Front Manage Bus, 2022, 3(2): 199-206
DOI: 10.25082/FMB.2022.02.001

RESEARCH ARTICLE

Venture capital, enterprise performance and accounting information quality – GEM listed companies of China

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Received: May 11, 2022;
Accepted: June 13, 2022;
Published: June 16, 2022.

Citation: Pervaiz J, Qu B and Masih J. Venture capital, enterprise performance and accounting information quality – GEM listed companies China. *Front Manage Bus*, 2022, **3**(2): 199-206.
https://doi.org/10.25082/FMB.2022.02.001

Abstract: Aim of this study is to find the relationship between venture capital, accounting information quality, and corporate performance using the GEM listed companies' data from 2000 to 2019. Empirical analysis found that venture capital participation has a significant role in promoting corporate performance. Results show that higher accounting information quality has a significant role in promoting corporate performance. The characteristics of venture capital have a significant role in regulating the relationship between accounting information quality and corporate performance.

Keywords: venture capital, accounting information quality, corporate performance, enterprise performance

1 Introduction

Over the past 30 years, China's venture capital development opportunities and challenges coexist. Although great progress has been made, compared with foreign countries, there is still a long way to go. The theories and systems of venture capital are not yet mature [1]. Compared With traditional financing methods, venture capital has unique advantages. In addition to providing companies with long-term stable funds, more importantly, the value of intangible assets attached to it has played an important role in promoting corporate growth. After reviewing the literature, it is found that in the past, most scholars separately studied the impact of venture capital on the quality of accounting information and corporate performance [2]. The proposal of "mass innovation and entrepreneurship", the arrival of the economic transition period, and the explosive development of the financial industry, China's venture capital market has expanded rapidly in recent years. According to the latest venture capital trend report released by KPMG, the pulse of Venture capital It shows that in 2018, China's venture capital transaction volume reached 70.5 billion U.S. dollars, an increase of 52.9% over 2017. According to a report released by the startup company database in the first 10 months of 2018, China's venture capital exceeded the United States and ranked first in the world. Few scholars linked the three to the dynamic investigation. This article believes that there is a close relationship between venture capital, accounting information quality, and corporate performance. Therefore, this article attempts to start from the perspective of the moderating effect of venture capital and integrate the three into the same analytical framework to deeply explore the close relationship between venture capital, accounting information quality, and corporate performance [3].

2 Literature review and research hypothesis

2.1 The regulatory role of venture capital

While the venture capital brings capital to the enterprise, it also helps the enterprise improve its internal management system [4, 5]. The supervision of the company's management Will urge them to standardize the company's financial standards, improve the true reliability of financial statements, thereby improving the quality of accounting information: and help the company's management to make reasonable business decisions and development plans based on financial conditions, and can also reduce The occurrence of moral hazard and principal-agent risk can improve the efficiency of corporate governance, reduce operating costs, realize the optimal allocation of the company's existing resources, and maximize corporate value [4–7]. The greater

the relationship between venture capital and the interests of enterprises, the more attention Will be paid to the level of accounting information quality of enterprises [2, 8, 9]. Therefore, the supervision and management of enterprises will be closer, thereby improving the performance of enterprises. Based on the above analysis, this article proposes the following hypotheses:

H1a: Venture capital participates in the positive adjustment of the impact of accounting information quality on corporate performance.

H1b: The proportion of venture capital holdings positively regulates the impact of accounting information quality on corporate performance.

H1c: Joint venture capital positively regulates the impact of accounting information quality on corporate performance.

