

Venture Capital Experience: Secretary and Investor Confidence

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Abstract: Previous research primarily focuses on the financial outcomes of corporate strategic choices, but rarely discusses why they differ in strategic choices. Informal institutions, such as culture, may explain corporate strategic decisions. Based on data from Chinese listed firms from 2007 to 2022, this paper finds that corporates more influenced by merchant guild culture are more likely to implement the defenders-type strategies, which aligns with the origin logic of risk aversion in historical merchant guilds, suggesting contemporary corporate strategic choices have cultural origins. In further analysis, we examined the mechanisms of risk avoidance. Overall, this study contributes to the literature about social norm and corporate behaviors, providing new evidence for the understanding of how informal institutional affect corporate behaviors.

1. Introduction

The "Report on Investor Protection in China's Capital Market" (2022) particularly emphasizes the importance of protecting investors' rights and interests and improving the quality of information disclosure. In the capital market, information transparency is related to the healthy development of the capital market and is the key to avoiding the accumulation of risks [1]. The higher the degree to which investors receive information, the more rational investment behaviors they can make. Coupled with the significant increase in the demand of existing investors for the characteristic information of listed companies [2]. The secretary of the board of directors is the only senior executive designated by the Company Law for the external information release of listed companies. They are mainly responsible for information disclosure and investor relations management. In addition, they are also responsible for convening shareholders' meetings and the board of directors, etc.

Existing studies more often define the role of venture capital in the development of the capital market as institutional investors. The main viewpoint of scholars is that venture capital holds shares in listed companies and provides functions such as consultation [3], supervision [4], and certification [5], which plays an important role in improving the corporate governance level of listed companies. However, less in-depth study has been conducted on the subsequent economic

effects of workers with relevant working experience. The Branding theory holds that the long-term working experience of senior executives in a certain field will enable them to have corresponding professional knowledge and cognitive levels, exhibit higher information processing efficiency, and thus make decisions more effectively [6]. As an active participant in the capital market, venture capital has more empirical insights into how to engage in dialogue with investors. Influenced by the branding theory, the probability that a secretary of the board with relevant venture capital experience can effectively enhance investor confidence is greater than that of a secretary of the board without such working experience. In conclusion, what this article intends to explore is: Can a secretary of the board with a venture capital background effectively boost investor confidence?

The marginal contribution of this article lies in: (1) Enriching the relevant research on investor confidence. Enriched the related research on signal theory. (2) It has expanded the research on the economic consequences brought about by the secretary of the board of directors. (3) It has enriched the research on the branding theory.

2. Literature review

2.1. Review of the Board Secretary's Research

Existing research focuses on the influence of the personal characteristics of the secretary of the board of directors on corporate governance. To a large extent, the comprehensive quality of the secretary of the board of directors themselves will affect their work efficiency and work achievements. The existing literature mainly starts from the perspectives of the financial background of the secretary of the board of directors [7], the media background [8], the experience in securities firms [9], the investment banking background [10], and the CFO concurrently serving as the secretary of the board of directors [11]. The research on the corporate governance effectiveness exerted by the secretary of the board of directors as a high-quality talent and senior management team reveals that the secretary of the board of directors can significantly reduce regulatory inquiry letters [7], reduce financial restatements [8], restrain corporate earnings management [11], and help the company seize the opportunity of private placement [10]. (2021), Improving the Efficiency of the capital market [12].

2.2. Research related to investor confidence

Investor confidence is a manifestation of investor sentiment [13]. Existing studies mainly focus on investor confidence. The readability of annual reports [14], smog [13], deleveraging policies [15], and risks in the online lending industry [16] have all affected investor confidence. Secondly, the research on the economic consequences of investor sentiment can enhance the pricing of asset-backed securities and increase the liquidity of asset securitization [17].

3. Theoretical analysis

The branding theory holds that organizations or individuals go through many sensitive periods during their development. During these periods, they are significantly influenced by the environment, generating branding traces that match the characteristics of the environment and continuously influencing the behavioral decisions of individuals and organizations [18]. The venture capital experience of a secretary of the board of directors will endow him/her with a higher level of professional vision and risk control ability, especially a more professional management ability in investor relations, which can effectively boost investor confidence. Venture capital has a sharp sense of risk, can promptly grasp important capital market information and respond quickly.

