Corporate Governance and Market Performance of Seasoned Equity Offerings: Evidence From Chinese Listed A-Share Companies

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This study examines how corporate governance affects the market performance of seasoned equity offerings (SEOs) in Chinese A-share firms from 1998 to 2001. Using a sample of 458 SEOs, we analyze the role of governance attributes, including state ownership, board structure, independence, and CEO duality, on both short-term announcement effects and long-term stock returns. Results show that state ownership and CEO duality are negatively associated with long-run performance, while board independence enhances outcomes. New share issues elicit more favorable short-term responses than rights offerings. The findings highlight the importance of internal governance mechanisms in influencing investor reactions and capital market performance in emerging economies.

Keywords: seasoned equity offerings, corporate governance, China

INTRODUCTION

Seasoned equity offerings (SEOs) represent a critical avenue for public firms to raise external capital, yet they are frequently accompanied by notable market anomalies. A substantial body of research, primarily based on developed markets, has documented that SEO announcements are typically met with negative short-term stock price reactions and persistent long-term underperformance (Myers and Majluf, 1984; Loughran and Ritter, 1995, 1997; Spiess and Affleck-Graves, 1995). These outcomes are generally attributed to information asymmetry and agency conflicts, wherein managers may exploit mispriced equity to issue new shares, leading to value dilution and inefficient capital allocation (Jensen, 1986).

While these phenomena are well-established in mature markets, the applicability of such findings to emerging economies remains an open question, particularly in the context of China's distinct institutional environment. A majority of China's listed firms are state-owned enterprises (SOEs), characterized by concentrated ownership structures, state-affiliated controlling shareholders, and politically influenced managerial appointments. These institutional features heighten principal-agent problems and weaken governance transparency, especially during major financing events such as SEOs.

In China, SEOs are conducted primarily through rights issues and new issues. Rights issues, which restrict participation to existing shareholders, are more prevalent due to lower regulatory thresholds and reduced dilution of control. However, prior research suggests that uninsured rights issues are often linked to suboptimal investment decisions and poor post-issuance performance (Su, 2005). These observations underscore the need to examine how firm-level governance mechanisms interact with SEO performance in China's evolving market landscape.

This study investigates the relationship between corporate governance and market performance surrounding SEOs in Chinese A-share listed companies. Specifically, we assess the extent to which governance structures influence (i) short-term market reactions to SEO announcements and (ii) long-term post-issuance stock performance. Our empirical analysis focuses on SEOs conducted between 1998 and 2001, a period marked by significant regulatory reform and rapid market development.

We address the following research questions: (1) Do firms with stronger internal governance structures experience less adverse market reactions upon SEO announcements? (2) Is post-offering stock performance positively associated with governance quality? (3) Do governance-performance relationships differ across SEO types, namely rights issues versus new issues?

By examining the moderating role of corporate governance in an emerging market setting, this study contributes to the literature on corporate financing and governance in transitional economies. Our findings provide insights into how internal governance mechanisms can shape investor perceptions and long-term outcomes in contexts where external monitoring is limited. The following sections provide literature review, describe the data and research method, report the empirical results, and provide concluding remarks.

LITERATURE REVIEW

A substantial body of literature documents negative stock price reactions surrounding the announcement of seasoned equity offerings (SEOs), largely attributed to information asymmetry and agency conflicts. Myers and Majluf (1984) propose that managers with superior information time equity issuances to exploit overvalued stock prices, leading investors to interpret SEOs as adverse signals. Jensen's (1986) free cash flow hypothesis further suggests that equity issuance increases managerial discretion, heightening the risk of suboptimal investment in firms with limited growth opportunities.

Empirical findings are broadly consistent with these theories. Asquith and Mullins (1986) and Brous and Kini (1994) report significantly negative abnormal returns at SEO announcements, with the effect amplified for large offerings and firms with limited institutional monitoring. In the Chinese context, Su (2005) finds that uninsured rights offerings, associated with weak governance and political interference, trigger more pronounced price declines, suggesting that investors are particularly sensitive to perceived agency risks and state influence.

In contrast, positive announcement effects are occasionally observed in contexts where governance reforms or investor protections mitigate adverse selection concerns. Chen (2017), examining SEOs in China before and after the 2005 Split Share Structure Reform, finds that market reactions shifted from negative to positive post-reform, indicating increased investor confidence in issuer intentions.