2.2 Venture capital and corporate performance

A review of domestic and foreign literature shows that scholars hold two Views on the relationship between venture capital and corporate performance: the former promotes or inhibits the latter. Some scholars believe that due to the existence of factors such as opportunistic behavior, principal-agent risks, and moral hazards, venture capitalists and corporate managers have different interest demands, and investors are either eager to exit to seek excess returns or to build a good reputation. Pushing immature companies to IPO, the true value of the company has not been fully utilized at this time [10, 11]. In the daily operation of enterprises, investors and managers have different opinions. Which decides the enterprise unable to be issued quickly, Which Will make the enterprise missed opportunities, and the mistakes of venture capitalists in decision-making Will hinder the healthy development of the enterprise. In joint venture capital, each investment subject has different interest goals. After the company is successfully listed, their "true colors" Will gradually be revealed. Each institution hopes to "get a share" from it but is unwilling to undertake the subsequent operations of the company. The risk of failure. Based on the above conclusions, some scholars have concluded that the performance of enterprises supported by venture capital is poor. Studies demonstrations that venture capital institutions only focus on the pursuit of reputation and benefits in the development stage of startups, and ignore the supervision and governance of listed companies, causing significant losses to investors and failing to enhance the value of the company [4, 12]. Besides, most researchers believe that venture capital Will promote company performance growth. Venture capital has the functions of certification, supervision, screening, etc. In addition to a large number of funds: it also brings intangible value-added services to enterprises and promotes technological innovation. A few scholars believe that the performance of companies with venture capital participation is better because venture capital has a "screening" function Which evaluates the financial performance, development potential, investment field, and other aspects of the target company before determining the investment, eliminating market performance Inferior companies, high-performing companies have good development potential before venture capital enters. The good market reputation of venture capital institutions helps companies attract more external investors. Venture capitalists often have rich management experience and broad contacts [6, 12, 13]. These additional values lay a solid foundation for the company's long-term development. Study shows that value-added is the main driver of performance growth for companies with a venture capital background [3], also found that high reputation risk investment institutions will help the invested company improve its operating mechanism and improve business capabilities to maintain its reputation and market position, and ultimately achieve the goal of improving corporate performance [8]. Another empirical research shows that venture capital will promote enterprises to maximize the value in terms of strategic planning, organization structure optimization, and cost reduction [14]. Compared with independent investment, the support of two or more venture capital institutions can bring greater value to the company [7]. Also finds that a high shareholding ratio and joint venture capital will both promote business performance growth [4]. Based on the above discussion, this article proposes the following hypothesis:

H2a: There is a significant positive correlation between venture capital participation and corporate performance.

H2b: There is a significant positive correlation between the proportion of venture capital holdings and corporate performance.

H2c: There is a significant positive correlation between joint venture capital and corporate performance.

2.3 Accounting information quality and corporate performance

Improving the authenticity and legitimacy of corporate financial data can to a certain extent alleviate the moral hazard caused by information asymmetry, reduce the uncertainty risk faced

by investment institutions, avoid unnecessary financing costs, and improve the efficiency of corporate investment and financing, realize the optimal allocation of resources, and finally achieve the goal of promoting the stable growth of the enterprise. The higher the quality of the accounting information disclosed by a company, the truer the company's financial status and operating level Will be communicated to external investors and stakeholders. Investors can also rationally judge Whether they want to cooperate with the company in the next step. The long-lasting and stable cash how has come to avoid the dilemma of financial difficulties When the company's operating profits decline or the performance declines due to poor market conditions, and investors suddenly Withdraw. Results of the study shows that improving the quality of accounting information disclosure can effectively promote corporate performance improvement [15,16]. Research have found that there is a positive correlation between accounting information transparency and accounting performance and market performance [17]. Based on the above analysis, this article proposes hypotheses:

H3: There is a significant positive correlation between the quality of accounting information and corporate performance.

3 Research design

3.1 Sample selection and data sources

The article takes the companies listed on the Shenzhen Growth Enterprise Market from 2000 to 2019 as a sample, excluding ST, *ST companies, financial and insurance companies, and companies with incomplete financial data, and finally, select 369 companies as the research objects. The research data in this paper mainly comes from the C SMAR database, and the data on the background of corporate venture capital mainly comes from manual collection and collation, using Excel and Stata software to collate and empirically analyze the data.

