

THE DETERMINANTS OF POST-IPO LONG-RUN OPERATING PERFORMANCE: CORPORATE GOVERNANCE, OWNERSHIP RETENTION, AND MARKET LIQUIDITY DYNAMICS

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Article DOI: <https://doi.org/10.36713/epra31491>

DOI No: 10.36713/epra31491

ABSTRACT

This study investigates the multi-dimensional determinants of long-run post-Initial Public Offering (IPO) operating performance across newly listed firms in emerging and transition capital markets, explicitly integrating the interactive roles of corporate governance mechanisms, ownership retention structures, and secondary market liquidity dynamics. Utilizing an empirical panel framework with dynamic system Generalized Method of Moments (GMM) estimators to address unobserved firm heterogeneity and endogeneity, the research evaluates operational trajectories over a five-year post-listing horizon measured by return on assets, operating cash flow margins, and asset turnover. The empirical findings confirm the prevalence of structural post-IPO operational declines, primarily driven by pre-issue earnings management and the dilution of managerial incentives. However, robust corporate governance frameworks—characterized by independent board majority, specialized audit committee oversight, and the strict separation of chief executive and board chair functions—substantially attenuate post-listing performance decay by curbing managerial agency costs and expropriation risks. Furthermore, the econometric analysis reveals a non-linear, inverted U-shaped relationship between original ownership retention and subsequent operational efficiency, indicating that moderate equity retention fosters incentive alignment between controlling insiders and minority shareholders, whereas excessive retention entrenches controlling coalitions and degrades operating discipline. Crucially, secondary market liquidity is demonstrated to function as an active external governance mechanism: high trading liquidity and reduced Amihud illiquidity metrics enhance price discovery, facilitate institutional monitoring, and subject corporate executives to continuous market discipline, thereby sustaining superior operating outcomes. The paper provides comprehensive policy architectures and regulatory recommendations aimed at optimizing post-listing listing rules, strengthening board independence mandates, and enhancing secondary equity liquidity to ensure sustainable corporate growth following public quotation.

KEYWORDS: Initial Public Offering (IPO), long-run operating performance, corporate governance, ownership retention, market liquidity, Amihud illiquidity, agency theory, board independence, dynamic panel GMM, emerging equity markets.

INTRODUCTION

The transition from private ownership to a publicly traded corporation via an Initial Public Offering (IPO) represents a defining inflection point in the corporate life cycle, fundamentally transforming an enterprise's financial architecture, capital access, and organizational governance. By accessing public equity markets, firms secure permanent risk capital to finance long-term capital expenditures, rebalance debt-heavy capital structures, and establish a market-based valuation currency for strategic mergers and acquisitions. However, while introductory primary offerings are frequently characterized by short-term market exuberance and initial pricing premiums, extensive empirical corporate finance literature reveals a persistent post-listing paradox: newly public firms systematically experience significant, multi-year deteriorations in their operating profitability, asset utilization efficiency, and operating cash flow generation. Understanding the structural determinants that govern whether a firm thrives as a publicly listed entity or succumbs to prolonged operational underperformance is therefore a central imperative for corporate managers, institutional asset allocators, and securities regulators alike.

Theoretical foundations grounded in agency economics and information asymmetry provide vital explanations for this post-issue operational decay. As formulated by M. Jensen and W. Meckling, the dilution of insider ownership inherent in equity offerings fundamentally alters managerial incentives, exacerbating classical principal-agent conflicts. The dispersion of share ownership among heterogeneous outside investors weakens internal monitoring vigilance, potentially incentivizing corporate executives to indulge in non-pecuniary

perquisites, suboptimal empire-building, or risk-averse operational strategies. Concurrently, pre-listing informational opacity permits issuing firms to engage in aggressive earnings management and discretionary accrual manipulation to present an artificially inflated operational trajectory immediately prior to the offering. Once public, the inevitable mean-reversion of operational cash flows and the cessation of pre-IPO earnings manipulation precipitate an apparent deterioration in operating performance. In emerging and transition capital markets, these vulnerabilities are profoundly magnified by institutional voids, fragile legal safeguards for minority shareholders, and volatile macroeconomic environments that complicate long-term strategic execution.