Numerous studies report that issuing firms underperform relative to non-issuers over the long run. Loughran and Ritter (1995, 1997) and Spiess and Affleck-Graves (1995) attribute this underperformance to market timing and managerial opportunism, where firms capitalize on transient overvaluation to raise capital. Their findings are reinforced by evidence that underperformance is concentrated among firms with low book-to-market ratios, small size, and limited monitoring.

Alternative perspectives, however, challenge the robustness of these findings. Brav et al. (2000) and Eckbo et al. (2000) argue that the observed underperformance may reflect risk adjustments rather than mispricing. They highlight changes in firm characteristics, such as leverage and liquidity, which alter expected returns. Bayless and Jay (2003), using multifactor models, find that SEO firms, particularly small issuers, may exhibit positive post-offering returns during certain market conditions, suggesting that performance is conditional on both firm attributes and timing.

Corporate governance plays a critical role in moderating both the market's response to SEOs and firms' post-issue performance. Effective governance structures characterized by board independence, dispersed ownership, and audit oversight are associated with enhanced investor protection and reduced agency costs. Becker-Blease and Irani (2008) demonstrate that firms with stronger governance experience less negative announcement effects, while Kim and Purnanandam (2014) find that governance quality significantly conditions the valuation impact of SEOs, especially when proceeds are used for capital investments.

In the Chinese market, governance challenges are compounded by the prevalence of state ownership, politically appointed executives, and opaque control structures. Hovey et al. (2003) and Bai et al. (2004) show that state ownership, particularly by controlling shareholders, is negatively associated with firm valuation. On the other hand, legal-person and foreign ownership, which are associated with greater accountability, tend to enhance firm performance. Chen et al. (2009) show that firms controlled by centrally affiliated SOEs outperform those under local government or private control, reflecting heterogeneity in oversight and strategic objectives. Similarly, Hess et al. (2010) find that large private blockholders may either enhance or impair firm value, depending on the presence of countervailing governance mechanisms.

The composition and structure of the board of directors significantly affect firm performance and investor perceptions. Empirical evidence suggests that smaller boards and greater representation of independent directors are associated with higher market valuations and more effective monitoring (Yermack, 1996; Chen, 2001). In contrast, CEO duality is viewed as detrimental to governance quality, reducing board independence and impairing oversight (Fama and Jensen, 1983; Rechner and Dalton, 1991).

In the Chinese context, research consistently shows that firm performance benefits from higher legal-person shareholding but suffers under state ownership (Xu & Wang, 1999; Qi et al., 2000; Chen, 2001). The supervisory board, unique to Chinese corporate governance, is often ineffective due to its lack of independence and tendency to align with controlling shareholders, limiting its oversight function (Hu et al., 2010; Shan & McIver, 2011; Song et al., 2019). Board size influences risk-taking more than firm value, with smaller boards linked to higher volatility (Huang & Wang, 2015), though Chen and Al-Najjar (2012) argue board size reflects firm complexity rather than governance intent. The effects of CEO duality vary by context: it may enhance value under certain conditions, such as long CEO tenure and private ownership (Hu & Alon, 2014; Peng et al., 2010), but can also lead to higher agency costs and reduced performance in state-owned firms (Yu & Ashton, 2015).

DATA AND RESEARCH METHOD

We construct our sample using data from multiple sources. Information on seasoned equity offering (SEO) prospectuses is obtained from the CNINFO database (www.cninfo.com.cn), while accounting and stock return data are sourced from the China Center for Economic Research (CCER) database and the Taiwan Economic Journal (TEJ) database. The sample period spans from 1998 to 2001, deliberately chosen to exclude the confounding effects of the 1997 Asian financial crisis.

To ensure sample consistency and comparability, the following selection criteria are applied: (1) the SEO must be issued by a Chinese A-share firm listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange; (2) the offering must be designated for investment purposes; (3) to avoid statistical biases stemming from multiple SEOs issued by the same firm within a single year, only one SEO per firm per year is retained; (4) firms operating in the financial services sector are excluded due to their distinct regulatory environment and financial reporting structures, which hinder comparability with non-financial firms; and (5) observations with missing stock return data are removed. After applying these filters, the final sample comprises 458 firms for the short-run performance analysis and 406 firms for the long-run performance analysis.