3.2 Variable definition

3.2.1 Variables

The corporate performance evaluation indicator system is composed of profitability indicators, debt solvency indicators, development ability indicators, and operating capacity indicators. Based on previous studies, because of the strong representativeness of the return on equity (ROE) in profitability indicators, here, the return on net assets is selected as the explained variable.

3.2.2 Explain the variables

This paper adopts the research method of Bhattacharya and others and uses the earnings stimulus (EA) as an indicator to measure the quality of accounting information. It shows the tendency of listed companies to delay the recognition of losses and accelerate the recognition of earnings, reflecting the relationship between listed companies' reported earnings and real earnings. The higher the EA, it means that the management of the company is more likely to deliberately hide the actions of the company's operating performance to create the appearance of good operating conditions, to implement earnings management behaviors, and lower the quality of accounting information. Since the value of the earnings surge is positive or negative, a positive EA (+) indicates the earnings surge. The larger the value, the lower the quality of accounting information; the negative EA (-) indicates the degree of earnings conservative, and the larger the value, the accounting the higher the quality of the information. To maintain the consistency of the research significance of the positive and negative earnings stimulus, this article draws on Guo (2012) [18] the solution is to multiply EA (+) by -1, so the larger the value of EA, the lower the quality of accounting information. The calculation formula of EA is $EA_t = (EARN_t - NCF_t)/ASSET_{t-1}$, among them EARNt is the company's net profit for the year, NCFt is the company's net cash flow from operating activities that year, ASSETt-1 is the company's total assets at the beginning of the year.

3.2.3 Adjust the variable

This article selects venture capital participation (VC), venture capital holding ratio (VCH), and whether to join venture capital (VCJ) as the moderator. Combining the R18 Financial database and the prospectus of listed companies, if the company's top ten shareholders involve venture capital, it is recorded as 1, otherwise, it is 0; the venture capital holding ratio is based on the company's top ten shareholders of venture capital institutions. The sum of the proportions is derived; if the company's top ten shareholders have two or more venture capital institutions, it is recorded as 1, otherwise, it is 0.

3.2.4 Control variables

Comprehensive analysis of previous research, this article selects asset-liability ratio (LEV), asset turnover (TAT), quick ratio (QR), enterprise size (SIZE), industry dummy variable (IND), and year dummy variable (YEAR) as control variables.

3.2.5 Model construction

To verify Hypothesis 1, this paper uses venture capital as the explanatory variable (see in Table 1), and corporate performance as the explained variable, and constructs the following linear regression model:

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCD} + \beta_2 \mathrm{LEV} + \beta_3 \mathrm{TAT} + \beta_4 \mathrm{QR} + \beta_5 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (1)$$

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCH} + \beta_2 \mathrm{LEV} + \beta_3 \mathrm{TAT} + \beta_4 \mathrm{QR} + \beta_5 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (2)$$

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCJ} + \beta_2 \mathrm{LEV} + \beta_3 \mathrm{TAT} + \beta_4 \mathrm{QR} + \beta_5 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (3)$$

To verify Hypothesis 2, this paper takes the quality of accounting information as the explanatory variable and the performance of the enterprise as the explained variable, and constructs the following linear regression model:

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{EA} + \beta_2 \mathrm{LEV} + \beta_3 \mathrm{TAT} + \beta_4 \mathrm{QR} + \beta_5 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (4)$$

To verify Hypothesis 3, this paper constructs the following linear regression model:

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCD} + \beta_2 \mathrm{EA} + \beta_3 \mathrm{VCD} \times \mathrm{EA} + \beta_4 \mathrm{LEV} + \beta_5 \mathrm{TAT} + \beta_6 \mathrm{QR} + \beta_7 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (5)$$