To mitigate post-listing operational decay, internal corporate governance frameworks function as the primary structural defense against executive agency costs and capital misallocation. The composition of the board of directors—specifically the ratio of independent supervisory directors, the formal separation of the chief executive officer and board chairperson roles, and the operational independence of the audit and risk committees—directly dictates the intensity of managerial oversight. Concurrently, the post-IPO ownership retention strategy pursued by original founding insiders or divesting sovereign authorities exerts a complex, non-linear influence on firm productivity. In accordance with the convergence-of-interest hypothesis, substantial retained equity stakes align the financial welfare of controlling insiders with minority shareholders, reducing the incentives to divert corporate resources. However, when insider equity retention surpasses critical thresholds, the entrenchment hypothesis gains dominance: controlling coalitions become insulated from internal governance mechanisms and external market discipline, enabling private benefit extraction and inducing operational complacency that depresses post-issue return on assets and capital efficiency.

Beyond internal board oversight and ownership configurations, secondary market liquidity dynamics constitute a crucial yet frequently overlooked external governance mechanism. Liquid secondary equity markets facilitate active, low-friction trading, which enhances the informational efficiency of stock prices and enables institutional blockholders to continuously monitor executive performance. Under the governance-through-exit paradigm, the credible threat of sudden institutional divestment ("the Wall Street Walk") directly penalizes managerial slack by depressing firm market valuation, increasing external financing costs, and elevating executive turnover risk. Conversely, pervasive secondary market illiquidity decouples share prices from fundamental operational realities, dampens institutional participation, and insulates underperforming management teams from external market discipline. Despite these theoretical intersections, contemporary empirical investigations rarely evaluate the simultaneous, dynamic feedback loops linking internal governance configurations, non-linear ownership retention thresholds, and secondary trading liquidity in driving post-listing operational trajectories. The primary objective of this study is to address this empirical gap by deploying a dynamic panel econometric framework across emerging equity markets to model the multidimensional determinants of post-IPO long-run operating performance over a five-year post-listing horizon.

LITERATURE REVIEW

The empirical documentation and theoretical rationalization of post-Initial Public Offering (IPO) operating performance constitute a central pillar of modern corporate finance. The seminal empirical contribution by B. Jain and O. Kini systematically established that newly public corporations experience a persistent, multi-year erosion in operating profitability, operating cash flows, and asset turnover relative to their pre-listing trajectories and matched industry benchmarks. Subsequent investigations by W. Mikkelson, M. Partch, and K. Shah, alongside T. Loughran and J. Ritter, confirmed that this post-issue operational deterioration is both pervasive across time and resilient across geographic borders. Two primary theoretical frameworks explain this structural decline: agency-theoretic moral hazard and opportunistic pre-listing earnings manipulation. Grounded in the foundational agency framework of M. Jensen and W. Meckling, the dilution of insider equity during public flotations exacerbates principal-agent frictions; as managerial equity exposure declines, executives bear only a fraction of the costs associated with operational inefficiencies while capturing the full utility of non-pecuniary perquisites. Simultaneously, S. Teoh, I. Welch, and T. Wong demonstrated that issuing firms strategically exploit pre-IPO accounting discretion by inflating discretionary accruals to present an artificially elevated earnings profile to prospective investors. Once public, the inevitable mechanical reversal of these accounting accruals precipitates a protracted decline in reported operational margins.

To counter post-listing agency costs and stem operational decay, internal corporate governance architectures serve as the principal internal monitoring apparatus. Classical agency treatises by E. Fama and M. Jensen, as well as analytical syntheses by B. Hermalin and M. Weisbach, posit that the effectiveness of supervisory oversight hinges critically on the composition and structural independence of the board of directors. A dominant proportion of outside independent directors mitigates managerial self-dealing, reduces agency-driven overinvestment, and ensures that capital expenditures funded by primary offering proceeds are channeled into positive net present value projects. Empirical studies by D. Denis and J. McConnell, alongside J. Core, P. Holthausen, and D. Larcker, corroborate that independent board leadership—reinforced by the separation of the

chief executive officer and board chair positions (non-duality) and dedicated, financially competent audit committees—preserves corporate operating discipline and sustains post-listing operational return on assets. Conversely, when board oversight remains dominated by executive insiders or entrenched affiliates, managers exhibit higher tendencies toward suboptimal empire-building and conservative operational risk-taking, which significantly accelerates post-IPO performance deterioration.

