

What Matters in Venture Capital? Evidence from Entrepreneurs' Stated Preferences

by

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Abstract

We study how entrepreneurs evaluate the ability of different U.S. venture capitalists (VCs) to add value to start-up companies. Analyzing a large dataset on entrepreneurs' stated preferences on VCs, we show that entrepreneurs view independent partnership VCs more favorably than other VC types (e.g. corporate, financial, and government-sponsored VCs). Although entrepreneurs are able to correctly identify the VCs with better track record, they do not believe that such VCs are more desirable investors. This result supports the view that better VCs are able to capture most of the surplus associated with their value-adding activities. We also find that an entrepreneur's rankings are affected by his or her overall exposure to VCs, emphasizing the role of experiential learning in the venture capital market.

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I. Introduction

As a contrast to capital markets that build on arms-length dealings between investors and borrowers, the venture capital market is characterized by venture capitalists engaging in personal interactions with entrepreneurs and being actively involved in start-up companies (Gorman & Sahlman, 1989; Sapienza, 1992) before and after the investment. This involvement is believed to be valuable because VCs not only supply financing but can also provide screening, corporate governance, monitoring, operational assistance and strategic advice.¹² A growing body of literature in finance investigates how various characteristics of the VC, such as organizational type and investment experience, relate to its ability to successfully conduct value-adding tasks.³ For entrepreneurs, understanding these differences between VCs is important since selecting the right investor can significantly improve the success chances of a venture-backed company. Common for almost all existing VC empirical studies is the use of data on actual venture capital investments. Although such studies are informative, they suffer from noisy empirical measures of performance and face the conceptual difficulty of separating out the role of different value-adding tasks.

In this paper we follow a different empirical strategy to answer the question of which investor characteristics matter to the entrepreneur in the venture capital market: we analyze a large sample of entrepreneurs' stated preferences on VCs. We use data from an online community of entrepreneurs called *TheFunded* that comprise multi-dimensional rankings and comments made by 1,472 unique entrepreneurs on 526 unique U.S. VCs. Our analysis is straightforward – we begin by analyzing which VC characteristics are associated with more favorable rankings and

¹ For empirical evidence on the importance of non-monetary tasks provided by VCs, see Lerner (1995), Hellman & Puri (2000, 2002), Cumming, Fleming and Suchard (2005), Sorensen (2007), Ivanov and Xie (2008), Hochberg (2008), Chemmanur, Krishnan and Nandy (2008), and Bottazzi, Da Rin & Hellman (2009). The theoretical argument that VCs can provide value to companies is modeled by Casamatta (2003), Schmidt (2003), and Repullo & Suarez (2004).

² The object of study in this paper is a venture capital firm (and not individual partners or executives at the venture capital firm). The abbreviation “VC” will henceforth refer to “venture capital firm”.

³ Section II reviews this literature in detail.

comments, and then proceed by studying whether the rankings and comments also depend on an entrepreneur's experience level and relationship to the VC. Importantly, our findings pertaining to VCs are robust to fixed effect regressions which remove differences in rankings between entrepreneurs. Similarly, our findings pertaining to entrepreneurs are robust to fixed effect regressions which remove differences between VCs.

Our first result is that entrepreneurs view VCs which are organized as independent partnerships as having better pre- and post-investment abilities to interact and add value as compared with other VC types (e.g. corporate VCs, financial VCs, and government-sponsored VCs). Because independent partnership VCs are not affiliated with a corporate partner, financial institution or branch of the government, the executives of such VCs face fewer restrictions in how to invest and are typically given stronger monetary incentives to make their investments successful. Our finding is similar to that of Bottazzi, Da Rin and Hellman (2009) who studying the European VC market show that independent partnership VCs are more involved in their portfolio companies than other VC types.

Our second result is that even though entrepreneurs are able to accurately identify which VCs have better track record, they do *not* view their pre- and post-investment interactions with such experienced and successful VCs more favorably than their interactions with other VCs. In addition to VC type, the investor's track record, as measured by the historical investment experience and the success rate, is widely believed to be an important VC characteristic that indicates its ability to add value. Some VCs have a strong track record because they have been in business for many decades, have invested in several hundred unique start-up companies, and have seen a high fraction of such companies successfully exit via IPO or trade sale. To understand this finding, which at first glance may be surprising, one needs to consider the nature of the bargaining game between VC and entrepreneur. The superior value-adding abilities of VCs with better track records (Sorensen, 2007; Chemmanur, Krishnan & Nandy, 2008) mean that such investors offer a scarce resource which is demanded by entrepreneurs. As expected in a

competitive bargaining game, VCs with better track record adjust the deal pricing (pre-money valuations) so that they extract most of the surplus they create (Hsu, 2004). As a result, the equilibrium outcome is such that entrepreneurs ultimately view experienced and inexperienced VCs as equally desirable investors.

Our third result is that an entrepreneur's stated preferences on VCs depend on the entrepreneur's overall experience level working with venture investors. Entrepreneurs who have encountered a smaller number of VCs hold significantly more favorable views of a given VC as compared with entrepreneurs who have encountered a greater number of VCs. A plausible explanation for this difference is that a novice entrepreneur is optimistic and believes that VCs can add considerable value to a startup company, but increased experience with VCs makes the entrepreneur overall more skeptical. While we cannot formally rule out the alternative explanation that unhappy entrepreneurs are possibly more likely to report their encounters with VCs to *TheFunded*, we believe that this is unlikely. Because our data reveal that entrepreneurs who rank a greater number of VCs overall rank more reputable and experienced VCs, these entrepreneurs are likely to be of higher quality and thereby unlikely to be unhappy complainers. Consistent with our learning explanation, we also find that entrepreneurs who have ranked a greater number of VCs are better at identifying VCs with better track record. Moreover, the negative association between ranking levels and number of rankings does not only reflect a small number of very vocal complainers: entrepreneurs who rank two or three VCs also give lower rankings than entrepreneurs who rank only one VC.

Finally, we demonstrate that an entrepreneur views the VC from which he or she receives financing more positively, which we interpret as supportive evidence of the thesis that the entrepreneur's preferences on VCs are important in determining the matches formed in the venture capital market. This result can either be explained by entrepreneurs rationally selecting the VC they perceive as having desired abilities to add value, or by entrepreneurs being irrationally optimistic about their choices of investors (Puri & Robison, 2007; Cassar, 2008).

In order to formally analyze the comments, we develop a standardized coding scheme to classify whether the entrepreneur gives a positive or negative comment on a specific aspect of the interaction with the VCs. By doing this we are able to provide actual statistics on which of the 27 different pre- and post-investment aspects of venture financing entrepreneurs care most about when evaluating VCs. Also, the access to both ranking and comment data allows us to validate that an entrepreneur's rankings are accurate because they reflect opinions that the same entrepreneur also expresses verbally.

An obvious objection to our findings is that self-reported preferences are highly subjective and their comments are influenced by the attributional style of the entrepreneurs expressing themselves on *TheFunded*. Our response to this objection is that even though the data that we analyze reflect personal viewpoints and opinions, they nevertheless carry important information about how entrepreneurs evaluate VCs. Firstly, as noted above the submission of rankings and comments is 100% anonymous so entrepreneurs do not risk any retribution from any VCs by being honest. Secondly, many "perception errors" in an entrepreneur's evaluations are likely to be idiosyncratic and therefore not affect a statistical analysis such as the one undertaken in this paper. Thirdly, understanding perception errors is useful because such errors influence which matches are formed in the venture capital market. The entrepreneurs included in our data may be wrong in their evaluations of VCs, however, the unavailability of publicly available information on how different VCs add value make subjective opinions economically relevant.

