

VENTURE CAPITAL AND POST-IPO COMPANY PERFORMANCE: EVIDENCE IN
MALAYSIA

A Thesis Submitted to the Othman Yeop Abdullah Graduate

School of Business

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for the Degree of Master of Science (Finance)

By

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DECLARATION

I hereby declare that this thesis entitled “Venture Capital and Post-IPO Company Performance: Evidence in Malaysia” is based on my original research, except for quotations and citations that have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at Universiti Utara Malaysia or any other institutions.

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ABSTRACT

This study examines post IPO company performance of venture capital-backed and non-venture capital-backed companies for IPOs listed on the MAIN and ACE markets during the years 2006 to 2009. This study also examines the effect of venture capital variables and other control variables on post-IPO company performance. Out of 103 companies listed during the years 2006-2009, only 77 companies were selected as the sample for this study. Moreover, only 15 IPOs are backed by venture capital while the remaining 62 IPOs are non-venture backed.

The descriptive statistics show that in the post-IPO period, the performance of venture-backed companies does not exhibit better performance compared to non-venture backed companies. This result contradicts the prior literature that states that venture-backed IPOs do outperform non-venture backed IPOs. Moreover, the long run post-IPO company performance shows a significant decline relative to the pre-IPO period. In addition, the venture capital age and company size are positively correlated with the post-IPO company performance. Meanwhile, venture capital dummy, percentage change in venture capital ownership, company age and market capitalization show a negative correlation with the post-IPO company performance for MAIN and ACE markets in Malaysia.

Keywords: Venture Capital, IPO, Performance

ABSTRAK

Kajian ini mengkaji perubahan prestasi operasi syarikat IPO yang disokong oleh pemodal teroka dan syarikat IPO yang tidak disokong pemodal teroka yang disenaraikan di ‘Pasaran Utama’ dan ‘Pasaran ACE’ pada tahun 2006 hingga 2009. Kajian ini juga mengkaji kesan yang di bawa oleh pemodal teroka dan juga faktor-faktor lain terhadap prestasi syarikat selepas disenaraikan di kedua-dua pasaran. Daripada 103 syarikat yang baru tersenarai di dalam kedua-dua pasaran tersebut pada tahun 2006-2009, hanya 77 syarikat telah dipilih sebagai sampel untuk digunakan dalam kajian ini. Selain itu, hanya 15 syarikat IPO yang disokong oleh pemodal teroka manakala selebihnya, 62 syarikat IPO tidak disokong pemodal teroka.

Hasil kajian menunjukkan bahawa selepas tempoh penyenaian, prestasi syarikat IPO yang disokong pemodal teroka adalah kurang baik daripada prestasi syarikat IPO yang tidak disokong pemodal teroka. Hasil kajian ini berlainan dengan hasil kajian yang telah dilakukan pada masa dahulu yang menyatakan prestasi syarikat IPO yang disokong pemodal teroka adalah lebih baik daripada prestasi syarikat yang tidak disokong pemodal teroka. Bukan itu saja, penurunan prestasi syarikat IPO selepas disenaraikan dalam jangka masa panjang juga turut dijumpai dalam hasil kajian ini. Tambahan juga, umur pemodal teroka dan saiz syarikat mempunyai hubungan yang positif dengan prestasi syarikat selepas IPO. Selain itu, perubahan dalam pemilikan pemodal teroka dan umur syarikat menunjukkan hubungan yang negatif dengan prestasi syarikat selepas IPO.

Katakunci: Pemodal teroka, Penyenaian, Prestasi

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CHAPTER ONE

INTRODUCTION

1.1 Background of study

Since a few decades ago, the performance of initial public offering (IPO) companies has been a debated issue by the academicians, researchers and practitioners, in relation to its nature and strategic impact on investment decisions in developed and developing countries. In the world of business, company performance has become very important, especially for investors, to evaluate the effectiveness and efficiency of management. The company performance provides a signal to investors and acts as a guideline for their long term investment decision (Mokhtar and Muda, 2012). Thus, maintaining a good company performance has become a crucial part for the management in order to ensure the company is able to compete with its rivals. From prior literature, such as Megginson and Weiss (1991), Jain and Kini (1995), Hellman and Puri (2002), and Campbell II and Frye (2009), Venture Capital (VC) is associated with contributing towards a company's successful performance. According to Megginson (2002), VC is defined as a professionally managed pool of money raised for the purpose of making equity investments in growing private companies. In general, VC plays a crucial role, especially in contributing to the success of start-up companies, as it provides the equity and guidance to that particular company (Bessler and Seim, 2011).

Meanwhile, Shilson (1984) defines VC as an activity by which investors support entrepreneurial talent with finance and business skills to exploit market opportunities, and thus obtain long-term capital gains. The traditional theory of capital fund financing tends

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