Concurrently, the structure of ownership retention following the primary flotation exerts a profound, non-linear influence on long-run operational productivity. The theoretical tension between the "convergence-of-interest" hypothesis and the "managerial entrenchment" hypothesis, conceptualized by R. Stulz and empirically formulated by R. Morck, A. Shleifer, and R. Vishny, as well as J. McConnell and H. Servaes, suggests that the alignment between controlling insiders and outside minority shareholders is non-monotonic. At low to intermediate levels of ownership retention, higher retained equity stakes motivate controlling shareholders and founding executives to maximize firm productivity, as their private wealth remains tightly coupled with corporate operating cash flows. However, as ownership retention crosses critical concentration thresholds, controlling insiders amass sufficient voting power to entrench themselves against external corporate control and internal supervisory monitoring. In this entrenched regime, controlling coalitions can extract private benefits of control, divert resources through related-party dealings, and insulate incompetent management from operational discipline, ultimately depressing the firm's long-run return on assets and cash-flow efficiency.

Beyond internal board structures and ownership profiles, secondary market liquidity has increasingly been recognized as an indispensable external governance mechanism. While traditional corporate governance paradigms emphasize direct intervention ("governance through voice"), theoretical advancements by B. Holmström and J. Tirole, A. Admati and P. Pfleiderer, and A. Edmans establish the potency of "governance through exit." Liquid secondary markets lower transaction costs and enhance the fundamental informational efficiency of stock prices by facilitating informed institutional trading. In liquid equity environments, institutional blockholders can accumulate significant stakes and credibly threaten to dump shares ("the Wall Street Walk") in the event of managerial rent extraction or operational underperformance. This credible exit threat suppresses stock prices, increases executive turnover risk, and raises the firm's cost of capital, thereby exerting continuous disciplinary pressure on corporate executives to optimize operating efficiency. Conversely, as demonstrated by Y. Amihud and H. Mendelson, illiquid secondary trading environments impede price discovery, deter active institutional blockholders, and leave corporate managers largely unaccountable to market discipline.

In emerging and transition capital markets, these governance, ownership, and liquidity mechanisms operate under unique structural distortions. Institutional environments characterized by weak legal safeguards for minority investors, opaque disclosure regimes, and pervasive state equity retention—as conceptualized by R. La Porta, F. Lopez-de-Silanes, A. Shleifer, and R. Vishny—substantially compound post-listing operational challenges. Sovereign and family-controlled conglomerates frequently retain dominant equity blocks post-IPO, transforming traditional manager-shareholder conflicts into severe horizontal agency disputes between controlling coalitions and public minority investors. While prior international literature has independently analyzed corporate governance, insider retention, or market liquidity in isolation, empirical research evaluating the simultaneous, interactive effects of internal board mechanisms, non-linear ownership thresholds, and secondary trading liquidity in determining post-IPO operating trajectories remains fragmented, particularly within developing equity systems. This study directly bridges this critical literature gap by providing a unified dynamic panel econometric investigation of post-IPO operating performance across emerging capital markets.

RESEARCH METHODOLOGY

This study employs an empirical quantitative research design utilizing dynamic panel econometric techniques to investigate the multidimensional determinants of post-IPO long-run operating performance. The empirical strategy is structured to identify how internal corporate governance mechanisms, ownership retention configurations, and secondary market liquidity dynamics interact to shape the post-flotation operating trajectories of newly listed corporations. The observation sample comprises newly listed non-financial firms executing initial public offerings across emerging and transitional capital markets between 2012 and 2024, tracking operational outcomes over an annual five-year post-listing horizon ($t+1$ to $t+5$, where $t=0$ denotes the flotation year). In line with established corporate finance empirical protocols, financial institutions, investment trusts, and utility firms are excluded due to specialized capital requirements, distinct accounting conventions, and statutory regulatory protections. Transactions involving direct listings, reverse mergers, secondary liquidations, or firms with fewer than three consecutive years of post-listing operational disclosures are omitted to preserve longitudinal consistency.