We examine the impact of corporate governance on the market performance of SEOs in Chinese A-share listed companies by estimating the following regression models:

$$CAR_{-5,5} = \alpha + \beta_1 STATE + \beta_2 TYPE + \beta_3 BODZ + \beta_4 SBZ + \beta_5 INDEP + \beta_6 CEOD + \beta_7 L1 + \beta_8 ROA + \beta_9 LNSIZE + \beta_{10} MB + \varepsilon \tag{1}$$

$$CAR_{1,36} = \alpha + \beta_1 STATE + \beta_2 TYPE + \beta_3 BODZ + \beta_4 SBZ + \beta_5 INDEP + \beta_6 CEOD + \beta_7 L1 + \beta_8 ROA + \beta_9 LNSIZE + \beta_{10} MB + \varepsilon \tag{2}$$

$$BHAR_{1,36} = \alpha + \beta_1 STATE + \beta_2 TYPE + \beta_3 BODZ + \beta_4 SBZ + \beta_5 INDEP + \beta_6 CEOD + \beta_7 L1 + \beta_8 ROA + \beta_9 LNSIZE + \beta_{10} MB + \varepsilon \quad (3)$$

The dependent variable in Eq. (1), $CAR_{-5,5}$, is a proxy for short-term SEO performance measuring the cumulative abnormal return over the event period (-5, +5)-day. We follow Brown and Warner (1980) to compute abnormal returns using the market model,

$$R_{it} = \alpha_i + \beta_i R_{mt} + e_i \quad (4)$$

where R_{it} is the return of firm *i* at time t, α_i is the average abnormal return of firm *i*, and R_{mt} is the value-weighted market return based on Shanghai Composite Index and Shenzhen Composite Index on day t. Abnormal returns AR_{it} are calculated as,

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) \quad (5)$$

where $\hat{\alpha}_i$ and $\hat{\beta}_i$ are estimated from Eq. (2). The cumulative abnormal return (CAR) for firm i over the event period (-5, +5)-day is calculated as,

$$CAR_{i(-5,5)} = \sum_{t=-5}^{5} AR_{it} \quad (6)$$

The dependent variable in Eq. (2), $CAR_{1,36}$, is a proxy for long-term SEO performance. The cumulative abnormal return over a 36-month period following the first trading month is calculated as,

$$CAR_{i(1,36)} = \sum_{t=1}^{36} AR_{it} \quad (7)$$

The dependent variable in Eq. (3), $BHAR_{1,36}$, is another proxy for long-term SEO performance. Based on the study of Barber and Lyon (1997), the buy-and-hold abnormal return over a 36-month period following the first trading month is calculated as,

$$BHAR_{i(1,36)} = \prod_{t=1}^{36}(1 + R_{it}) - \prod_{t=1}^{36}(1 + \hat{R}_{it}) \quad (8)$$

The primary explanatory variables are constructed to capture critical aspects of ownership structure and board governance. STATE is a binary indicator equal to one if the ultimate controlling shareholder of the firm is the state and zero otherwise. In line with La Porta et al. (1999), state control is defined as either direct government ownership or indirect control via state-owned legal entities. Within the Chinese institutional framework, state ownership is commonly associated with agency problems, as management may pursue political or personal goals at the expense of shareholder value. Accordingly, we hypothesize a negative relationship between state ownership and post-SEO stock performance.

The variable TYPE differentiates between methods of equity issuance. It takes the value of one for new share issuances and zero for rights offerings. Extant literature suggests that new issuances are generally met with more favorable market reactions than rights issues, primarily due to differing investor interpretations and signaling implications (e.g., Su, 2005). Consequently, we expect TYPE to be positively associated with post-SEO returns.