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCH} + \beta_2 \mathrm{EA} + \beta_3 \mathrm{VCH}^* \mathrm{EA} + \beta_4 \mathrm{LEV} + \beta_5 \mathrm{TAT} + \beta_6 \mathrm{QR} + \beta_7 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (6)$$

$$\mathrm{ROE} = \beta_0 + \beta_1 \mathrm{VCJ} + \beta_2 \mathrm{EA} + \beta_3 \mathrm{VCJ}^* \mathrm{EA} + \beta_4 \mathrm{LEV} + \beta_5 \mathrm{TAT} + \beta_6 \mathrm{QR} + \beta_7 \mathrm{SIZE} + \mathrm{YEAR} + \mathrm{IND} \quad (7)$$

Table 1 Variables description, symbols, name, and type

Variable name	Variable Symbol	Variable Type	Description
ROE	ROE	Explained variable	Net profit at the beginning of the period/Net assets at the end of the period
Earning volatility	EA	Explanatory variable	Reflects the extent to which the income volatility of listed companies deviates from the true income volatility
Assets & liabilities	LEV		Total liabilities/total assets
Asset turnover	TAT		Operating income [(total assets at the beginning of the period + total assets at the end of period)/2]
Quick ratio	QR		Company's quick assets/total assets at the end of the period
Enterprise size	SIZE	Control variables	The log of the company's total assets at the start of the period
Industry	IND		Virtual variable
Year	YEAR		Virtual variable
Venture capital participation	VCD		Dummy variable, take 1 if there is venture capital among the top 10 shareholders of the enterprise, otherwise 0
Venture capital holding ration	VCH	Moderator variable	The sum of the Shareholding ratios of the venture capital institutions among the top 10 shareholders of the
Venture capital	VCJ		Dummy variable, if there are two or more venture capital institutions in the top 10 shareholders of the company take 1, otherwise 0

4 Empirical results and analysis

4.1 Descriptive statistical analysis

Table 2 shows the descriptive statistics of the main variables.

Table 2 Descriptive statistics

Variables	Observations	Mean	St.Dev.	Min	Max
ROE	1845	0.1559	0.1499	-1.9999	1.7664
EA	1845	0.0336	0.1444	-0.9994	2.9922
VCD	1845	0.5888	0.5009	0	1
VCH	1845	0.0666	0.0889	0	0.6565
VCJ	1845	0.3106	0.4066	0	1
LEV	1845	0.4441	0.1996	0.0495	1.6879
QR	1845	4.0089	3.269	0.2256	38.2222
TAT	1845	0.9191	0.4965	0.0516	3.2668
SIZE	1845	20.5982	0.8866	17.5522	24.7222

Among the 1476 effective samples of 369 listed companies on the Shenzhen Growth Enterprise Market from 2000 to 2019, the average value of VCD is 0.488, indicating that less than half of the sample companies have venture capital backgrounds. The average value of VCH is 0.051, indicating that the proportion of venture capital holdings is relatively low. The average value of VCJ is 0.209, indicating that about one-fifth of companies with a joint venture capital background. The average value of ROE is 0.179, the maximum value is 1.766, and the minimum value is -0.352, indicating that there is a certain gap in the performance of listed companies, and most companies are operating in good condition. The average value of EA is 0.036, the maximum value is 2.882, and the minimum value is -0.748, indicating that there is a large

gap between the quality of accounting information in the sample companies, and the quality of accounting information of most companies is better. The average value of LEV is 0.33, indicating that the debt financing of the sample companies is low, and most companies have better development prospects, but the maximum value is 1.687, indicating that a small number of companies solve financing problems through loans and are easy to fall into financial crisis. The average value of QR is 3.064, indicating that the sample companies have strong short-term solvency. The average value of TAT is 0.747, indicating that most sample companies have higher sales revenue. The mean value of SIZE is 20.443, indicating that the sample enterprises are generally larger in scale. The correlation test of the sample data shows that there is no obvious correlation between the data, which provides the possibility for correlation analysis later.