The outline of the remainder of this paper is as follows. In Section II we review the relevant literature on how VC characteristics correlate with investment ability and track record. Section III presents the construction of the ranking data from *TheFunded* and discusses empirical issues. The analysis of the entrepreneurs' quantitative rankings of VCs is presented in Section IV, and Section V presents the analysis of the entrepreneurs' qualitative comments. Section VI concludes by discussing the relationship between our findings and existing research on venture capital.

II. Review of Literature on VC Characteristics

VC Type

Independent Partnership VCs

The most prevalent type of VC in the U.S. is an independent investment firm that invests capital raised from endowments, foundations, pension plans and wealthy individuals. These VCs are organized as limited partnership where the executives of the VC take the managing role of the General Partner and the investors take the passive role of the Limited Partner. The goal of an independent partnership VC is to maximize the financial return on each investment in a start-up company. The General Partners have strong monetary incentives to achieve this goal both from carried interest (which is typically 20% of fund profits) and from the need to convince prospective investors to commit capital to the VC's future funds. Bottazzi, DaRin and Hellman (2009) show that independent partnership VCs interact more frequently with their portfolio companies and are more involved with recruiting senior management members, hiring outside directors for the board, and assisting the company to obtain future financing. Importantly, these activities are shown to increase the success probability of a venture-backed company.

Corporate VCs

Another important type of VC is the corporate VCs, which are subsidiaries of non-financial corporations. Compared with independent partnership VCs, corporate VCs not only look for good financial returns on their investments but also consider the strategic fit between portfolio companies and its corporate parent (Chesbrough, 2002). In two studies on the benefits to the parent firms of corporate venture capital programs, Dushnitsky and Lenox (2005, 2006) find evidence of such strategic complementarities – the launch of a corporate VC is associated with an increase in firm patenting. In addition to financial gains, a corporate VC creates value by nurturing/influencing the development of and gaining insight into complementary novel technologies through ownership interest. Furthermore, the compensation of corporate VC

executives typically does not take the form of carried interest payments but yearly salary and performance-based bonuses.

Gompers and Lerner (2000) study a large sample of venture-backed companies and find that investments made by corporate VCs do not underperform those made by other types of VCs. Chemmanur and Loutskina (2006) show that corporate VCs invest significant amounts in younger and riskier start-up companies and help such companies obtain better valuation with subsequent investments from independent VCs, financial market players, and IPO investors. Similar findings are presented by Ivanov and Xie (2008) who show that companies backed by corporate VCs have higher IPO and acquisition valuations than companies backed by other VC types. However, the higher valuations are only given to start-up companies that have a strategic fit with the parent of the corporate VC.

Financial VCs

Another VC type is financial VC which is affiliated with a bank, insurance company or other type financial corporation. Examples of financial VCs are Bank of America Capital Investors and Fidelity Ventures. Similar to corporate VCs, financial VCs have motivations for their investments outside of maximizing financial returns. Hellman, Lindsey and Puri (2008) show that companies which receive financing from a financial VC affiliated with a bank are more likely to later receive debt financing from the same bank. The authors show that such relational debt financing is beneficial to companies because they can obtain loans from the parent of their financial VC at lower interest rates. However, financial firms can also benefit from having VC subsidiaries if the VC makes strategic investments related to the financial parent's business.

Government VCs

As discussed by Brander, Egan and Hellman (2008), VCs affiliated with various branches of the government have many different objectives beyond financial returns, including promoting entrepreneurship and innovation, and pursuing other public policy goals such as employment in a

deprived region. Lerner (1999, 2002) studies the Small Business Innovation Research (SBIR) program, which is the largest government venture capital program in the U.S. Lerner's analysis shows that companies backed by SBIR VCs experience faster growth and are more likely to receive subsequent financing from other VC types. Studying the role of the relatively large government VC program in Canada, Cumming and MacIntosh (2003) and Brander, Egan and Hellman (2008) conclude that investments made by this VC type are however associated with less value creation than investments made by other VC types.

Summary

The above reviewed literature points at many important differences between the investment behavior and value-add ability of various VC types. While VC type may play a role when entrepreneurs evaluate VCs, it is not clear whether entrepreneurs have a more favorable view of independent partnership VCs as compared with corporate, financial and government VCs. On one hand, entrepreneurs may like the flexibility of independent partnership VCs in their investment strategy and their primary focus on financial returns as it may align with theirs. On the other hand, entrepreneurs may value the strategic fit that may come with an investment from a corporate VC, the relational benefits that may come from financial VCs or the broader agenda of government VCs.

VC Track Record

Investment Outcomes and Value-Add

Kaplan and Schoar (2005) study the returns to venture capital funds and establish that VCs which have been successful with their previous investments are more likely to be successful in their future investments. One interpretation of this result is that VCs with better track record have overall better value-adding abilities. Using a matching model, Sorensen (2007) shows how the higher success rates of VCs with better track records are due partly to their ability to select

companies of higher pre-investment quality, and partly to their superior provision of value-adding services. Chemmanur, Krishnan and Nandy (2008) study interim company performance using Census data and, consistent with Sorensen, establish that companies backed by more experienced VCs undergo improvement in product market performance as well as from reductions in various input costs.

Board Involvement

Empirical studies of board representation in entrepreneurial companies also provide evidence that a VC's reputation and investment experience are related to its ability to add value. Baker and Gompers (2003) show that venture-backed companies that go public have on average a greater number of VC board members and are more likely to have a non-founder CEO if their lead VC investor had higher reputation. Related findings are presented by Hochberg (2008) who shows that experienced VCs are more likely to have an independent audit committee at the time of the IPO, and by Wongsunwai (2008) who shows that companies backed by higher quality VCs have larger, more independent boards of directors, and have increased VC presence on the board.

Financial Terms

If the value-adding support provided by VCs with better track record is a scarce resource, then equilibrium prices of venture capital investments should be such that entrepreneurs have to give away some of the surplus associated with the VC's ability. Hsu (2004) studies this association and shows that reputable VCs offer lower pre-money valuations as compared with less reputable VCs. Hsu further shows that entrepreneurs recognize the importance of VC value-adding abilities because they prefer investments from reputable VCs despite the lower valuation. Bengtsson and Sensoy (2009) report a seemingly contradictory result on financial terms: older and more experienced VCs offer fewer investor-friendly financial terms in the form of cash flow contingencies attached to their preferred stock. The findings of Hsu (2004) and Bengtsson and Sensoy (2009) can be reconciled with the argument that VCs with better track record use their

stronger bargaining power to negotiate larger equity ownership (i.e. offering lower pre-money valuations) versus to negotiate more cash flow contingencies.

Summary

Empirical papers that study differences between VCs based on the investor's track record show that these investor characteristics matter not only for how venture capital investments are priced and structured but also for how much value-add the start-up company will receive from its VC investor. On the whole, the existing evidence indicates that VCs with better track record are more active and thereby more helpful to their portfolio companies, but that they also capture at least part of the surplus from value-adding services during the ex-ante contract negotiation with the entrepreneur.