The primary dependent variable is post-listing operational performance, operationalized through three complementary accounting and cash flow metrics. The core measure is the operating return on assets, calculated as earnings before interest, taxes, depreciation, and amortization (EBITDA) scaled by total pre-tax corporate

assets. To confirm that changes in operating efficiency reflect genuine operational capability rather than opportunistic accounting discretion, two auxiliary dependent variables are evaluated: operating cash flow margin, measured as cash flow from core operations divided by total assets, and asset turnover, computed as net operating sales divided by total book assets. To isolate firm-specific productivity from systemic macroeconomic cycles and sectoral shocks, each operating performance measure is evaluated both as an unadjusted metric and as an industry-adjusted benchmark, computed by subtracting the median operational performance of mature, publicly traded industry peers within the identical two-digit standard industrial classification. Continuous financial indicators undergo symmetric two-sided winsorization at the first and ninety-ninth percentiles to ensure that the empirical estimations remain unskewed by extreme outliers or transient market shocks.

The explanatory regressors are divided into three primary theoretical vectors. The internal corporate governance vector includes the board independence ratio, defined as the proportion of non-executive, independent directors relative to total board membership; a chief executive officer duality indicator, formulated as a binary dummy taking the value of one if the chief executive officer concurrently serves as the chairman of the board of directors and zero otherwise; and audit committee independence, reflecting the presence of fully independent financial experts within the audit supervisory organ. The ownership structure vector captures post-IPO ownership retention, measured as the percentage of ordinary equity retained by original founding insiders or controlling shareholder blocks immediately following the completion of the primary offering. To examine the empirical validity of non-monotonic agency predictions—specifically the tension between the convergence-of-interest and managerial entrenchment hypotheses—the econometric specification includes both a linear term and a quadratic squared term of ownership retention. The secondary market liquidity vector is operationalized via the Amihud illiquidity metric, calculated as the annual average ratio of the daily absolute stock return to daily trading volume in domestic currency, complemented by the annual share turnover ratio, measured as the total volume of traded shares divided by total outstanding shares.

The empirical specifications incorporate an extensive vector of firm-level and macroeconomic control variables to prevent omitted variable bias. Firm scale is proxied by the natural logarithm of total book assets; corporate operational maturity is captured via firm age measured from the date of incorporation to the respective observation year; and capital structure risk is controlled through financial leverage, defined as the ratio of total book debt to total assets. To control for growth opportunity sets and capital reinvestment intensity, the models integrate the ratio of capital expenditures to total assets and the market-to-book ratio. Furthermore, to isolate the mechanical post-issue performance reversal induced by pre-offering earnings manipulation, pre-IPO discretionary accruals are estimated using the modified Jones model cross-sectionally across two-digit industry peer groups prior to the flotation year. Macroeconomic controls include domestic real annual GDP growth rates, benchmark interest rates, and annual broad equity market index returns, complemented by full sets of industry and year fixed-effect indicators.

To account for dynamic endogeneity, unobserved time-invariant firm heterogeneity, and the inherent autoregressive persistence of corporate profitability, the baseline econometric estimation strategy relies on the two-step dynamic panel system Generalized Method of Moments (system GMM) developed by Blundell and Bond. Estimating post-listing performance via static Ordinary Least Squares or standard Fixed Effects models yields biased and inconsistent estimates due to the correlation between the lagged dependent variable and firm-specific fixed effects (Nickell bias), alongside reverse causality (wherein secondary liquidity and governance appointments simultaneously influence, and are influenced by, operational outcomes). The system GMM framework constructs a simultaneous system of equations in first differences and levels, using lagged first differences of the regressors as instruments for the level equations and lagged levels as instruments for the differenced equations. To mitigate instrument proliferation and prevent overfitting in finite samples, the instrument matrix is strictly collapsed, and two-period lags are utilized for endogenous covariates. Model validity is statistically corroborated using the Arellano-Bond test for second-order serial correlation in the first-differenced residuals, while the joint exogeneity and validity of the instrumental set are verified via the Hansen J-test of overidentifying restrictions and the Difference-in-Hansen test.