According to the branding theory, the working experience in venture capital will enable the employee to demonstrate a high level of the operation mode of venture capital institutions at work even when the working environment changes, maintaining a high degree of caution and professionalism. For the secretary of the board of directors, information disclosure and investor relations management are the most important daily tasks. The experience in venture capital can endow the secretary of the board of directors with a strong sense of risk control, convey favorable information in the capital market, do a good job in information disclosure, respond to investors' questions in a timely and accurate manner, and effectively boost investors' confidence.

The performance briefing is an important source of information for investors and plays a crucial role in effectively boosting investor confidence. Listed companies can convey a clear signal of their promising development prospects to investors by disclosing relevant risk information, thereby earning positive evaluations from the companies [19]. Among them, venture capital, as a member of the investor team, also attaches great importance to the performance of listed companies and will actively ask questions to the company's management team. According to the theory of limited attention, the complex information in the capital market may cause confusion for investors, and the establishment of the position of the secretary of the board of directors has a significant impact on information organization and disclosure. Therefore, the secretary of the board of directors can fulfill their duties in the performance briefing and do a good job in information disclosure. Further, from the perspective of imprint theory, the experience of venture capital practitioners will greatly enhance their cognitive level and information processing ability. Thus, the experience brought by the venture capital practitioners' experience plays an important role in boosting investor confidence for the secretary of the board of directors and is reflected by increasing the response degree of investors in the performance briefing.

Therefore, we formulated Hypothesis 1:

Hypothesis 1: A secretary of the board with experience in venture capital can more effectively boost investor confidence.

4. Research design

4.1. Sample Selection and data source

This study selects the annual data of A-share listed companies in Shanghai and Shenzhen from 2009 to 2022 as the research sample, and conducts the following data processing on the sample: Perform tailing processing on the extreme values of the sample by 1%-99%.The data used in this study mainly from China Stock Market and Accounting Research Database (CSMAR).

4.2. Empirical model

To examine the influence of VCBoard on IC, we employed a regression model that takes several control variables into account:

$$IC = \alpha_0 + \alpha_1 VCBoard + Controls + FE + \varepsilon \quad (1)$$

In Eq. (1), IC represents investor confidence; The VCBoard determines whether the secretary of the board has experience in venture capital. Control variables include various factors, such as company characteristics, corporate governance and personal characteristics of the secretary of the board of directors.

4.3. Variable measurement

4.3.1. IC

Investors' decisions on whether to invest are mostly based on whether the financial indicators of enterprises have sufficient profit margins. Therefore, this article refers to the practice of [13]. Variables such as the annual operating income Growth rate (Growth), annual price-to-book ratio (PB), institutional investor shareholding ratio (Inst), total asset turnover rate (ZJC), and net profit (JLR) of the enterprise were selected. The principal component analysis method was used to construct the investor confidence index as the proxy variable of investor confidence in this paper. Among the samples with a price-to-book ratio greater than or equal to 0, this paper finally selects the weighted average of the first principal component, the second principal component and the third principal component to constitute the investor confidence index. The specific calculation formula is in Table 1:

$$IC=0.3772 \times PB+0.3121 \times Growth+0.3106 \times Inst$$

Table 1 Principal Component Analysis table.

Variable	Factor1	Factor2	Factor3
PB	-0.1497	0.7284	0.5240
Growth	-0.0554	-0.4584	0.8451
Inst	0.7404	-0.0191	0.0787

4.3.2. VCBoard

The secretary of the board's venture capital experience (VCBoard): Referring to the definition of venture capital by [3], this paper manually searches for secretaries of the board of directors with venture capital working experience from the resumes of senior executives in the CSMAR database. If keywords such as "venture capital", "investment", "venture capital", and "entrepreneurship" appear in the resumes of senior executives, their venture capital working experience is judged accordingly. If there are any, a value of 1 is assigned; otherwise, a value of 0 is assigned.

4.3.3. Control variables

Based on the relevant research by [7], the following variables were taken as control variables at the company level: company size (Size), debt ratio (Lev), profitability (ROA), cash flow (Cashflow), proportion of independent directors (Indep), ownership nature (SOE), degree of equity concentration (top1), and whether it is audited by the Big 4. At the individual level, the following variables were also included as control variables: top-notch corporate secretary (GoldenMS), academic background (Academic), whether holding concurrent positions (Pastime), number of companies served as secretary (Count), secretary's gender (Sex), secretary's educational background (Edu), whether having auditing experience (CPA), and whether having a financial background (Acc). Additionally, the year and industry were also controlled.