III. Ranking Data

Information about TheFunded

We obtain data on entrepreneurs' stated preferences about VCs from *TheFunded*, an online community launched in 2007 which allows entrepreneurs to share experiences and thoughts on VCs. The data analyzed in this paper was collected in February 2009. The overarching idea of this community is to help entrepreneurs select a suitable investor by providing information about how VCs differ in their ability to add value to a start-up company and in their behavior during pre- and post-investment interactions with entrepreneurs. Membership of *TheFunded* is open to founders or CEOs of private companies that have received or are currently looking for VC financing (we henceforth denote these individuals "entrepreneurs"). In order to obtain membership to *TheFunded*, an entrepreneur has to prove that he or she has started or is currently working for a start-up company, and also has to ascertain that he or she is neither an employee of a VC nor an agent for a VC. The people behind *TheFunded* carefully review and verify the personal information about the entrepreneur before granting

membership. In order to guarantee full anonymity of its members, *TheFunded* then removes all information about the entrepreneur with the exception of his or her username and password soon after.⁴

Potential Response Biases

From an econometric perspective, the self-reported nature of the data from TheFunded can introduce various response biases which could affect the interpretation of our results. Because the entrepreneurs are fully anonymous in *TheFunded*, they have no reputational or personal reason to report untruthful evaluations on VCs. The full anonymity could, however, introduce the response bias by attracting a disproportionately high fraction of entrepreneurs who hold overly favorable or overly unfavorable opinions of VCs.⁵ If most of the entrepreneurs were such “whiners” or “praisers” then we would expect to observe disproportionately high fractions of the lowest and highest rankings respectively. Because, as reported in Table 1 Panel C, the distribution of the ranking appears to be relatively uniform, this is unlikely to be a major problem in our data. Even if present, this response bias would affect the average rankings but not our results from cross-sectional regressions that study differences in rankings between VCs and entrepreneurs. As discussed below in our empirical analysis, all our findings are validated in fixed effect regressions which remove either variation pertaining to differences between entrepreneurs or differences between VCs.

Summary Statistics

⁴ In May 2008, the VC firm EDF Ventures filed a lawsuit against *TheFunded* alleging that of the community’s members made false and defamatory statements. *TheFunded* responded that this lawsuit would not affect the member who made the comment because his or her identity was unknown.

⁵ A related response bias is that VCs may try to strategically game the rankings and comments by asking friendly entrepreneurs to anonymously submit favorable evaluations. The people behind *TheFunded* have recognized this potential risk and have as a response developed an algorithm to detect and highlight strategic gaming by VCs.

The information in *TheFunded* is mainly about the U.S. venture capital market with about 90% of all evaluations referring to U.S. VCs. In order to avoid cultural or regional explanations to our findings we restrict our analysis to U.S. VCs in this paper. As reported in Table 1 Panel A, our sample includes 3,552 unique rankings submitted by 1,472 unique entrepreneurs. The sample covers 526 unique U.S. VCs, thus representing about three quarters of all active U.S. VCs.⁶

There are five different ranking categories and each ranking can take any integer value between one and five, with five reflecting the most favorable perception about a VC. As presented in Table 1 Panel D, the correlations range between the rankings range from 0.71 to 0.87.

The first ranking category, denoted “Track Record”, captures the entrepreneurs’ perception of how successful the VC has been with its historical investments. Unlike the four other rankings, the track record of a VC is not an entirely subjective measure but could be based on available statistics on the VC’s actual investment history. This feature of the track record ranking allows us, as discussed in Section IV, to test the overall validity of the entrepreneur-reported rankings from *TheFunded*. One explanation for these high correlations is that VCs which excel in one dimension of the investment model on average also excel in other dimensions.

The ranking category “Pitching Efficiency” measures how well the VC manages pre-investment interactions with entrepreneurs. In a capital market where search and screening costs are high, such as the VC industry, borrowers spend considerable amounts of time meeting and presenting their business plans to prospective investors. The ranking category “Operating Competence” measures the post-investment *ability* of the VC to add value through advising and actively managing, whereas the ranking of “Execution Assistance” measures the VC’s *willingness* to add value. The importance of “Operating Competence” and “Execution Assistance” follows the need of entrepreneurs to receive non-monetary advice and services from the VC investors. Finally, as the label indicates, the ranking category “Favorable Deal Terms” measures the extent

⁶ According to the National Venture Capital Association there are fewer than 700 VCs active in the U.S.

of entrepreneur-friendly contract terms that the VC demands in exchange for its investments. These contract terms include valuation (which influences the equity ownership given to the VC in that round), board seats and the special voting rights and cash flow contingencies that are attached to the VC's preferred stock (Kaplan & Stromberg, 2003, 2004; Bengtsson & Sensoy, 2009).

Determinants of Variation in Rankings

In Panel E of Table 1 we report the adjusted R-squares of ANOVAs of the various rankings. In the first set of ANOVAs we include entrepreneur fixed effects and in the second VC fixed effects. We find that variation of the "Track Record" ranking can be equally attributed to differences between entrepreneurs and to differences between VCs. For the other rankings, more of the variation is attributed to differences between entrepreneurs.⁷ This finding is an important feature of the ranking data – while entrepreneurs can rely on objective information (i.e. statistics on the VC's investment history and success rate) to form their "Track Record" ranking, the other rankings must be formed based on the entrepreneurs' personal and relational interactions with the VC.

VC Characteristics

We obtain variables on VC characteristics from *VentureEconomics*, which is one of the largest and most widely used databases on VCs. Because our data from TheFunded comes from the period 2007-2009, we use January 1, 2008 as the basis for calculations of investment history and track record. We calculate two measures for VC historical track record: the fraction of all companies in which the VC invested that has resulted in an Initial Public Offering ("VC IPO Fraction") and the fraction that resulted in an acquisition by a strategic buyer (VC Merger Fraction"). Our measures of VC experience include the number of unique companies in which the

⁷ ANOVA is derived for variables which are normally distributed. Because the rankings are approximately uniformly distributed, the adjusted R-squared is not an exact estimator.

VC invested (“VC Number of Portfolio Companies”) and the number of years since the VC made its first investment (“VC Age”). Summary statistics on VC characteristics are reported in Table 1 Panel G.

IV. Analysis of Rankings

VC Type

Table 2 presents the result of multivariate ordered logit regressions where the “Track Record” ranking is the dependent variable. The regressions include dummies for the year of the ranking and VC location, and cluster residuals by VC in order to overcome potential correlations of residuals within VC.⁸ In addition to variables that capture VC type, the regressions also include variables that capture various VC characteristics, the number of rankings that is provided by the entrepreneur and a dummy that captures whether other entrepreneurs disagree with the comment given by the entrepreneur on the ranked VC. The variables are analyzed in the following subsections.

As shown in specifications 1-7 of Table 2, entrepreneurs give significantly lower “Track Record” rankings to corporate VCs, government VCs and angel VCs than to independent partnership VCs, which is the omitted VC type in the regressions. Entrepreneurs also give lower rankings of track record to financial VCs but this difference is not statistically significant from independent partnership VCs. Table 3 includes regressions similar to those in Table 2 but with the each of the other four rankings as dependent variable. Similar to the result on the “Track Record” ranking, the “Pitching Efficiency” ranking (specifications 1-2) and “Operating Competence” ranking (specifications 3-4) is significantly lower for corporate, government, and angel VCs than for independent partnership VCs, which is the omitted category in the regressions. As shown in specifications 5-6, the “Execution Assistance” ranking is significantly lower for corporate,

⁸ The controls for VC location are dummies capturing whether the VC’s headquarters are located in California, Massachusetts, New York or Texas (which are the four largest U.S. states for venture financing).

financial, and angel VCs than for independent partnership VCs. While entrepreneurs give angel VCs lower “Favorable Deal Terms” rankings, there is no significant differences for the other VC types.

In summary, we show that entrepreneurs systematically give higher ranking to independent partnership VC. This result is illustrated in figure 1 which plots the average ranking by VC type.

