13	3	
Operational Risk	5.41	3	3.35	2	
Litigation	0.16	0	1.12	0	
Attainability of Financial Forecast	0.24	0	0.68	1	
Other	0.64	0	0.33	0	
Change in Accounting Principals or Associated Auditor	0.20	0	0.10	0	
Equity Investments and Oversee Subsidiaries	0.50	0	0.23	0	
Total Number of Questions	7.50	7	4.61	5	

Table 3: Approved Versus Non-Approved Firms

This table reports the tests of differences of variables between the firms being approved for (142) and the firms being rejected for listing (17). All variables are referred to Table 3. The final column reports the p-value for the test of differences in means and medians. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

Variable	Approved	Mean	Median	p-value for difference test	
				Mean	Median
Ln(asset)	Yes	14.94	14.74	0.066*	0.015**
	No	14.44	14.39		
Dummy (accounting-change)	Yes	0.58	1	0.155	0.154
	No	0.47	0		
Shareholding of Directors and Supervisors (%)	Yes	40.66	38.68	0.307	0.335
	No	35.70	33.36		
Pledge Ratio of Shareholdings (%)	Yes	3.77	0	0.480	0.081*
	No	5.86	0		
Dummy (CEO/Chair Duality)	Yes	0.35	0	0.373	0.371
	No	0.53	1		
Debt Ratio (%)	Yes	38.69	38.96	0.857	0.889
	No	38.64	37.04		
Capitalization / Fixed Assets (%)	Yes	517.10	235.46	0.246	0.738
	No	1335.46	166.36		
Times Interest Earned	Yes	4374.01	21.93	0.677	0.372
	No	159.14	8.84		
A/R Turnover	Yes	6.38	5.25	0.433	0.894
	No	7.77	5.37		
Inventory Turnover	Yes	9.82	6.41	0.308	0.180
	No	6.72	4.89		
ROA (%)	Yes	13.17	11.11	0.095*	0.042**
	No	9.06	7.52		
ROE (%)	Yes	20.67	18.32	0.053*	0.043**
	No	13.41	12.29		
Operating Income / Capitalization (%)	Yes	34.09	26.56	0.006***	0.000***
	No	12.70	10.93		
Return on Capitalization (%)	Yes	38.20	29.27	0.000***	0.000***
	No	11.38	8.87		
Profit Margin (%)	Yes	11.39	11.17	0.205	0.004***
	No	-19.05	4.89		
EPS	Yes	3.53	2.62	0.089*	0.010**
	No	2.15	1.74		
Sales Growth Rate (%)	Yes	142.21	25.21	0.883	0.039**
	No	180.38	73.55		
R&D Expenses Ratio (%)	Yes	81.81	54.94	0.121	0.073*
	No	22.74	17.82		

Table 4: Unanimously versus Non-unanimously Approved Firms

This table reports the tests of the differences between the firms that were unanimously approved by the reviewing committee (59) and those that were not (83). Panel A reports the number of questions that were raised by the reviewing committee. Panel B reports the number of suggestions from the committee. Panel C summarizes the financial performance measures one year prior to IPO. Panel D reports the variables of corporate governance. The final column reports the p-value for the test of differences in mean and median, respectively. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

Panel A: Number of Questions					
Type	Unanimously Approved	Mean	Median	p-value for difference test	
				Mean	Median
Superstructure	Yes	1.15	1	0.461	0.446
	No	1	1		
Operation	Yes	5.73	5	0.657	0.336
	No	5.93	6		
Others	Yes	0.47	0	0.060 *	0.358
	No	0.76	0		
Total	Yes	7.40	6	0.549	0.355
	No	7.70	8		
Panel B. Number of Suggestions					
Superstructure	Yes	1.07	2	0.393	0.399
	No	1.20	1		
Operation	Yes	3.03	3	0.408	0.377
	No	3.19	3		
Others	Yes	0.29	0	0.494	0.376
	No	0.36	0		
Total	Yes	4.39	5	0.094 *	0.162
	No	4.76	5		
Panel C: Characteristics and Performance Measures					
Ln(sales)	Yes	14.87	14.63	0.230	0.117
	No	14.62	14.52		
Ln(assets)	Yes	15.17	14.81	0.033**	0.038**
	No	14.78	14.69		
Debt Ratio (%)	Yes	36.93	37.51	0.480	0.544
	No	38.69	38.96		
Capitalization / Fixed Assets (%)	Yes	490.41	194.28	0.884	0.241
	No	517.10	235.46		
Time Interest Earned (X)	Yes	1512.04	28.28	0.574	0.222
	No	4374.01	21.93		
A/R Turnover (%)	Yes	7.47	5.37	0.138	0.228
	No	6.38	5.25		
Inventory Turnover (%)	Yes	11.18	6.94	0.591	0.830
	No	9.82	6.41		
ROA (%)	Yes	14.68	12.46	0.110	0.276
	No	12.09	10.62		
ROE (%)	Yes	22.13	19.49	0.338	0.592
	No	19.65	17.80		
Operating Income / Capitalization (%)	Yes	38.23	28.56	0.230	0.624
	No	31.22	26.27		