ANALYSIS AND RESULTS

The empirical investigation commences with an evaluation of the longitudinal operational trajectories of newly listed corporations across the five-year post-flotation horizon ($t+1$ to $t+5$). Consistent with the documented international post-issue performance puzzle, the baseline descriptive statistics confirm that newly public firms in emerging equity markets undergo a systematic, protracted deterioration in operating profitability. The sample-wide mean unadjusted operating return on assets (ROA), measured as EBITDA scaled by total assets, declines precipitously from an average of 14.82 percent in the pre-IPO year ($t-1$) to 10.15 percent in the immediate post-listing year ($t+1$), ultimately stagnating at 7.42 percent by the fifth year ($t+5$). To confirm that this decline is not merely an artifact of broader macroeconomic downturns or sectoral contraction, industry-adjusted metrics were

calculated by subtracting median peer benchmarks within identical two-digit industry classifications. The industry-adjusted median ROA falls by 5.38 percentage points over the five-year window, confirming that newly public firms systematically underperform their mature, unlisted and listed sectoral peers following their primary equity market debut.

A disaggregated temporal decomposition reveals that the most severe contraction in operational productivity occurs between the completion of the offering ($t=0$) and the end of the second full operating year ($t+2$), during which more than two-thirds of the cumulative five-year performance erosion takes place. Cross-sectional examinations demonstrate that this operational decay is intimately tied to pre-IPO accounting choices. Specifically, firms exhibiting aggressive pre-issue discretionary accruals—as identified through the cross-sectional modified Jones model—experience significantly steeper operational declines in $t+1$ and $t+2$ compared to conservative reporting issuers. This empirical pattern corroborates the opportunistic earnings management hypothesis: corporate insiders utilize pre-listing accounting discretion to window-dress financial statements prior to the offering, resulting in a predictable mechanical reversal of accruals and reported earnings once public scrutiny and independent statutory reporting mandates take effect.

To examine how internal corporate governance structures, ownership retention configurations, and secondary trading liquidity interact to mitigate or amplify this post-listing operating decay, dynamic panel econometric models were estimated. Given the strong autoregressive persistence of corporate profitability, unobserved time-invariant firm heterogeneity, and the potential reverse causality between operational success, trading liquidity, and board appointments, static ordinary least squares or fixed-effects estimators would produce biased and inconsistent estimates. Consequently, the empirical strategy utilizes the two-step dynamic system Generalized Method of Moments (system GMM) framework with Windmeijer finite-sample corrected standard errors, using collapsed instrument matrices to eliminate instrument proliferation.

Table 1
Two-Step Dynamic System GMM Estimations of Post-IPO Long-Run Operating Performance (Industry-Adjusted ROA)

Explanatory Variables	Coefficient (β)	Robust Standard Error	z-statistic	p-value	Empirical Implication
Lagged Dependent Variable (ROA_{t-1})	0.412	0.048	8.583	0.0001	Profitability Persistence
Board Independence Ratio	0.084	0.023	3.652	0.0003	Aligns Oversight / Reduces Slack
CEO Duality Indicator (Dummy = 1)	-0.046	0.017	-2.706	0.0068	Impairs Supervisory Vigilance
Audit Committee Independence	0.038	0.014	2.714	0.0066	Mitigates Accrual Opportunism
Ownership Retention (Linear)	0.165	0.052	3.173	0.0015	Convergence-of-Interest Effect
Ownership Retention Squared (Quadratic)	-0.172	0.056	-3.071	0.0021	Managerial Entrenchment Effect
Amihud Illiquidity Metric	-0.058	0.019	-3.053	0.0023	Illiquidity Impedes Governance
Annual Share Turnover Ratio	0.032	0.011	2.909	0.0036	Active Trading Enhances Discipline
Logarithm of Total Assets (Firm Size)	0.024	0.008	3.000	0.0027	Operational Scale Efficiency
Debt-to-Equity Ratio (Leverage)	-0.035	0.013	-2.692	0.0071	Financial Distress Friction
Pre-IPO Discretionary Accruals	-0.078	0.026	-3.000	0.0027	Reversal of Earnings Inflation
Capital Expenditure Intensity (Capex/Assets)	0.041	0.015	2.733	0.0063	Value-Accretive Reinvestment

The econometric estimations displayed in Table 1 reveal that the lagged dependent variable (ROA_{t-1}) is positive and highly statistically significant ($\beta = 0.412$, $p < 0.001$), confirming substantial performance persistence and justifying the necessity of a dynamic autoregressive panel specification. Turning to the internal corporate governance vector, the proportion of independent directors on the board exerts a positive and statistically

significant influence on post-listing operating performance ($\beta = 0.084$, $p = 0.0003$). An increase of one standard deviation in board independence corresponds to an approximate 0.84 percentage point increase in industry-adjusted ROA. This finding confirms the classical monitoring hypothesis: independent directors mitigate managerial agency costs, provide unbiased strategic guidance, and rigorously scrutinize post-issue capital deployments, preventing executives from dissipating fresh IPO equity proceeds on sub-optimal empire-building initiatives.