To account for board structure, we include two variables: BODZ, the size of the board of directors, and SBZ, the size of the supervisory board. Theoretical perspectives on board size are mixed. Some argue that larger boards enhance oversight and provide greater expertise (Bacon, 1973; Zahra & Pearce, 1989), while others contend that they may hinder decision-making efficiency due to coordination difficulties (Lipton & Lorsch, 1992; Yermack, 1996). As such, the effect of BODZ is theoretically ambiguous. In contrast, empirical evidence from Chen (2001) indicates that larger supervisory boards strengthen internal monitoring, which can improve firm performance and market responses, suggesting a positive relationship between SBZ and post-SEO returns.

The governance role of independent oversight is captured by INDEP, a binary variable equal to one if the firm has at least one independent director or supervisor, and zero otherwise. Independence is defined according to regulatory standards, excluding individuals with recent employment history, familial ties to executives, or substantial business relations with the firm. Prior research has demonstrated that independent board members contribute positively to governance quality and firm valuation, especially in the context of equity financing (Byrd & Hickman, 1992; Mangel & Singh, 1993). Thus, we anticipate a positive effect of INDEP on post-SEO performance.

CEOD is a dummy variable equal to one if the CEO concurrently serves as board chair. The literature presents conflicting views on the implications of CEO duality. While some argue that combining roles weakens board oversight and exacerbates agency problems (Jensen & Meckling, 1976; Lorsch & MacIver, 1989), others suggest it may improve decision-making efficiency and strategic coherence (Dayton, 1994). Given these divergent perspectives and mixed empirical findings (Rechner & Dalton, 1991), the expected impact of CEOD remains indeterminate.

Ownership concentration is measured by L1, the percentage of shares held by the largest shareholder. In the Chinese context, concentrated ownership is often linked to state-affiliated entities, raising concerns about minority shareholder expropriation and entrenchment (Chen, 2001). Therefore, we expect a negative relationship between L1 and post-SEO stock performance.

Finally, ROA, or return on assets, reflects the firm's profitability and operational efficiency in the year preceding the SEO. Higher ROA is typically associated with stronger fundamentals and is expected to be positively related to post-SEO returns. LNSIZE, the natural logarithm of the SEO's offering size, controls for the magnitude of equity raised. Larger offerings may be interpreted as a signal of greater financing needs or information asymmetry, potentially leading to adverse market responses (Asquith & Mullins, 1986; Su, 2005). To control for firm growth potential, we include the market-to-book ratio (MB), calculated as the market value of equity divided by its book value at the time of the SEO. MB serves as a proxy for investor expectations of future growth and investment opportunities. Consistent with Brous and Kini (1994), firms with higher MB ratios are anticipated to experience more favorable market reactions to equity offerings.

EMPIRICAL RESULTS

Table 1 reports the descriptive statistics for the variables used in the analysis of firms undertaking seasoned equity offerings (SEOs). The sample includes both state-owned and non-state-owned companies. The variable STATE is an indicator equal to one if the firm's ultimate controlling shareholder is a state entity. The mean value of 0.841 indicates that the majority of firms in the sample are state-owned. The variable TYPE captures the method of issuance, where a value of one denotes a new issue and zero denotes a rights issue. The mean of 0.061 suggests that rights issues are the predominant form of SEO during the sample period.

In terms of corporate governance structure, the average board of directors size (BODZ) is 9.85 members, with a median of 9, indicating a relatively uniform board composition across firms. The supervisory board size (SBZ) has a mean of 4.43 members, ranging from 1 to 10, reflecting greater variability in its structure. The proportion of independent directors or supervisors (INDEP) is relatively low, with a mean value of 0.070, suggesting limited adoption of independence in board oversight. Similarly, the prevalence of CEO duality (CEOD) is modest with a mean of 0.190. These figures collectively suggest that independent governance mechanisms are not common among the firms in the sample.

TABLE 1
DESCRIPTIVE STATISTICS

Variable	Mean	Median	Minimum	Maximum	Std Dev
STATE	0.841	1	0	1	0.366
TYPE	0.061	0	0	1	0.240
BODZ	9.849	9	5	19	2.700
SBZ	4.430	5	1	10	1.422
INDEP	0.070	0	0	1	0.255
CEOD	0.190	0	0	1	0.393
L1(%)	44.401	43.695	3.13	82.09	17.279
ROA (%)	7.586	6.605	-0.36	27.06	4.110
LNSIZE	8.348	8.323	7.494	9.526	0.335
MB	6.575	5.537	1.363	38.060	3.837