Return on Capitalization (%)	Yes	44.93	29.84	0.075 *	0.318
	No	33.46	27.77		
Profit Margin (%)	Yes	9.00	12.48	0.367	0.152
	No	12.99	10.23		
EPS	Yes	4.09	2.80	0.109	0.535
	No	3.13	2.54		
Sales Growth Rate (%)	Yes	245.38	25.10	0.382	0.618
	No	68.34	25.57		
R&D Expenses Ratio (%)	Yes	4.34	2.85	0.304	0.863
	No	3.28	2.47		
<hr/>					
Panel D: Corporate Governance					
Dummy (accounting-change)	Yes	0.44	0	0.004***	0.003***
	No	0.69	1		
Total Shareholdings of Directors and Supervisors	Yes	42.42	40.83	0.361	0.316
	No	39.41	37.97		
Pledge Ratio of Shareholdings (%)	Yes	3.19	0	0.611	0.936
	No	4.23	0		
Number of Changes in Financial Forecast	Yes	0.47	0	0.344	0.446
	No	0.39	0		
Dummy (CEO/Chair Duality)	Yes	0.29	0	0.176	0.180
	No	0.79	0		

Table 5: The Logit Regressions

This table reports the results of the logit regressions. The dependent variable is a dummy that represents the voting outcomes of the reviewing committee. In Model 1, the dummy is assigned value 1 when the members unanimously approved the application and 0 otherwise. In model 2, the dummy is assigned value 1 when the application is finally approved and 0 otherwise. In model 3, the dummy is assigned value 1 when the IPO is approved with two or fewer dissenting votes and 0 otherwise. In model 4, the dummy is assigned the value 1 when the IPO is approved at the first application and 0 otherwise. In model 5, the dummy is assigned value 1 when the IPO is approved at the first application and with two or fewer dissenting votes and 0 otherwise. The independent variables include (1) the number of questions raised by the members regarding the attainment of financial forecasts; (2) the accounting-change dummy that is assigned value 1 when the IPO firm experiences changes of associated auditors or the associated auditor signed reserved options on the firm's financial reports two years prior to IPO application; (3) debt ratio; (4) return on capitalization; and (5) the electronic dummy that is assigned value 1 when the IPO firm is an electronics firm and 0 otherwise. The reputation effects of auditor, venture capitalist, and underwriter are also controlled with dummies. Wald statistics are reported in parentheses. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5
	Unanimously Approved	Approved	Approved with 2 or Fewer Dissenting Votes	Initially Approved	Initially Approved with 2 or Fewer Dissenting Votes
	Yes= 59, No= 83	Yes=142, No= 17	Yes = 120, No= 39	Yes= 133, No= 26	Yes= 116, No= 43
Intercept	-6.658 (5.156)**	-12.532 (5.482)**	-10.966 (7.580)***	-14.034 (8.871)***	-11.956 (9.633)***
# of Questions for the Attainability of Financial Forecast Dummy	-0.737 (2.322)				
(Accounting-Change)	-1.343 (10.108)***	-0.596 (0.846)	-0.683 (2.176)	-0.089 (0.024)	-0.363 (0.623)
Debt Ratio	-0.027 (3.526)*	-0.017 (0.573)	-0.039 (5.708)**	-0.024 (1.510)	-0.041 (6.576)**
Return on Capitalization	0.017 (6.457)**	0.088 (12.009)***	0.032 (7.808)***	0.089 (15.633)***	0.035 (9.015)***
Ln(assets)	0.543 (6.692)**	0.920 (5.774)**	0.862 (8.829)***	0.973 (8.459)***	0.906 (10.469)***
Dummy (Electronic)	-0.764 (3.112)*	0.559 (0.767)	0.620 (1.906)	1.030 (3.301)*	0.788 (3.117)*
-2 Log likelihood	162.644	81.015	149.255	96.483	148.419
Model Fitness Test χ^2	30.134***	27.112***	27.901***	45.174***	37.196***
Cox and Snell R^2	0.191	0.157	0.161	0.247	0.209
Nagelkerke R^2	0.257	0.318	0.240	0.419	0.303