5. Empirical result

5.1. Baseline regressions

Table 2 presents the benchmark regression results. We employed a stepwise control method to test the hypotheses. As shown in Table 2, the coefficient of MGC is significantly positive, which strongly supports Hypothesis 1.

Table 2 Baseline regressions.

	(1)	(2)	(3)
VCBoard	0.022***	0.019***	0.023***
	(3.75)	(3.35)	(4.25)
CV	YES	YES	YES
Observations	18,737	18,737	18,737
Ind	NO	YES	YES
Year	YES	NO	YES
Adj-R ²	0.327	0.390	0.396

Robust t-statistics in parentheses, *** p<0.01, ** p<0.05, * p<0.1

5.2. Endogeneity concerns

5.2.1. Replace variable

This paper refers to the research of [20], and replaces the explained variable with the quality of information disclosure. The KV index is used as the proxy variable. The smaller the KV index, the higher the quality of information disclosure by the listed company, and the higher the understanding of the listed company by investors, and the higher the investor confidence. The results are shown in Table 3. The coefficient in column 1 is significantly negative, which proves the robustness of H1.

5.2.2. PSM propensity score matching test

We employ the PSM propensity score matching method, selecting all the control variables in the baseline regression as observable variables, conducting Logit regression on the explained variable, obtaining the propensity scores after matching, then setting the matching parameters to 1:1 and performing matching regression according to the scores. The rule is set as with replacement and allowing ties, and the final results are subjected to multiple regression. The results are shown in Table 3. The coefficient of VCBoard is significantly positive at the 1% level, demonstrating the robustness of H1.

5.2.3. DID Test

Table 3 Robustness test.

	(1)	(2)	(3)
VCBoard	-0.005**	0.019**	
	(-2.35)	(2.49)	
Treat*Post			0.019***
			(3.91)
Constant	0.759***	-1.189***	-0.715***
	(34.82)	(-12.60)	(-10.30)
CV	YES	YES	YES
Observations	18,581	7,465	18,737
Industry	YES	YES	YES
Year	YES	YES	YES
Adj-R ²	0.196	0.383	0.253

Robust t-statistics in parentheses, *** p<0.01, ** p<0.05, * p<0.1

To avoid the reverse causality problem caused by endogeneity, this paper adopts the DID test

method to verify the impact of the risk investment background of the company's chief financial officer on investor confidence. The results are shown in Table 3. The Treat*Post coefficient is significantly positive, indicating that the risk investment experience of the chief financial officer is the main reason for the increase in investor confidence, which proves the robustness of H1.

5.3. Mechanism analysis: Reply

We constructed Eq. (2) and Eq. (3) based on Eq. (1) for mechanism analysis. The results are presented in Table 4, with column (1) listing the baseline regression for Eq. (1).

$$\text{Reply} = \alpha_0 + \alpha_1 \text{VCBoard} + \text{Controls} + \text{FE} + \varepsilon \quad (2)$$

$$\text{IC} = \alpha_0 + \alpha_1 \text{VCBoard} + \alpha_2 \text{Reply} + \text{Controls} + \text{FE} + \varepsilon \quad (3)$$

We adopt the following methods to construct the reply indicators for the performance briefing: 1) Tokenization of the text; 2) Cleaning of the tokenization results; 3) Calculating the TF-IDF values of the words in the text; 4) Training word vectors using Word Embedding; 5) Weighting the obtained word vectors using TF-IDF to obtain the text vectors; 6) Measuring the similarity of the performance briefing texts using the cosine function. The larger the measurement value, the higher the similarity between the texts; conversely, the lower the similarity. The higher the text similarity, the higher the similarity between the questions and answers, and the more information investors obtain.

Table 4 Mechanism analysis.

	IC	Reply	IC
	(1)	(2)	(3)
Board	0.023***	0.010**	0.023***
	(4.25)	(2.182)	(4.25)
Reply			4.385***
			(15.362)
Controls & FE	YES	YES	YES
Observations	18,649	18,649	18,649
Adj-R ²	0.396	0.421	0.681

Robust t-statistics in parentheses, *** p<0.01, ** p<0.05, * p<0.1

6. Conclusions

This paper uses the data of Chinese A-share listed companies from 2009 to 2022 as the sample. Through manual collection of information about the board secretary and their personal characteristics, and by comprehensively applying textual indicators, an empirical study reveals the following: (1) The personal risk investment experience of the board secretary significantly boosts investor confidence; (2) The board secretary's personal risk investment experience increasing the response degree of the performance explanation meeting is a possible channel to boost investor confidence.

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