4.2 Regression analysis

Table 3 lists the regression results of the hypothesis 1 test on the sample data. From the second column of Table 3, we can see that venture capital participation and corporate performance are significantly positively correlated at the level of 5%, indicating that venture capital support Will significantly improve corporate performance. Hypothesis la has been explained. Venture capital not only solves the financing constraints of enterprises, and brings intangible value-added services to enterprises, but also can formulate reasonable strategic planning for enterprises, strengthen the supervision and management of enterprises, and bring reputation and benefits to themselves at the same time. Improve the performance of the enterprise and achieve a Win-win effect. The third column of Table 3 reflects the positive correlation between the proportion of venture capital holdings and corporate performance, but it is not significant. Hypothesis lb. fails the test. It may be because the proportion of venture capital shares held by listed companies at the time of IPO is low, an effective equity check and balance mechanism have not been formed, the control of the invested company is insufficient, supervision is not in place, and the intervention of venture capital still has room for improvement in improving corporate performance [16, 18]. The fourth column reflects that joint venture capital has no obvious promotion effect on corporate performance, so hypothesis 10 is rejected. Although joint venture capital can diversify investment risks, improve investment portfolios, share information resources and make up for each other's technical shortcomings, the communication and coordination between joint venture capital partners will generate additional costs for invested companies and reduce corporate performance.

Table 3 Regression results of venture capital & accounting information quality on corporate performance

Variables	(Model 1)	(Model 2)	(Model 3)	(Model 4)
	ROE	ROE	ROE	ROE
VCD	0.0226*			
	(0.0047)			
VCH		0.0409		
		(0.0599)		
VCJ			0.0044	
			(0.0144)	
EA				0.3663***
				(0.0645)
LEV	-0.1801	-0.2288	-0.1919	-0.19944
	(0.0944)	(0.0995)	(0.0994)	(0.0881)
QR	-0.0033	-0.0011	-0.0011	-0.0009
	(0.0029)	(0.0029)	(0.0019)	(0.0019)
TAT	0.3646***	0.3611***	0.2669***	0.2669***
	(0.0377)	(0.0377)	(0.0379)	(0.0277)
SIZE	-0.0446***	-0.0444***	-0.0344***	-0.0339***
	(0.0114)	(0.0114)	(0.0104)	(0.0094)
IND	Control	Control	Control	Control
YEAR	Control	Control	Control	Control
Constant	0.8954***	0.8994***	0.7998***	0.8061***
	(0.3399)	(0.2323)	(0.3232)	(0.1986)
N	1845	1845	1845	1845
R^2	0.5950	0.4949	0.4955	0.5506

Note: ***, **, * represent significant at the level of 0.01, 0.05 & 0.1 respectively.

4.2.1 Accounting information quality and corporate performance

The fifth column of Table 3 reflects that the quality of accounting information has a positive effect on corporate performance, and it is significant at the level of 1%. For each additional unit of EA, ROE Will increase by 0.2630 units, indicating that the improvement of accounting information quality can improve the company Performance, so hypothesis 2 is not rejected. This is the same as Zhang et al. (2007) [16] compared with the companies with lower quality of

accounting information disclosure, the research shows that companies with a higher quality of disclosure also have higher performance levels.