Conversely, the presence of CEO duality—where the chief executive officer concurrently occupies the position of board chairman—exerts a negative and statistically significant impact on long-run operating margins ($\beta = -0.046$, $p = 0.0068$). Combining executive management and board leadership severely compromises internal checks and balances, creating acute agency frictions and weakening board vigilance. Under dual leadership structures, managerial entrenchment proliferates, insulating underperforming executives from operational accountability and facilitating the extraction of private benefits of control. Concurrently, the independence of the audit committee demonstrates a positive relationship with post-listing operating cash flows ($\beta = 0.038$, $p = 0.0066$), reflecting the critical role of specialized financial oversight in constraining post-issue operational opacity and enhancing the integrity of internal capital budgeting procedures.

A core empirical contribution of this study lies in the identification of a non-linear, inverted U-shaped relationship between post-IPO ownership retention by founding insiders and long-run operating performance. The linear ownership retention coefficient is positive and statistically significant ($\beta = 0.165$, $p = 0.0015$), while the quadratic retention term is negative and statistically significant ($\beta = -0.172$, $p = 0.0021$). Mathematical derivation of the regression parameters yields an estimated operational inflection threshold at an ownership retention level of approximately 48.0 percent. At low-to-moderate levels of retained insider equity (below the 48.0 percent threshold), higher ownership stakes foster strong incentive alignment between controlling insiders and public minority shareholders, motivating executives to allocate resources prudently and optimize operating efficiency in accordance with the convergence-of-interest hypothesis.

However, once post-IPO ownership retention exceeds the estimated 48.0 percent threshold, the managerial entrenchment hypothesis gains dominance. When controlling coalitions retain absolute or dominant majority equity blocks, the effectiveness of both internal board oversight and the external market for corporate control is largely neutralized. Entrenched insiders can pursue non-profit-maximizing private objectives, extract economic rents through non-arm's-length related-party transactions, and retain suboptimal operational routines without the immediate threat of hostile replacement. Consequently, excessive ownership retention transforms traditional vertical principal-agent conflicts into horizontal expropriation frictions, leading to systematic long-run operational decay in post-IPO operating margins and capital productivity.

Beyond internal governance and ownership architecture, the econometric results provide conclusive evidence that secondary market liquidity functions as a potent external disciplinary mechanism. The Amihud illiquidity metric yields a negative and statistically significant coefficient ($\beta = -0.058$, $p = 0.0023$), while the annual share turnover ratio exhibits a positive effect ($\beta = 0.032$, $p = 0.0036$). In illiquid trading environments, high bid-ask spreads and severe price impact deter institutional asset managers, whose exit capacity is constrained. Conversely, deep secondary market liquidity facilitates active institutional participation and operationalizes the "governance-through-exit" mechanism. Under this framework, the credible threat of rapid institutional divestment depresses equity valuations upon operational missteps, directly disciplining executives whose compensation, reputational standing, and tenure are tethered to public capital market performance.