VC Track Record

We begin our analysis of rankings and VC track record by comparing the “Track Record” ranking with various empirical measures of the VC’s actual investment experience and historical success rate, which are calculated using data from *VentureEconomics*. If the self-reported rankings are informative about VCs then we would expect a significant positive correlation between the entrepreneurs’ assessment of the VC’s track record and the VC’s actual track record. As shown in specifications 2 and 3 of Table 2, “Track Record” ranking is significantly higher for VCs that have had a higher fraction of their portfolio companies exit either via IPO or acquisition. The “Track Record” ranking is also significantly higher for VCs that have invested in more unique portfolio companies (specification 4), are older (specification 5), have raised more funds (specifications 6) and that have raised more money in their most recent fund (specification 7). Thus, the entrepreneurs’ assessments of VC track record is accurate in the sense that it reflects actual differences in various measures of VCs’ historical success rate or correlate with VC characteristics that are on average associated with VCs’ future success rate (Kaplan and Schoar, 2005; Sorensen 2007).

Having validated that entrepreneurs on the whole can correctly identify VCs with good track record, we next turn to the question of whether entrepreneurs also rank their pre- and post-investment interactions with such VCs higher. Table 3 presents the results of ordered logit regressions similar to those presented in Table 2, except that the dependent variable is the

“Pitching Efficiency” ranking in specifications 1-2, the “Operating Competence” ranking in specifications 3-4, the “Execution Assistance” ranking in specifications 5-6, and “Favorable Deal Terms” in specifications 7-8. The coefficients on “VC IPO Fraction” or on “VC Number of Portfolio Companies” are not statistically significant and their sign depends on which ranking is examined. In untabulated regressions we obtain similar results using “VC Age”, “VC Fund Sequence” and “VC Fund Size” as measures of VC investment experience.

Our findings on VC track record can be summarized as follows. While entrepreneurs are able to correctly identify the VCs that have better track record, they do not have a more favorable view of pre- and post-investment interactions with such VCs. It is important to note that this result is found even though the cross-correlations between the “Track Record” ranking and the other rankings are very high in our sample, ranging from 0.71 to 0.82. The results are illustrated in figures 2 and 3, which plot rankings for different quartiles of “VC IPO Fraction” and “VC Number of Portfolio Companies” respectively. While the bar capturing the average “Track Record” ranking is higher for higher quartiles, this pattern is not found for the bars capturing the other rankings.⁹

Number of Rankings per Entrepreneur

The data from *TheFunded* does not reveal any information about the entrepreneurs. We are therefore not able to study how rankings vary with the entrepreneur’s personal attributes (e.g. gender, age and education) or work experience (e.g. first-time versus serial entrepreneur), or with characteristics of the start-up company for which the entrepreneur is raising capital. However, we are able to count how many VCs each entrepreneur has ranked on *TheFunded*.

⁹ In untabulated tests we include interaction variables that capture the interaction between different VC types and “VC IPO Fraction” or on “VC Number of Portfolio Companies” respectively. These tests investigate whether the effect of VC track record on rankings also depend on the VC type, and thereby on the incentives given to VC employees. The regressions do not show evidence of any such interaction effects.

The regression results are presented in Tables 2 and 3. The negative coefficients that we estimate in all specifications on “Number of Rankings per User” are consistent with a learning explanation that entrepreneurs who have had more exposure to VCs become more skeptical of VCs’ value-adding abilities, and consequently give overall lower rankings . This pattern is illustrated in figure 4 which plots the rankings for groups formed on how many ranking the entrepreneur provides to *TheFunded*. The decline in rankings is pronounced with the average ranking being above 3 for entrepreneurs who provide only one ranking and around 2.5 for entrepreneurs who provide ten or more rankings. One explanation for this difference is that entrepreneurs are initially optimistic about their interactions with VCs during pitching, due diligence, contract negotiations and post-investment interactions. When these entrepreneurs later encounter a greater number of VCs, they gradually learn that these interactions with VCs are not as favorable as they initially thought.

An alternative explanation to the observed negative correlation between rankings and “Number of Rankings per User” is that unhappy entrepreneurs may be more likely than happy entrepreneurs to report on their encounters with VCs. Such differences in reporting propensity would generate the same negative correlation even if all entrepreneurs were to encounter the same number of VCs. Because our data from *TheFunded* are fully anonymized, we cannot rule out this alternative explanation by controlling for proxies for the entrepreneur’s level of happiness, or by instrumenting by the number of VCs the entrepreneur is likely to have encountered. Instead, we scrutinize our data and identify three reasons why the learning explanation is more plausible than this alternative explanation.

The first reason is that entrepreneurs who rank a greater number of VCs also rank VCs with higher track record – the correlation between “Number of Rankings per User” and “VC IPO Fraction” in our sample is 0.10 and statistically significant.¹⁰ We know from Sorensen (2007) and

¹⁰ The correlations between “Number of Rankings per User” and our other measures of VC track record range between 0.06 and 0.11 and are all statistically significant.

Chemmanur et al (2009) that entrepreneurial companies of higher quality match with more reputable VCs. Entrepreneurs who rank more VCs are therefore likely to be the high-quality ones, and are unlikely to be unhappy complainers. High quality entrepreneurs are less impressed by the VCs they encounter, partly because they may be in less need of the value-adding services which VCs provide, partly because they gradually learn that VCs are not able to deliver all the value-adding services that they promise.

The second reason is that the entrepreneur's number of rankings does not only correlate to overall lower rankings but also impacts the correlations between ranking and VC characteristics. In Table 4, we run regressions similar to those presented in Tables 2 and 3 but also include interaction variables formed with "Number of Rankings per User". Importantly, we show that the positive correlation between the "Track Record" ranking and "VC IPO Fraction" (specification 1) and "VC Number of Portfolio Companies" (specification 2) respectively are increasing in "Number of Rankings per User". Thus, entrepreneurs who rank more VCs are also better at identifying the VCs with the best track record, which means that they are more knowledgeable about VCs in general. This is another piece of evidence that supports the learning argument and contradicts the alternative explanations that such entrepreneurs are just unhappy complainers. Specifications 1-2 of Table 4 show that the positive correlation between the "Track Record" ranking and "VC Independent partnership" type is higher for entrepreneurs who have ranked fewer VCs. This result is replicated for the other rankings in specifications 3-10.

Our third reason to believe that our result can be explained by a learning argument is that, as illustrated in figure 4, the association between ranking levels and number of rankings is close to monotonic. While the extremely low rankings for entrepreneurs who provide 20 or more rankings could be explained by some entrepreneurs being just unhappy and vocal complainers, this explanation is unlikely to explain differences between 1 and 2 rankings and between 2 and 3 rankings. We show in untabulated regressions that entrepreneurs with 1 ranking give significantly higher rankings than entrepreneurs with 2 rankings who in turn give significantly higher rankings

than entrepreneurs with 3 rankings. This evidence is consistent with our explanation since entrepreneurs who have previously encountered only one VC should experience considerable learning when they encounter one or two more VCs.

Consensus among Entrepreneurs

Additional evidence consistent with the thesis that entrepreneurs learn about VCs is found when we analyze the coefficients on “Other Entrepreneurs Agree”. This variable captures whether other entrepreneurs in *TheFunded* community agree with the comments given on a VC by the entrepreneur who also ranked the VC. If this wisdom of the masses agrees with the entrepreneur then the entrepreneur’s rankings are likely to reflect a view that is more relevant and accurate. As shown in Tables 2 and 3, the coefficients on “Other Entrepreneurs Agree” are consistently negative in all specifications.¹¹ Thus, entrepreneurs who provide rankings with which other entrepreneurs disagree have overall more favorable views of VCs.