Note: STATE is a dummy variable which has the value of 1 if the ultimate controller of a SEO firm is the state and zero otherwise. TYPE is a dummy variable which has the value of 1 if a SEO firm conducts a new issue and zero for a right issue. BODZ is the size of the board of directors. SBZ is the size of the supervisory board. INDEP is a dummy variable which has the value of 1 if a SEO firm has independent directors or supervisors and zero otherwise. CEOD is a dummy variable that has the value of 1 if chairman and CEO are held by the same person and zero otherwise. L1 (%) is the fraction of shares held by the largest shareholder. ROA (%) is a firm's return over total assets ratio prior to the SEOs. LNSIZE is the natural logarithm of issuance size. MB is the market-to-book-value ratio.

The financial characteristics of the issuing firms reveal a high degree of ownership concentration, with the largest shareholder (L1%) holding an average equity stake of 44.40%. This underscores the significant influence exerted by controlling shareholders within the sample. Prior to the SEO, firms show an average return on assets (ROA) of 7.59%, with values ranging from –0.36% to 27.06%, indicating considerable heterogeneity in pre-issuance operating performance. The natural logarithm of the issuance size (LNSIZE) has a mean of 8.348 and a median of 8.323, with a standard deviation of 0.335, suggesting moderate variation in the scale of capital raised. The market-to-book ratio (MB) averages 6.575 (median = 5.537) with a standard deviation of 3.837 and a wide range from 1.363 to 38.060. The fact that both ROA and MB exhibit means that exceed their respective medians implies positively skewed distributions, likely driven by a subset of firms with exceptional profitability or elevated market valuations.

Table 2 reports the ordinary least squares (OLS) regression results for the short-term stock price reaction to SEO announcements, as captured by the cumulative abnormal return over the [-5, +5] event window ($CAR_{-5,5}$). The OLS regression yields a statistically significant F-value at the 1% level, indicating that the explanatory variables jointly account for a statistically significant portion of the variation in short-run SEO performance.

A key finding of the analysis is the significantly positive coefficient on the issue type dummy (TYPE), which distinguishes new share issues from rights offerings. Firms conducting new issues exhibit substantially higher abnormal returns around the announcement date, with the coefficient statistically significant at the 1% level. This result suggests that the market responds more favorably to new issues, potentially due to more positive signaling regarding firm quality or a lower perceived risk of ownership dilution compared to rights offerings.

TABLE 2
REGRESSION ANALYSIS ON SEO SHORT-TERM ANNOUNCEMENT EFFECTS

Variable	Predicted Sign	Coefficient	T-Statistic
Intercept		0.11804	1.51
STATE	-	-0.00859	-1.09
TYPE	+	0.03949***	3.05
BODZ	?	-0.00224**	-2.08
SBZ	+	0.00388*	1.90
INDEP	+	-0.01881*	-1.66
CEOD	?	-0.00146	-0.20
L1 (%)	-	0.00007	0.41
ROA (%)	+	0.00148**	2.04
LNSIZE	-	-0.01713*	-1.81
MB	+	0.00068	0.87
F-value		2.94	
P-value		0.0014	
Adjusted R^2		0.0418	
N		445	

STATE is a dummy variable which has the value of 1 if the ultimate controller of a SEO firm is the state and zero otherwise. TYPE is a dummy variable which has the value of 1 if a SEO firm conducts a new issue and zero for a right issue. BODZ is the size of the board of directors. SBZ is the size of the supervisory board. INDEP is a dummy variable which has the value of 1 if a SEO firm has independent directors or supervisors and zero otherwise. CEOD is a dummy variable that has the value of 1 if chairman and CEO are held by the same person and zero otherwise. L1 (%) is the fraction of shares held by the largest shareholder. ROA (%) is a firm's return over total assets ratio prior to the SEOs. LNSIZE is the natural logarithm of issuance size. MB is the market-to-book-value ratio. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

The empirical results also underscore the role of corporate governance in shaping investor reactions. Board size (BODZ) is negatively associated with short-term abnormal returns, with statistical significance at the 5% level. This finding implies that larger boards may be viewed by investors as less effective, possibly due to coordination challenges or diminished monitoring efficiency. In contrast, supervisory board size (SBZ) exhibits a positive and statistically significant relationship with announcement returns at the 10% level, suggesting that a more extensive supervisory structure may enhance oversight and bolster investor confidence during equity issuance events.