Table 6: Ex-post Performance Measures – Unanimously versus Non-unanimously Approved Firms

This table reports the means and medians of the ex-post performance measures for firms that were unanimously approved by the reviewing committee and firms that were not. Panels A, B, and C report the measures in the first, second, and third year after a firm's IPO, respectively. The final column reports the p-value for the test of differences. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

Panel A: The First Year					
Variable	Unanimously Approved	Mean	Median	p-value for difference test	
				Mean	Median
Debt Ratio (%)	Yes	37.27	37.59	0.401	0.590
	No	39.27	36.22		
Capitalization / Fixed Assets (%)	Yes	545.24	216.26	0.529	0.220
	No	692.68	241.21		
Times Interest Earned	Yes	916.33	17.72	0.431	0.611
	No	3591.15	21.99		
A/R Turnover	Yes	7.25	6.04	0.110	0.034**
	No	6.15	5.13		
Inventory Turnover	Yes	13.06	7.04	0.574	0.962
	No	10.92	6.94		
ROA (%)	Yes	13.72	11.81	0.035**	0.083*
	No	10.04	9.58		
ROE (%)	Yes	20.27	17.34	0.110	0.226
	No	16.04	14.84		
EPS	Yes	2.83	1.975	0.050**	0.132
	No	1.78	1.38		
Sales Growth Rate (%)	Yes	23.05	14.91	0.209	0.336
	No	11.44	8.11		
R&D Expenses Ratio (%)	Yes	2.42	1.88	0.402	0.570
	No	4.05	2.47		
Panel B: The Second Year					
Debt Ratio (%)	Yes	37.67	39.33	0.033**	0.059*
	No	42.79	42.85		
Capitalization / Fixed Assets (%)	Yes	542.56	248.53	0.790	0.178
	No	601.55	286.57		
Times Interest Earned	Yes	1579.70	21.88	0.422	0.037**
	No	9018.06	9.81		
A/R Turnover	Yes	6.92	5.72	0.730	0.009***
	No	6.79	4.74		
Inventory Turnover	Yes	11.62	8.4	0.364	0.991
	No	47.79	6.71		
ROA (%)	Yes	11.92	10.72	0.000***	0.000***
	No	4.30	6.09		
ROE (%)	Yes	16.87	16.68	0.001***	0.001***
	No	5.04	9.66		
EPS	Yes	3.51	2.83	0.001***	0.001***
	No	1.59	1.69		
Sales Growth Rate (%)	Yes	30.37	18.55	0.187	0.117
	No	20.78	11.99		
R&D Expenses Ratio (%)	Yes	2.74	2.03	0.462	0.814
	No	3.73	2.515		
Panel C: The Third Year					
Debt Ratio (%)	Yes	39.02	38.53	0.158	0.212
	No	41.86	40.84		

Capitalization / Fixed Assets (%)	Yes	597.72	275.52		
	No	558.852	280.58	0.689	0.205
Times Interest Earned	Yes	13538.93	15.435		
	No	5257.66	9.24	0.533	0.170
A/R Turnover	Yes	7.31	6.20		
	No	5.58	4.63	0.021**	0.011**
Inventory Turnover	Yes	12.49	7.94		
	No	25.45	7.07	0.273	0.829
ROA (%)	Yes	9.39	7.48		
	No	4.72	5.74	0.004***	0.007***
ROE (%)	Yes	11.78	12.18		
	No	5.63	9.61	0.015**	0.015**
EPS	Yes	3.80	2.85		
	No	2.68	2.42	0.060*	0.047**
Sales Growth Rate (%)	Yes	87.30	20.01		
	No	24.09	15.37	0.004***	0.006***
R&D Expenses Ratio (%)	Yes	3.13	2.39		
	No	3.74	2.51	0.042**	0.230

