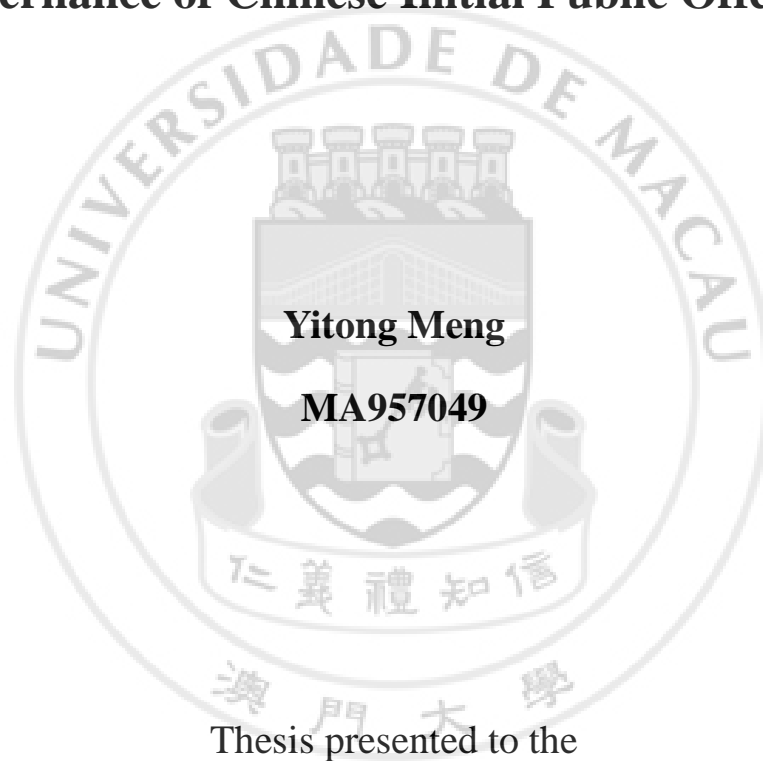


**UNIVERSITY OF MACAO**  
**FACULTY OF BUSINESS ADMINISTRATION**

**The Role of Venture Capitalists on the Corporate  
Governance of Chinese Initial Public Offerings**



**Yitong Meng**

**MA957049**

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## ABSTRACT

Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, and high growth startup companies. It has been widely studied in the US and western countries that other than capital investment, venture capitalists also supply value-added services, like initiating strategic plan, monitoring as well as serving as an intermediary between investors and the firms. However, the environment in China is quite different from that in many developed Western economies in several important respects, including regulatory systems, capital market structure, culture, and sources of capital. Also China's private equity market is relatively young compared to US. This study aims to examine the role of Venture capitalists on the corporate governance of new companies listed in the Small and Medium Enterprise (SME) Board in China.

Regarding the companies' board size, we find that IPOs backed by venture capital on average have larger board, and board size is increasing with the firm size. In term of board composition, VC has no impact on the seats taken by executives; however, venture capital participation decreases the portion of seats occupied by other dependent directors. In addition, Venture capitalist contributes to the reduction in share concentration; IPOs that are backed by VC on average have more blockholders and the blockholder ownership is widespread. As for the IPO underpricing, both the headline and total wealth loss method are used to test the role of VCs on new companies. IPOs backed by VC are more underpriced under those two measurements. Finally, through the comparison of long term stock

performance between VC and non-VC backed IPOs, we find that both the cumulative abnormal return (CARs) and the buy and hold abnormal return (BHAR) are higher for the VC groups.



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