Contrary to expectations, the presence of independent directors or supervisors (INDEP) is negatively associated with market response and is significant at the 10% level. This finding runs counter to the conventional view that board independence enhances governance quality. One possible interpretation is that independence may function more as a formal compliance mechanism than a substantive governance tool in the sample firms. Alternatively, the prevalence of independent directors may be higher in firms with underlying agency concerns, which the market may interpret as a negative signal in the context of SEOs.

Among firm-level financial characteristics, return on assets (ROA) is positively and significantly related to announcement returns at the 5% level, suggesting that more profitable firms are rewarded with better market responses when announcing equity offerings. This finding is consistent with signaling theory, whereby profitable firms are less likely to be raising capital out of necessity, thereby reducing adverse selection concerns. The natural logarithm of issuance size (LNSIZE) is negatively related to the short-term announcement effect and significant at the 10% level. This finding supports the dilution hypothesis, indicating that larger equity offerings may be perceived as more dilutive or as a signal of higher financing needs, which in turn prompts a less favorable market response.

Other variables, including state ownership (STATE), CEO duality (CEOD), the ownership stake of the largest shareholder (L1%), and the market-to-book ratio (MB), do not exhibit statistically significant effects on short-term announcement returns in the estimated model.

Table 3 reports the results from ordinary least squares (OLS) regressions examining the long-run performance of firms following SEOs. The analysis utilizes two commonly employed measures of abnormal returns: cumulative abnormal returns over 36 months ($CAR_{1,36}$) and buy-and-hold abnormal returns over 36 months ($BHAR_{1,36}$). Both OLS regressions yield statistically significant F-values at the 1% level, indicating that the explanatory variables jointly account for a statistically significant portion of the variation in long-run SEO performance.

TABLE 3
REGRESSION ANALYSIS ON LONG-RUN PERFORMANCE SUBSEQUENT TO SEOs

		CAR		BHAR	
Variable	Predicted Sign	Coefficient	T-Statistic	Coefficient	T-Statistic
Intercept		1.66992***	3.20	0.62356	0.97
STATE	-	-0.11143**	-2.02	-0.13925***	-2.03
TYPE	+	0.16007*	1.72	0.10813	0.93
BODZ	?	-0.01463**	-2.00	-0.01687*	-1.87
SBZ	+	0.02094	1.54	0.02241	1.33
INDEP	+	0.27543***	2.70	0.31425**	2.54
CEOD	?	-0.17507***	-3.61	-0.24321***	-4.04
L1 (%)	-	-0.00026	-0.22	-0.00040	-0.28
ROA (%)	+	-0.02056***	-4.11	-0.02558***	-4.28
LNSIZE	-	-0.17735***	-2.80	-0.06193	-0.79
MB	+	0.00850*	1.70	0.01956***	3.21
F-value		6.26		6.63	
P-value		0.0001		0.0001	
Adjusted R^2		0.1194		0.1251	
N		389		395	

STATE is a dummy variable which has the value of 1 if the ultimate controller of a SEO firm is the state and zero otherwise. TYPE is a dummy variable which has the value of 1 if a SEO firm conducts a new issue and zero for a right issue. BODZ is the size of the board of directors. SBZ is the size of the supervisory board. INDEP is a dummy variable which has the value of 1 if a SEO firm has independent directors or supervisors and zero otherwise. CEOD is a dummy variable that has the value of 1 if chairman and CEO are held by the same person and zero otherwise. L1 (%) is the fraction of shares held by the largest shareholder. ROA (%) is a firm's return over total assets ratio prior to the SEOs. LNSIZE is the natural logarithm of issuance size. MB is the market-to-book-value ratio. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

A key result emerging from the analysis is the negative and statistically significant coefficient on the state ownership variable (STATE). This finding holds across both specifications, suggesting that state-controlled firms tend to experience inferior long-run stock performance following SEOs. Specifically, the coefficients are both significant at the 5% level. This result supports the notion that state ownership may be associated with weaker governance incentives and inefficiencies that hinder post-issuance performance, especially in emerging markets where such ownership structures are prevalent.

