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# MAKE OR BREAK: THE DISTRIBUTIONS OF CAUSAL IMPACTS OF VENTURE CAPITAL ON FIRM PERFORMANCE (SUMMARY)

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SUMMARY

# MAKE OR BREAK: THE DISTRIBUTIONS OF CAUSAL IMPACTS OF VENTURE CAPITAL ON FIRM PERFORMANCE

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**Principal Topic**

This paper explores the impact of VC investment on portfolio firms using a novel econometric technique that allows for a nuanced examination of positive and negative impact of VC on portfolio firms. It is well-documented that VCs aim to maximise their number of 'home runs', or massively successful investments, while minimising 'strike outs', or failed investments (Sahlman 1990, Sapienza et al 1994). It is also clear that VCs have limited amounts of time and attention, forcing them to make decisions about which firms should receive beneficial attention and which should not (Gifford 1997). However given their time limitations and role as optimisers, it could reasonably be expected that VCs focus on high potential firms while hastening the demise of firms they judge as lacking high growth potential.

**Method**

Traditional OLS methods do not allow for heterogeneous effects across the performance distribution. While conventional regression estimators are affected by linear smoothing, extrapolation, and off-support inference, matching allows us to create an appropriate control group. Instrumental variables are applied as a further check against selection bias. Our estimators of choice are therefore the quantile treatment effects (QTE) estimators of Firpo (2007, QTE under exogeneity) and the IV QTE estimator of Frolich and Melly (2008, QTE under endogeneity). We use this on a unique, complete sample of all 1272 unique firms receiving investment from Venture Capital Trusts, a publicly-backed UK VC scheme.

**Results and Implications**

Our results show that VC-backed firms experience increases in performance one year after receiving VC investment when compared to the control group, but these effects are limited only to the firms in the highest quantiles of performance. This supports the existing literature about the positive impact of VC on firm performance. However we also find that VC-backed firms in the bottom quantiles have worse performance than the similar firms in our controls. Our results provide evidence that VC-backed firms are accelerated towards their destiny – which might be success or failure, and we document the extent to which VCs actually harm the performance of the poor performing firms in their portfolio.

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