Late-Stage Private Equity Investment as a Non-Market Strategy: Evidence from Chinese pre-IPO Firms

By

Dr Yu ZHANG
China Europe International Business School

Date: 13 March 2017 (MON)
Time: 2:30 pm - 4 pm
Venue: M802

Abstract
This paper explores the use of late-stage private equity investments by pre-IPO firms as a non-market strategy. We argue that in a heavily regulated equity-financing market, late-stage private equity investors can help pre-IPO firms to pass the regulatory barriers, especially for those with weaker quality. However, such use of non-market strategy is not free, as private equity investors may ask for a rent for such favor. Using manually-collected information about ownership changes from China’s IPO application filings, we find that over a third of firms receive late-stage private equity investment and subsequently halve rejection rates for IPO applications, compared to firms without PE investment. Those PE investors are then rewarded with 9.5 times return over a 14-month period for an average deal. Further tests rule out possible alternative explanations for extraordinary PE returns, such as financing, selection/certification, and managerial improvement.

Dr Yu ZHANG is Assistant Professor of Management at CEIBS. Dr Zhang received his PhD in Management from INSEAD. Prior to joining CEIBS, he was Assistant Professor of Strategy at the Paul Merage School of Business, UC Irvine, where he taught business strategy for the MBA and undergraduate students. His teaching interests include Strategic Management, Industry and Competitive Analysis, and Corporate Governance. Dr Zhang’s research focuses on the interaction between strategy and capital markets. His research has been published in top-tier journals such as the Academy of Management Journal, Strategic Management Journal, and Organization Science. He has been invited to present his research in leading business schools in Asia, Europe and North America, and to give keynote speech on leading industrial conferences such as the NACD (National Association of Corporate Directors) Spring Forum. Dr Zhang has won Celebration of Teaching Dean’s Honoree Award from UC Irvine, Best Symposium Award from the Academy of Management, and Best PhD Student Paper Award from Strategic Management Society. His research on the role of corporate governance in regulating the impact of earnings pressure on firm strategy won the inaugural BlackRock/NACD Global Challenge for Innovation in Corporate Governance in 2013.

All interested are welcome