VC Financed Entrepreneur

The last step of our empirical analysis of the rankings is to investigate whether the rankings are different for an entrepreneur who also received financing from the VC he or she ranked. Entrepreneurs who are members in *TheFunded* can select to provide information about whether they received financing or not from a VC. About one in six rankings (658 out of 3,552) has this information about financing, of which 38% reflect cases where the entrepreneur received financing from the ranked VC. Because the actual chance that an entrepreneur receives financing from a particular VC is considerably lower than 38%, the information provided in *TheFunded* is

¹¹ In untabulated regressions we confirm that “Other Entrepreneurs Agree” remains negative if entrepreneurs who provide more than one ranking are excluded from the sample. We also confirm that the variable “Other Entrepreneurs Agree” remains negative if this dummy only takes the value 1 both if there is agreement and if the entrepreneur provides only one ranking.

likely to be biased in the sense that entrepreneurs who do not receive financing less often choose to reveal this information.

In specifications 1, 3, 5, 7 and 9 of Table 5 we replicate the regression models in Tables 2 and 3 but constrain the sample to rankings for which we have information on whether entrepreneurs received financing from the ranked VC. We note that the variable “VC Financed Entrepreneur” is significantly higher for an entrepreneur who received financing from the VC he or she ranked. The difference is found for all rankings and its magnitude is large, ranging from 0.8 to 1.3.

This finding validates the empirical relevance of the ranking data by demonstrating that entrepreneurs select investors who they believe will be beneficial to their start-up companies during pre- and post-investment interactions. Importantly, the regression analysis does not reveal the exact mechanism behind this correlation. It is possible that the rankings are correct and entrepreneurs rationally selecting the VC with whom they get the best match. Alternatively, the rankings could be incorrect in the sense that entrepreneurs are irrationally optimistic about their own abilities and choices (Puri & Robison, 2007; Cassar, 2008).

Finally, in specifications 2, 4, 6, 8 and 10 we restrict the sample further to observations for which the entrepreneur received financing from the VC he or she ranked. In these specifications, we validate the previously discussed results on VC type (i.e. that independent partnership VCs are ranked higher than other VC types) and VC track record (i.e. that entrepreneurs correctly identify that experienced and successful VCs have higher track records but do not give them higher rankings in other areas). This validation result is a robustness check because it demonstrates that our results on VC characteristics hold for entrepreneurs who actually received financing. Thus, our results on VC characteristics appear not to be driven by some VCs being very tough in their investment decisions, which may cause rejected entrepreneurs to provide low rankings.

Robustness

Because our data include an unbalanced panel of entrepreneur-VC pairs, it is possible that our results pertaining to VCs may be explained by differences between entrepreneurs. To investigate this possibility, we run fixed effect regressions which include dummies for each VC. We use fixed effect regressions to remove any variation of the dependent variable due to the fixed effects, at the expense of lower statistical power. We chose to use logit regressions because fixed effects cannot be included in an ordered logit regression.¹² For this purpose we create a new binary dependent variable, denoted “High Ranking”, which takes the value 1 if the ranking above 3 and 0 otherwise. Results are presented in Table 6. Our specifications with entrepreneur fixed effects (1, 3, 5, 7 and 9) show that our results on VC type and experience remain unchanged. From this we conclude that even though there is considerable variation in the entrepreneurs’ rankings (as is to be expected from self-reported personal experiences), these differences cannot explain why independent partnership VCs systematically receive higher rankings than other VC types. Similarly, differences between entrepreneurs do not explain our finding that more experienced VCs are correctly identified (higher “Track Record” ranking) but not believed to add more value.

In a separate set of regressions we instead of VC fixed effects include entrepreneur fixed effects. These specifications test whether our results pertaining to entrepreneurs may be explained by differences between VCs. As shown in specifications 2, 4, 6, 8 and 10, our results on number of rankings per entrepreneur, other entrepreneurs agree and VC financed entrepreneur remain unchanged after removing variation due to differences between VCs.

V. Analysis of Comments

Overview and Coding

¹² We have also validated our results in fixed effect OLS regressions. However, OLS is *not* the accurate econometric technique given the ranking variables are approximately uniform.

In addition to providing rankings, entrepreneurs who are members of *TheFunded* can also provide verbal comments on any VC. Our sample of comments is a subset of our sample of rankings and, as reported in Table 1 Panel A, includes 1,178 comments on 361 unique U.S VCs submitted by 703 unique entrepreneurs. The comments on *TheFunded* follow no particular template and are of varying lengths. In some comments, entrepreneurs give their quick judgment on a VC using two or three short sentences. Other comments resemble short essays where the entrepreneur describes in detail what happened during his or her interactions with the VC. While a comment can refer to any aspect of the VC, most comments are related to the entrepreneur's personal and relational interaction with representatives of the VC. Although some comments primarily reflect on an individual partner at a VC, we analyze such comments on the VC level in order to maintain consistency with our analysis of the rankings. Appendix A lists examples of comments that are analyzed in our data.

Although the major emphasis of our analysis is on the ranking data, we are also interested in examining the comments for two reasons. First, the comments can give us a more detailed picture of what entrepreneurs look for when they seek venture financing. Second, we can check whether how entrepreneurs rank (i.e. click on numbers) is similar to how the same entrepreneurs verbally in free-text format make comments. For these purposes we identify 27 distinct categories that we believe capture the vast majority of the entrepreneurs' comments about VCs. We arrive at these categories partly by considering what the existing literature has found to be important to venture capital investments, and partly by identifying the most common sort of comment in the data from *TheFunded*. Each of the 27 categories captures a unique aspect of the VC's interaction with the entrepreneur and many comments often fall under multiple categories. For each comment category we code whether a comment reflects the entrepreneur's positive or negative perception of the VC. While we code each comment as favorable or unfavorable we do not attempt to classify the degree of this perception because such a judgment call risks becoming too subjective.

Role of Attributional Style

As opposed to *actual* causes of events, the entrepreneurs' comments capture *perceived* causes as determined by entrepreneurs, based on their observations and subsequent interpretations. The perceived causation may be drastically different from actual causation, depending on the circumstance and the individual. The impact of such differences in perception has been studied extensively, under the label "attributional style", in psychology.

First of all, the information available to the entrepreneur can determine attribution. Covariation may be an important factor: the entrepreneur could find it difficult to disentangle the influence of market-wide events from the behavior which is specific to a VC (Kelley 1967). In addition, "salience of the causal candidate" can affect the entrepreneurs' attribution processes as well (Taylor and Fiske 1975). Operational support on the part of VCs, for example, is a widely-discussed topic and could be overly-attributed to the success or failure of a company by the entrepreneur. Secondly, attribution is affected by the entrepreneur's belief of what is typical or normal behavior of VCs (Deaux 1976, Kelley 1972b). Lastly, the entrepreneur's motivation is also thought to affect the processing of information. Particularly, the entrepreneur may be motivated toward self-enhancement, through internal attribution of success and external attribution of failure (Miller & Ross 1975). This may induce the entrepreneur to place the blame of his own faults on VCs, or attribute his success to himself rather than the VC.

One approach to minimize the influence of attributional style in our analysis of the comments would be to benchmark each entrepreneur's VC comments with his or her other comments on more general phenomena. Another approach would be to adjust the coding for personal characteristics (e.g. age, gender, education and work history) of the entrepreneur which may affect attributional style. These approaches are, however, not feasible because the data from *TheFunded* is fully anonymized.

We limit the influence of attributional style in our cross-sectional analysis by aggregating all comment categories into “Any Positive Comment” and “Any Negative Comment”. As reported in Table 7 under the header “Overview”, 64% of the entrepreneurs provide at least one positive comment and 46% provide at least one negative comment. With this aggregation we eliminate any influence of attributional style which is specific to one aspect of the interaction. For instance, an entrepreneur who has a negative perception of a VC because his or her company has bad fit with the VC’s investment focus may incorrectly attribute that to the VC coming unprepared to meeting and leaving no feedback on the business plan. Although attributional style would here affect our coding into category categories, it would not affect the conclusion that the entrepreneur has a negative view of the VC.