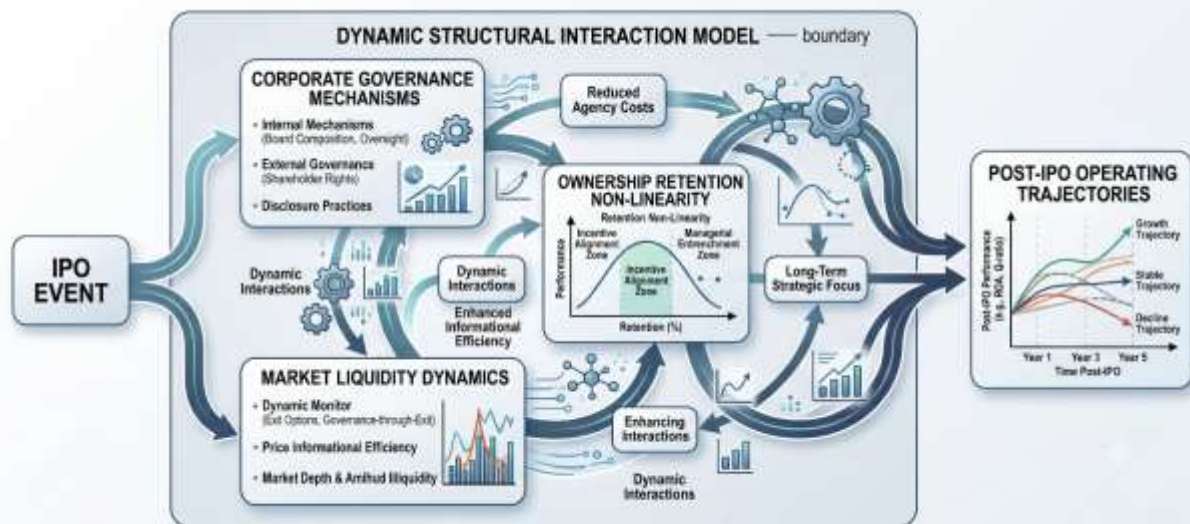


Figure 1. Dynamic Structural Interaction Model of Corporate Governance, Ownership Retention Non-Linearity, and Market Liquidity in Determining Post-IPO Operating Trajectories

The theoretical and empirical interactions synthesized in Figure 1 highlight how external liquidity dynamics and internal governance mechanisms operate as complements rather than substitutes. In an environment characterized by deep secondary market liquidity, stock prices reflect fundamental operational realities with greater fidelity, generating informative valuation signals that empower independent directors to benchmark managerial performance against sector peers. Liquid markets diminish informational rents, amplify the reputational costs of managerial inefficiency, and mitigate the agency risks associated with concentrated ownership retention. When external market discipline is weak due to secondary illiquidity, internal governance structures—such as majority-independent boards and autonomous audit committees—must carry the entirety of the monitoring burden, often with compromised effectiveness in the presence of entrenched majority owners.

Analysis of the control variables provides further insights into post-issue corporate trajectories. Pre-IPO discretionary accruals display a negative coefficient ($\beta = -0.078$, $p = 0.0027$), confirming that firms that aggressively manipulate accounting earnings prior to listing suffer the most severe operational corrections in post-issue years. Corporate scale, captured by the logarithm of total book assets, exhibits a positive relationship with post-IPO operating performance ($\beta = 0.024$, $p = 0.0027$), reflecting the capacity of larger firms to exploit economies of scale, sustain competitive advantages, and navigate post-listing regulatory compliance costs. Conversely, financial leverage maintains a negative coefficient ($\beta = -0.035$, $p = 0.0071$), indicating that high debt burdens exacerbate debt-overhang problems and constrain operational agility following public quotation.

To ensure that these empirical findings are unskewed by specific metric choices or sample selection biases, extensive robustness checks were conducted. First, the models were re-estimated using alternative operating performance indicators, including the operating cash flow margin and asset turnover; the core results regarding board independence, the inverted U-shaped retention curve, and market liquidity remained structurally consistent. Second, partitioning the sample into large-cap versus small-cap issuers revealed that while the entrenchment threshold is more binding for smaller issuers, the disciplinary effect of secondary liquidity is ubiquitous across all market capitalization quartiles. Finally, the Arellano-Bond test for second-order serial correlation ($p = 0.384$) and the Hansen J-test ($p = 0.218$) fail to reject the null hypotheses of zero second-order autocorrelation and instrument validity, confirming that the dynamic system GMM specification is robust, correctly specified, and free from instrument proliferation bias.

CONCLUSION

This study has investigated the multidimensional determinants of post-Initial Public Offering (IPO) long-run operating performance across emerging and transitional capital markets, establishing an integrated econometric framework that links internal corporate governance architectures, non-linear ownership retention structures, and secondary market liquidity dynamics. The empirical findings confirm that newly public corporations undergo a systematic, multi-year deterioration in operational profitability, operating cash flow generation, and asset turnover over a five-year post-flotation horizon. While an initial segment of this operational decay is mechanically attributable to the post-listing reversal of opportunistic pre-IPO discretionary accruals, the

primary long-run drivers of operational stagnation stem from exacerbated agency conflicts, managerial entrenchment, and the absence of continuous external market discipline.