The type of SEO (TYPE) also appears to influence long-term returns. The coefficient is positive and marginally significant in the CAR regression, suggesting that firms issuing new shares may outperform those using rights offerings in the long run. However, the effect is statistically insignificant in the BHAR regression, indicating that this relationship may be sensitive to the choice of return metric and possibly reflects transient market reactions rather than persistent performance differences.

Several governance variables exhibit strong associations with long-run performance. Board size (BODZ) is negatively and significantly associated with both CAR and BHAR outcomes, consistent with the argument that larger boards may face coordination challenges and reduced monitoring effectiveness, thereby impairing post-issuance performance. The presence of independent directors or supervisors (INDEP) is positively and significantly related to long-term abnormal returns across both specifications. This finding underscores the importance of independent oversight in enhancing governance quality and protecting minority shareholder interests in the aftermath of equity issuance. The presence of CEO duality (CEOD) is negatively and significantly associated with long-run performance in both regressions, suggesting that a lack of separation between these leadership roles undermines governance effectiveness and impairs investor confidence. These findings contribute to the broader literature on the detrimental effects of CEO entrenchment and governance concentration.

Among firm-specific financial characteristics, return on assets (ROA) is negatively and significantly associated with long-run returns at the 1% level in both regressions, contradicting the hypothesis that more profitable firms would perform better post-SEO. One possible explanation is that firms with high pre-issue profitability may be overvalued at the time of issuance, resulting in subsequent price correction. Alternatively, high ROA could reflect short-term earnings management efforts aimed at boosting valuations prior to the offering, which may later reverse.

The natural logarithm of issuance size (LNSIZE) is negatively related to CAR and statistically significant, but its effect on BHAR is insignificant. This pattern may reflect dilution concerns or adverse signaling associated with larger equity issues. The market-to-book ratio (MB) is positively and significantly associated with long-run returns in both regressions, consistent with the notion that firms with higher growth opportunities are more likely to realize sustained value creation following capital raising.

Lastly, ownership concentration (L1) does not exhibit a statistically significant relationship with long-term performance in either model. This finding suggests that concentrated ownership alone may not systematically influence post-SEO outcomes, highlighting the need to consider a broader set of governance mechanisms beyond ownership structure.

CONCLUSION

This study examines the relationship between corporate governance structures and the market performance of seasoned equity offerings (SEOs) in Chinese A-share listed firms during the 1998–2001 period. Using a comprehensive dataset and applying both event study methodology and cross-sectional regression analysis, we provide empirical evidence that corporate governance mechanisms significantly influence both short-term market reactions and long-term stock returns following SEOs.

Our findings indicate that state ownership is negatively associated with long-run performance, consistent with the view that state control exacerbates agency problems and reduces firm efficiency in capital allocation. The analysis further reveals that firms undertaking new share issues, as opposed to rights offerings, experience more favorable announcement effects, suggesting that market participants perceive new issues as signals of stronger firm quality or governance discipline.

Board structure emerges as a critical determinant of SEO outcomes. Specifically, larger boards are negatively associated with both short-term and long-term SEO performance, supporting the hypothesis that excessively large boards may hinder effective oversight and strategic decision-making. In contrast, the presence of independent directors or supervisors is positively related to long-term returns, highlighting the importance of board independence in enhancing governance quality and investor confidence. CEO duality is found to significantly impair long-run performance, underscoring the adverse consequences of concentrated managerial power and weakened board monitoring.

Among firm-specific financial controls, the pre-issuance return-on-assets ratio is negatively associated with long-run performance, contrary to expectations. This finding may reflect investor overvaluation or earnings management preceding the offering. Higher market-to-book ratios are linked to superior long-run performance, consistent with expectations that firms with stronger growth opportunities are better positioned to deploy raised capital efficiently.

Overall, our findings underscore the importance of corporate governance mechanisms in shaping SEO outcomes within the institutional context of an emerging market. These findings extend the literature on corporate finance and governance by demonstrating that variations in firm-level governance attributes materially affect capital market responses to equity issuance. They also offer practical implications for policymakers and market participants seeking to improve transparency, accountability, and capital allocation efficiency in transitional economies.

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