Correlations between Comments and Rankings

The column “Correlation Track Record Ranking” in Table 7 reports the correlations between each the 27 comment categories (coded as 1 if positive, -1 if negative and 0 if not mentioned or if both positive and negative) and the “Track Record” ranking. The column “Correlation Other Rankings” reports the correlations between each of the 27 comment categories and the sum of the “Pitching Efficiency”, “Favorable Deal Terms”, “Operating Competence” and “Execution Assistance” rankings for a given entrepreneur. We note that all 54 correlations (27 comment categories times 2 ranking measures) are positive. The magnitude of this result is best illustrated by the high correlations (between 0.63 and 0.74) between rankings and a positive comment and the low correlations (between -0.62 and -0.74) between rankings and a negative comment. In words, the correlations mean that an entrepreneur who provides high rankings on a VC is also significantly more likely to give a favorable comment on the same VC, and significantly less likely to give an unfavorable comment.

The finding that there is a consistency between rankings and comments is of course not surprising. However, the consistency between rankings and comments mean that the rankings

from *TheFunded* are informative in the sense that entrepreneurs who provide rankings can also verbally motivate their favorable or unfavorable view of a particular VC. Consequently, the ranking that we analyze in this paper appear not to reflect entrepreneurs mindlessly and carelessly clicking on a webpage form, but instead reflect their actual stated preferences on VC.

Validation of Results on Ranking

Given that the coding of the comments correlate with the rankings, we expect that our empirical results on the ranking data could be validated using the comment data. In the multivariate regression analysis, presented in Table 8, we find that there were fewer positive comments and more negative comments for corporate VCs and angel VCs, confirming our conclusion that independent partnerships are viewed more favorably. Secondly, we find no significant correlation between the comments and “VC IPO Fraction” and “VC Number of Portfolio Companies”, validating our result more experienced VC’s are not necessarily viewed more positively. Moreover, positive (negative) comments are less (more) frequent for entrepreneurs who have encountered more VCs and hold views with which other entrepreneurs agree. Entrepreneurs also give more (less) positive (negative) comments to the VC from which they receive financing. Thus, the results from our analysis of the qualitative comments from *TheFunded* mirror closely the results from our analysis of the quantitative rankings from *TheFunded*.

Details of Comments

Having established that our results on rankings carry over to the coded comments, we discuss the specifics of these comments. Our goal is to present an overview of what aspects of interactions with VCs and value-adding tasks are most important to entrepreneurs. The first set of columns in Table 7 under the header “Overview” provides summary statistics on the frequency of the 27 comment categories.

Behavior During Pitch and Due Diligence

The first comment category, “Behavior During Pitch and Due Diligence”, captures the pre-investment interaction between the entrepreneur and the VC. Analyzing the frequencies of different variables in this category, we find that entrepreneurs commonly express strong preferences about the time the VC takes to do its due diligence (15% of entrepreneurs give a positive comment, 12% give a negative comment). A speedy screening is important for an entrepreneur because the due diligence process demands significant time and resources from himself and his company. Also, the fact that most entrepreneurial companies do not generate profits or cash flows means that new financing is often needed urgently.

Another frequent type of comment relates to the VC’s ability to provide value to the entrepreneur’s company during the pre-investment interactions. Entrepreneurs like when VC’s give feedback on their business plans (11% give a positive comment, 3% give a negative comment) and when they refer the entrepreneurs to other VCs which could be potential investors (11% give a positive comment, 1% give a negative comment). Some entrepreneurs also express a fear for VCs stealing their business ideas (3% give a negative comment). Business plan presentations almost always reveal confidential information and most VCs refuse to sign Non-Disclosure Agreements. The VC could steal the information about a technology or market by either conveying it to other companies in its portfolio or by setting up a new company itself.

Fit Between VC and Company

The second comment category captures how well the VC’s expertise and investment focus fit with the entrepreneur’s company. The fit could be along industry, investment stage, geography or financial capability (i.e. the VC has enough capital to fund company in follow-up rounds). Our analysis of the comments reveals that the entrepreneurs have the strongest preferences on industry fit (12% give a positive comment, 5% give a negative comment),

relatively less strong preferences on investment stage fit (2% give a positive comment, 5% give a negative comment) and considerably weaker preferences on location and financial fit. A large fraction of entrepreneurs states that not only fit is important but also that the VC has a good understanding of the entrepreneurial process (6% with a positive comment, 2% with a negative comment).

Deal Characteristics and Negotiation

An important dimension of a VC investment is the financial contract signed between the entrepreneur and the VC. As shown by Kaplan and Stromberg (2003) and Bengtsson and Sensoy (2009), the contractual deal terms have important implications on how the proceeds from a company IPO or sale are split between VC and entrepreneur. Our analysis of comments relating to this dimension reveals that entrepreneurs value a favorable valuation and contractual deal terms, which is not surprising. However, these matters are relatively rarely commented on. Similarly, relatively few entrepreneurs have stated preferences about whether the deal is syndicated or not.

Formal and Informal Control Over Company

VCs always exert some degree of control over the companies in their portfolios. Although some entrepreneurs express that they have a preference for VCs that are not overly controlling, relatively few have an unfavorable view of VC control. However, a large fraction of entrepreneurs have stated preferences about the control problems that arise due to internal conflicts within the VC (10% give a positive comment, 13% give a negative comment). A VC employs a number of individuals as partners or associates. If these individuals were to disagree on how a particular portfolio company should move forward, then the entrepreneur would receive conflicting advices and find it difficult to take the optimal action. Put differently, the

entrepreneurs express a strong preference for VCs who due to unity within the partnership offer predictable and consistent directions.

Value-Add to Company

The final comment category “Value-Add to Company” captures comments related to the VC’s ability to provide operational assistance and strategic guidance to the entrepreneur’s company. A large fraction of entrepreneurs express stated preferences for VC’s ability and willingness to be actively involved in their companies (16% give a positive comment, 2% give a negative comment). Specifically, entrepreneurs have a more favorable view of VCs that have valuable contacts, provide operational help, assist with recruiting new employees, help the company raise more capital, and, to a lesser extent, assist the company at an exit.

VI. Concluding Discussion

This paper presents four findings which complement the existing research on venture capital by studying entrepreneurs’ stated preferences on the VCs that they encounter as they raise financing for their companies. We explore a novel dataset from an on-line community of entrepreneurs that comprises 3,552 quantitative rankings and 1,239 qualitative comments.

Our first contribution is to show that entrepreneurs systematically view their pre- and post-investment interactions with independent partnership VCs more favorably than interactions with other VC types. Thus, entrepreneurs appear to value the independence and focus on financial returns of independent partnership VCs more than the strategic complementarities associated with corporate VCs, lending relationships associated with financial VCs and other goals associated with government VCs. Bottazzi, Da Rin and Hellman (2009) present related evidence for European VCs.

Our second contribution is to demonstrate that although entrepreneurs correctly identify VCs with better track record they do not view their interactions with such VCs more favorably.

This pattern is found regardless of whether the entrepreneur received financing from the VC or not. The result adds to previous empirical studies of how VC investment experience and reputation are related to VCs' value-add ability (Kaplan & Schoar, 2005; Sorensen, 2007; Chemmanur, Krishnan and Nandy, 2008) and board involvement (Baker & Gompers, 2003; Wongsunwai, 2008; Hochberg, 2008). Taken together with the results of Hsu (2004), our findings suggest that VCs with better track record are able to provide greater assistance to their portfolio companies but they are able to extract almost the entire surplus from these activities during the contract negotiation.