**Table 7: Market Valuation –
Unanimously versus Non-unanimously Approved Firms**

This table reports the market valuation metrics between firms that were unanimously approved and firms that were not. (OP/V) is the offer price valuation relative to the intrinsic value using the price multiples of comparable firms relative to per share sales (Sales), earnings (EPS), and book value (Book) in the previous year. The price multiples are further divided by the corresponding price multiples of non-IPO industry peers in a cohort year that are comparable in asset value to the sample firms, have been publicly listed for more than a year, and have not issued any new shares within two months of the IPO. The calculation of (IP/V) follows a similar procedure of (OP/IV) with a replacement of the price as the initial market price that is closed within the 7% limit (IP). (P/B)₁, (P/B)₂, and (P/B)₃ refer to the equity price to book value ratio in the first, second, and third year after the firm's IPO. WR is the relative wealth effect referred to in Ritter (1991) and is calculated as: $WR = (1 + 3\text{-year buy-and-hold return of an IPO firm}) / (1 + 3\text{-year buy-and-hold return of a matching firm})$. The final column reports the p-value for the test of differences. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

Variable	Unanimously Approved	Mean	Median	p-value for difference test	
				Mean	Median
(OP/V) _{Sales}	Yes	2.52	1.16	0.100	0.254
	No	1.39	1.05		
(OP/V) _{EPS}	Yes	0.95	0.55	0.146	0.268
	No	0.69	0.46		
(OP/V) _{Book}	Yes	2.21	1.51	0.119	0.242
	No	1.76	1.42		
(IP/V) _{Sales}	Yes	2.68	1.42	0.070*	0.135
	No	1.56	1.10		
(IP/V) _{EPS}	Yes	1.03	0.69	0.201	0.320
	No	0.76	0.52		
(IP/V) _{Book}	Yes	2.61	1.74	0.178	0.193
	No	2.00	1.62		
(P/B) ₁	Yes	3.49	2.01	0.019**	0.109
	No	2.42	2.07		
(P/B) ₂	Yes	2.53	1.78	0.015**	0.017**
	No	1.78	1.45		
(P/B) ₃	Yes	1.88	1.29	0.430	0.508
	No	1.73	1.25		
WR	Yes	3.09	1.14	0.118	0.018**
	No	1.67	0.91		

Table 8: Number of Dissenting Votes

This reports the market valuation measures (panel A), financial performance measures (panel B), and price volatility (panel C) for firms that received 0, 1, 2, and 3 or more dissenting votes from the reviewing committee. The final column reports the significant differences between groups using the multiple comparisons of the Scheffe test and the Games-Howell test, respectively. The p-value is provided in parentheses. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

	Number of Dissenting Votes								Multiple Comparisons	
	0		1		2		3		Scheffe	Games-Howell
	(N=59)		(N=36)		(N=25)		(N=22)			
Mean	Median	Mean	Median	Mean	Median	Mean	Median			
Panel A: Market Valuation										
(OP/V) _{Sales}	2.52	1.16	1.43	1.25	1.43	0.91	1.33	1.05		
(OP/V) _{EPS}	0.95	0.55	0.83	0.67	0.72	0.44	0.71	0.40		
(OP/V) _{Book}	2.21	1.51	1.69	1.45	1.65	1.01	1.88	1.34		
(IP/V) _{Sales}	2.68	1.42	1.69	1.22	1.52	0.98	1.38	0.96		
(IP/V) _{EPS}	1.03	0.69	0.93	0.75	0.79	0.45	0.72	0.50		
(IP/V) _{Book}	2.61	1.74	2.04	1.74	1.76	1.29	2.04	1.54		
(P/B) ₁	3.49	2.01	2.62	2.30	2.40	1.74	2.40	1.79	0>1; (0.144)	0>1; (0.080)* 0>3, (0.051)*
(P/B) ₂	2.53	1.78	2.05	1.91	2.13	1.52	1.31	1.05	0>1; (0.128)	0>1; (0.043)**
(P/B) ₃	1.88	1.29	1.94	1.75	1.96	1.24	1.34	0.93		
WR	3.09	1.14	1.06	0.77	1.51	0.74	2.92	1.06		
Panel B: Financial Performance Measure										
ROA ₁ (%)	13.72	11.81	10.19	10.51	9.04	8.45	10.82	9.58		
ROE ₁ (%)	20.27	17.34	15.62	15.75	15.12	12.64	17.45	15.79		
EPS ₁	2.83	1.975	2.85	2.74	2.54	1.94	2.52	2.26		