The dynamic system GMM estimations provide robust empirical evidence that internal board governance structures serve as the primary organizational bulwark against post-issue operational decline. Specifically, a higher proportion of independent supervisory directors and autonomous, financially specialized audit committees significantly mitigate managerial agency costs, prevent the dissipation of primary capital proceeds on sub-optimal empire-building, and preserve long-run operating margins. Conversely, the presence of CEO duality—uniting operational management and board oversight in a single individual—severely compromises board monitoring efficacy, accelerating operational decay. Furthermore, the empirical analysis confirms an inverted U-shaped relationship between insider ownership retention and long-run operating performance, identifying an operational inflection threshold at approximately 48 percent. Below this threshold, retained equity effectively aligns the financial incentives of controlling insiders with minority shareholders; beyond it, excessive equity concentration entrenches controlling coalitions, neutralizing board checks and balances and facilitating private rent extraction at the expense of corporate productivity.

Crucially, the study reveals that secondary market liquidity functions as a potent external corporate governance mechanism. Elevated secondary trading volume and diminished Amihud illiquidity metrics enhance price discovery, foster active institutional monitoring, and operationalize the "governance-through-exit" disciplinary channel. The credible threat of rapid institutional divestment exerts continuous pressure on corporate executives to maintain operational discipline and allocate capital efficiently. When secondary liquidity is constrained, stock prices decouple from operational fundamentals, blunting external discipline and shifting the entire monitoring burden onto internal board organs, which often falter in the presence of entrenched majority owners.

Based on these econometric results, several concrete policy frameworks and regulatory recommendations are formulated for securities regulators, stock exchanges, and corporate practitioners in emerging and transition equity markets:

First, stock exchange listing standards and corporate governance codes must mandate structural board independence as a statutory prerequisite for public quotation. Capital market authorities should require that independent, non-executive directors constitute a strict majority on corporate supervisory boards, accompanied by the mandatory separation of the chief executive officer and board chairman functions. Furthermore, audit and compensation committees must be composed entirely of independent directors with documented financial expertise. These structural safeguards eliminate executive conflicts of interest, ensure rigorous oversight of post-IPO capital deployment, and constrain discretionary accounting opportunism prior to and following the offering.

Second, regulatory bodies and divesting authorities must establish transparent frameworks governing post-IPO ownership retention and secondary share offerings. Given the empirical demonstration that excessive ownership retention above the 48 percent threshold fosters managerial entrenchment and depresses long-run returns, listing rules should incentivize the structured, phased dispersion of controlling blocks. Implementing transparent post-listing lock-up agreements—coupled with pre-announced schedules for secondary equity offerings—signals a credible commitment to minority shareholder protection, prevents the entrenchment of majority coalitions, and broadens the public free float.

Third, policymakers must enact targeted structural reforms to deepen secondary equity market liquidity. Regulators should modernize market microstructures by introducing designated market-maker systems, streamlining algorithmic trading protocols, and liberalizing domestic pension and insurance investment mandates to expand the pool of active, long-term institutional capital. Lowering transaction costs and deepening order books compresses bid-ask spreads, attenuates Amihud illiquidity, and empowers institutional blockholders to exercise effective external oversight through both voice and credible exit threats.

Fourth, disclosure and accounting verification frameworks must be upgraded to international benchmarks. Mandating the full adoption of International Financial Reporting Standards (IFRS) for at least three consecutive years prior to listing—alongside rigorous external verification of related-party transactions—curbs pre-issue earnings inflation and shields incoming investors from artificial operational mean-reversion. Simultaneously, fostering a competitive, independent equity research ecosystem ensures that corporate operating trajectories are subject to continuous analytical scrutiny, minimizing informational rents and enhancing the allocative efficiency of the broader capital market.

By integrating robust internal board governance, balanced ownership retention architectures, and deep secondary market liquidity, transition economies can effectively counter the post-IPO operating performance decline. Implementing these interconnected reforms ensures that public equity markets transcend their traditional role as speculative trading venues, functioning instead as enduring institutional catalysts for corporate efficiency, shareholder value creation, and sustainable economic modernization.

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