Our third contribution is to show that an entrepreneur's stated preferences on VCs depend on his or her experiential learning about the venture capital market. As evidence of learning, we document that entrepreneurs who rank a larger number of VCs on *TheFunded* give lower but more accurate rankings. Moreover, entrepreneurs systematically give more favorable rankings to the VCs from which they receive finance. The higher rankings given to the entrepreneur's own VC validates the empirical relevance of the ranking data by demonstrating that entrepreneurs select investors who they believe are beneficial to their start-up companies during pre- and post-investment interactions. Because we do not observe whether the VC selection was made before or after the entrepreneur had formed an opinion, we are unable to identify whether he or she select the VC perceived to have the best ability to add value, or whether an optimistic entrepreneur forms this view later to confirm his choice (Puri & Robison, 2007; Cassar, 2008).

Our fourth contribution is that we provide a detailed list of which specific aspects of pre- and post-investment interactions with VCs entrepreneurs like or dislike. Although this list is compiled from self-reported comments and not, as desired, from formal surveys, we believe that it can provide some valuable guidance for future empirical and theoretical work on how entrepreneurs evaluate and select VCs.

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Figure 1 - Rankings and VC Type

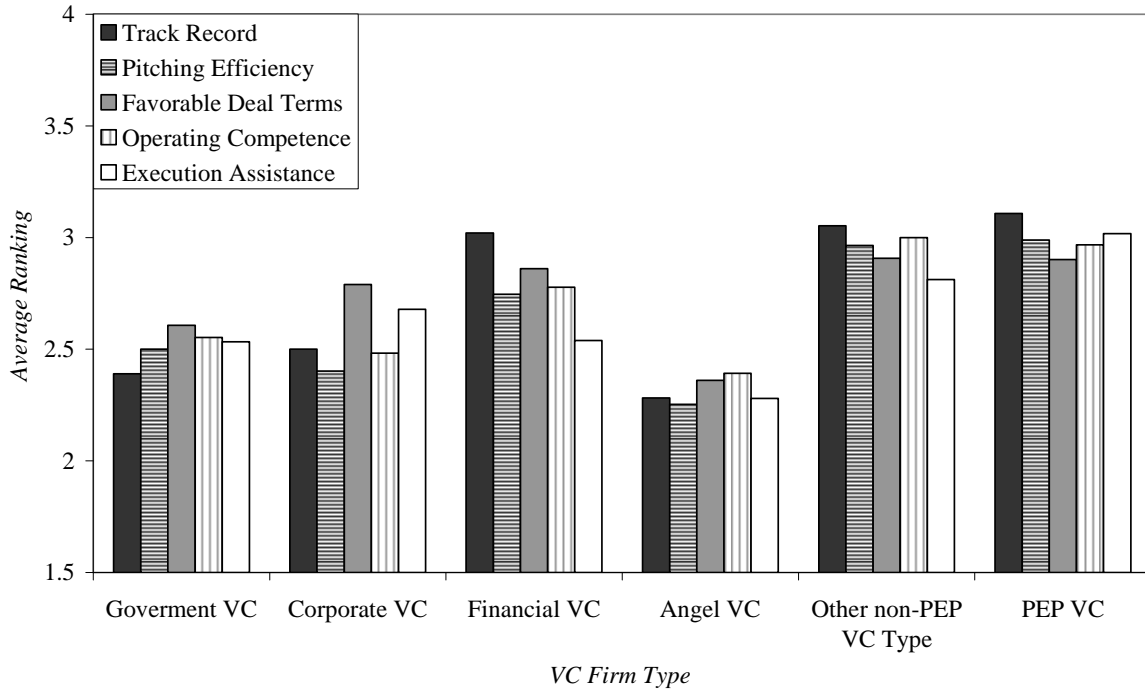


Figure 2 - Rankings and VC IPO Rate

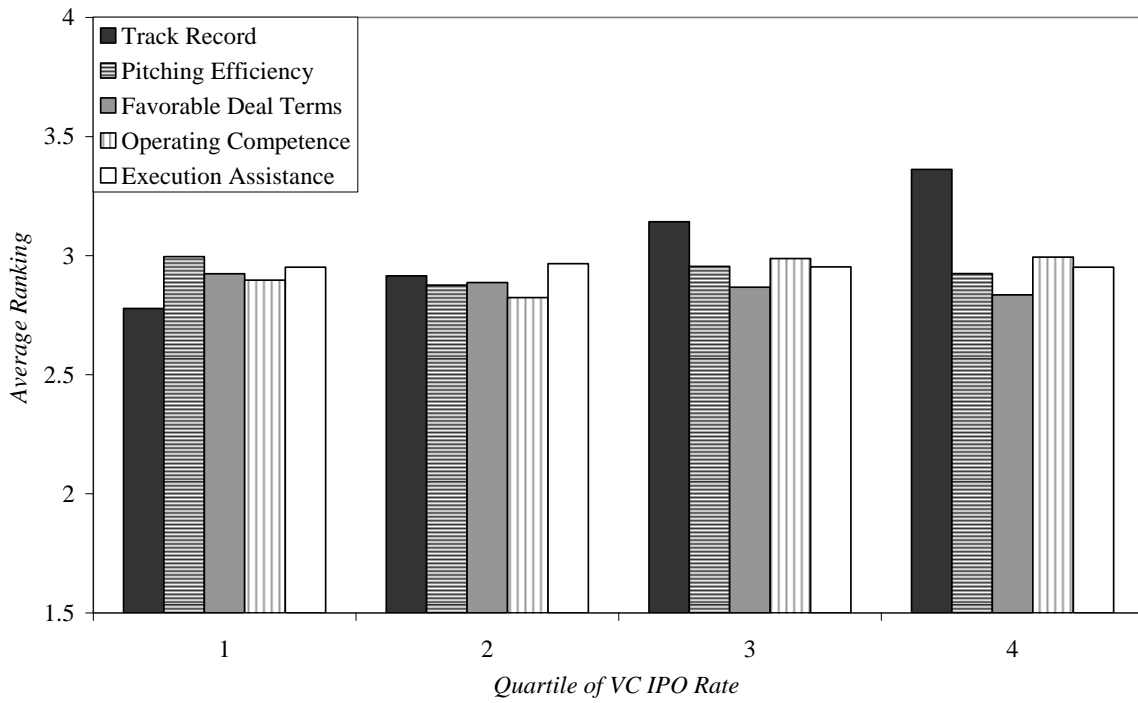


Figure 3 - Rankings and VC Number of Portfolio Companies

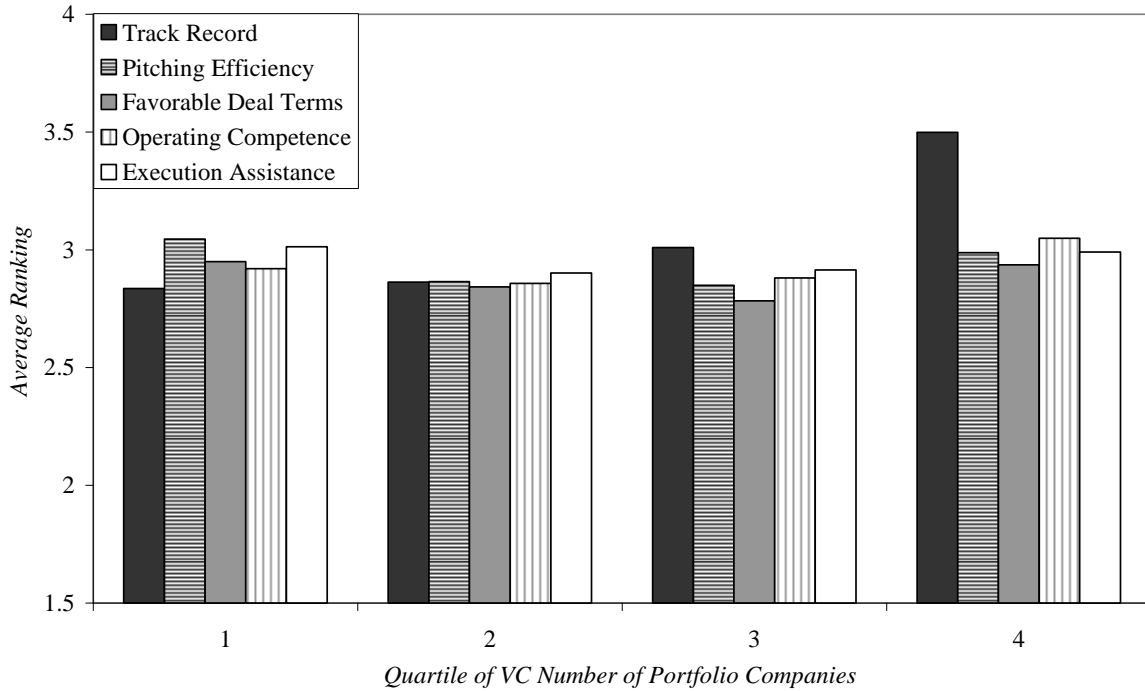
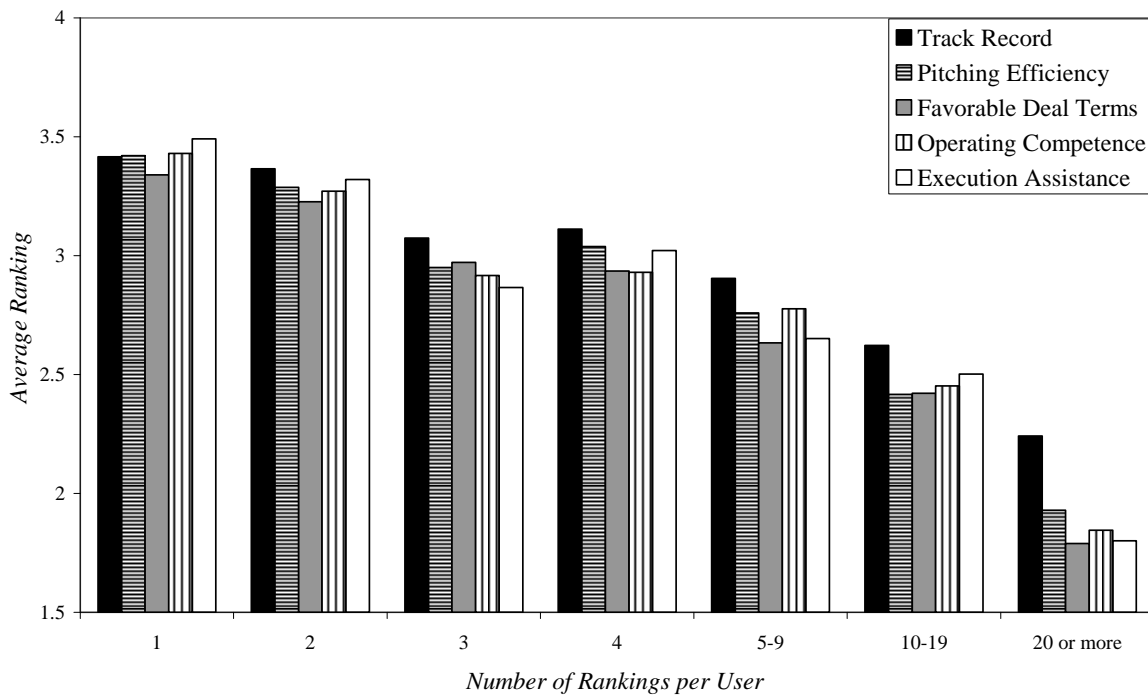


Figure 4 - Rankings and Number of Rankings per User



Appendix A: Examples of Comments from *TheFunded*

To ensure that we do not reveal any identities of the VCs in our data we have replaced the name of the VC with [VC] and the name of individual VC partner with [VC partner].

Money but Without Direction

The feeling is that they are throwing money around to see what sticks. I had a positive experience with the [VC], who was good about working with us as we pulled the deal together. It was hands-off after that - no real value. I'd take their money again, but with very different expectations. They are pretty useless on the board, so don't expect any support.

Responsive, Efficient Process for Small Initial Raise

[VC] came back quickly after our initial pitch and moved through due diligence efficiently. We found [VC partner] and his partners professional, reasonable and supportive. They have good depth in financial tech, and post-closing have been helpful and easy to work with.

Watch Out

These guys have a reputation for sticking it to their management teams. If only they were half as smart as they think they are. Check with executives that have worked with them before getting too deep.

They Kept Changing the Terms