4.2.2 The regulatory role of venture capital

Table 4 lists the regression results analysis of the hypothesis 3 test on the sample data. In Model 5, the coefficient of VCD*EA is significantly positive, indicating that VC participation has a significant moderating effect on the relationship between the quality of accounting information and corporate performance. Accept hypothesis 3a. Venture capitalists rely on their professional management experience and rich resources, to obtain excess returns When venture capital is Withdrawn, they Will inevitably strengthen supervision in the business process of the enterprise to avoid the business development of the enterprise from deviating from the normal track [20]. In the sixth and eighth columns, the coefficients of VCH*EA and VCJ*EA are significantly negative, indicating that the proportion of venture capital holdings and joint venture capital Will inhibit the effect of accounting information quality on corporate performance [20, 21]. Equity ratio and joint venture capital have a significant negative moderating effect 011 the impact of accounting information quality on corporate performance, so Hypothesis 3b and 30 are rejected. It is found that the proportion of venture capital holdings and the growth of the company are in an inverted U-shaped relationship. 0nly When the number of holdings reaches the appropriate ratio, Will it have a positive impact on corporate performance [9]. The too low shareholding ratio show 5 that venture capital institutions have not formed sufficient equity checks and balances for enterprises, and cannot effectively supervise the quality of accounting information. Therefore: they cannot promote the level of business performance. An excessive shareholding ratio means that venture capital institutions have too much control over the enterprise, and investors Will make behaviors that damage the development of the company for their own interests. The existence of joint venture capital institutions will cause more serious internal conflicts of interest, higher agency costs, non-concentration of equity, and encourage "free-riding" behaviors that are not conducive to corporate growth [6].

Table 4 Regression result of moderating effect of venture capital

Variables	(Model 5)	(Model 6)	(Model 7)
	ROE	ROE	ROE
EA	0.4411***	0.4429***	0.4344***
	(0.0654)	(0.0778)	(0.0776)
VCD	0.0277***		
	(0.0055)		
VCD*EA	0.1415**		
	(0.0499)		
VCH		0.0991**	
		(0.0335)	
VCH*EA		-2.0707***	
		(0.3939)	
VCJ			0.0303*
			(0.0101)
VCJ*EA			-0.4488***
			(0.0667)
LEV	-0.1515	-0.1419	-0.1277
	(0.0813)	(0.0808)	(0.0766)
QR	-0.0009	-0.0009	-0.0005
	(0.0019)	(0.0019)	(0.0019)
TAT	0.2499***	0.2499***	0.2439***
	(0.0339)	(0.0339)	(0.0239)
SIZE	-0.0352***	-0.4646***	-0.4646***
	(0.0089)	(0.0086)	(0.0086)
IND	Control	Control	Control
YEAR	Control	Control	Control
Constant	0.8989***	0.8787***	0.8573***
	(0.1961)	(0.1888)	(0.1828)
N	1845	1845	1845
R2	0.5566	0.5377	0.5599

Note: ***, **, * represent significant at the level of 0.01, 0.05 & 0.1 respectively.

5 Conclusion and recommendations

Through empirical research on the relationship between venture capital, accounting information quality, and corporate performance, this article draws the following conclusions: There is a positive correlation between venture capital participation and corporate operating performance. The deeper the degree of venture capital participation in the company: the better corporate performance. There is a positive correlation between the quality of accounting information and business performance. The higher the quality of accounting information, the better the

performance of the company; the participation of venture capital can significantly enhance the correlation between the quality of accounting information and corporate performance, as the degree of participation in venture capital increases. The increase in the quality of accounting information can promote the improvement of business performance. Based on the above conclusions, this article puts forward the following suggestions: First, when companies introduce venture capital, they must comprehensively consider various indicators of venture capital institutions, such as market reputation, investment experience, and management team. Stronger venture capital institutions can attract more investment projects for enterprises, and rich management experience can help improve the company's governance level and can bring high-quality service value in all aspects of the company's daily operations. Secondly: venture capital institutions should also enhance their comprehensive strength, continue to accumulate investment experience, strengthen business capabilities, cultivate professional teams, focus on reputation building, and perform their duties to the invested company to ensure that both parties can obtain the maximum benefit. Finally, companies should focus on improving the quality of accounting information and cultivating high-quality financial teams; regulatory agencies should also strengthen the supervision of the financial reports of listed companies: improve the accounting information disclosure system, and prevent the management from implementing earnings management for private interests.

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