ROA ₂ (%)	11.92	10.72	5.74	8.72	0.63	6.03	6.40	5.77	0>2;(0.015)**	0>1;(0.027)**
										0>2;(0.031)**
										0>3;(0.024)**
ROE ₂ (%)	16.87	16.68	7.82	13.77	-2.19	8.95	9.35	8.39	0>2; (0.035)**	0>1;(0.099)*
										0>2;(0.073)*
										0>3; (0.052)*
EPS ₂	3.51	2.83	2.21	2.39	0.75	1.31	1.71	1.17	0>2;(0.053)*	0>2;(0.043)**
										0>3;(0.037)**
ROA ₃ (%)	9.39	7.48	5.56	6.16	3.51	5.76	4.55	3.63		
ROE ₃ (%)	11.78	12.175	7.61	10.09	2.06	9.96	6.14	4.52		
EPS ₃	3.80	2.85	2.08	1.65	1.72	1.43	1.27	0.79		

Panel C: Price Volatility

1	2.96	3.15	3.02	2.97	3.12	3.13	3.22	3.00
2	2.79	2.85	2.68	2.73	2.79	2.93	2.99	3.04
3	2.61	2.69	2.54	2.82	2.94	2.94	3.04	3.04

Appendix: The Logit Regressions – Including Other Intermediaries

This table reports the results of the logit regressions. The dependent variable is a dummy that represents the voting outcomes of the reviewing committee. The dummy (Auditor Reputation) is assigned the value 1 when the associated auditor is among the top six accounting firms (namely Arthur Anderson (AA); Klynveld, Peat, Marwick, and Goerdeler (KPMG); PriceWaterhouseCoopers (PwC), Deloitte Touche Tohmatsu (DTT); Ernst and Young; and Coopers and Lybrand) and 0 otherwise. The dummy (Underwriter Reputation) is assigned the value 1 when the size of the associated underwriter is above the sample median and 0 otherwise. The dummy (VC Reputation) in Model 1 and Model 2 is assigned 1 when a venture capitalist(s) is involved in the firm's IPO process and zero otherwise. The dummy (VC Reputation) in Model 3 and Model 4 is assigned 1 when a venture capitalist(s) is shown on the list of the largest shareholders or board of directors and 0 otherwise. The definitions of other variables refer to Table 5. Wald statistics are reported in parentheses. ***, **, and * represent the significance levels of 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4
Intercept	-6.900 (0.053)*	-7.099 (0.019)**	-6.679 (0.061)*	-7.065 (0.020)**
# of Questions for the Attainability of Financial Forecast Dummy (Accounting-Change)	-0.692 (0.155)	-0.725 (0.135)	-0.701 (0.151)	-0.732 (0.132)
Debt Ratio	-1.363 (0.001)***	-1.339 (0.002)***	-0.1375 (0.001)***	-1.344 (0.001)***
Return on Capitalization	-0.027 (0.064)*	-0.028 (0.054)*	-0.026 (0.070)*	-0.028 (0.057)*
Ln(assets)	0.017 (0.015)**	0.017 (0.014)**	0.017 (0.012)**	0.017 (0.012)**
Dummy (Electronic)	0.534 (0.010)***	0.553 (0.008)***	0.534 (0.010)***	0.553 (0.008)***
Dummy (Auditor Reputation)	-0.941 (0.046)**	-0.905 (0.052)*	-0.992 (0.037)**	-0.954 (0.042)**
Dummy (VC Reputation)	0.315 (0.602)	0.342 (0.571)	0.277 (0.644)	0.307 (0.608)
Dummy (Underwriter Reputation)	0.344 (0.411)	0.276 (0.504)	0.480 (0.271)	0.418 (0.330)
	0.003 (0.975)		-0.006 (0.950)	
-2 Log likelihood	160.079	161.903	159.537	161.401
Model Fitness Test χ^2	30.933***	30.874***	31.475***	31.376***
Cox and Snell R^2	0.197	0.195	0.200	0.198
Nagelkerke R^2	0.265	0.263	0.270	0.267