A few years back we got a term sheet from these guys and almost took their funding. In the end we turned them down mostly because of our experiences with [VC partner]. Every time we met or spoke with him he tried to reduce the original terms. We took another term sheet because we simply felt we couldn't trust the management at their firm. It felt like we were dealing with a used car salesman when we had to deal with [VC partner]

Everything Has Been Perfect Especially as One of Our Founding Outside Investors

We met [VC] at the [VC forum]. [VC] proceeded to do the traditional diligence that would be expected, was extremely consistent in communications and closed exactly as planned. Our first business plan was sketchy and [VC] helped us better refine ourselves in order to secure our next round of investors. [VC] is up front on what needs to be discussed and has been a key component to our success to date.

Good Experience with [VC]

We brought [VC] into our most recent round. They led the deal and took a board seat. The experience has been a positive one. The financing got done reasonably quickly and without much hassle. [VC's] behavior on the board has been good and they do contribute value. So far, so good. I would take their money again.

Never Again

Twice is enough, and the same things keep happening there after the people change. They'll change their minds and blame the other partners, they'll make decisions they don't really like then look for someone else to blame. They tolerate bad management for too long and then - wham! - they change everything. All ego, no help, no partnership. It's just not worth it. Pretend that nothing they say is true, then see if you want to deal with them anyway. Their money is good, if you assume you can't trust them from day one and are okay with that. When they send in someone to help, watch out, you're done, but they'll waste all your time pretending otherwise, letting you develop but not execute plans they don't really support, while having you educate a series of advisors.

Table 1 - Description of Sample

Data comes from *TheFunded*, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. All correlations in Panel C are significant at 1% level. In Panel G, the variables that capture and VC type and characteristics are from *VentureEconomics* and the VC characteristic variables reflect the situation as of 1st of January 2008.

Panel A: Overview of Rankings and Comments

Rankings

Number of Observations	3,552
Number of Unique Users	1,472
Number of Unique VC Firms	526

Comments

Number of Observations	1,178
Number of Unique Users	700
Number of Unique VC Firms	391

Panel B: Tabulation by Year

	2007	2008	2009
Number of Rankings	1,860	1,242	450
<i>Fraction of Rankings</i>	52%	35%	13%
Number of Comments	697	389	153
<i>Fraction of Comments</i>	56%	31%	12%

Panel C: Tabulation of Rankings

	1 (worst)	2	3	4	5 (best)	Total
<u>Ranking: Track Record</u>						
Number of Rankings	580	510	599	742	542	2,973
<i>Fraction of Rankings</i>	20%	17%	20%	25%	18%	100%
<u>Ranking: Pitching Efficiency</u>						
Number of Rankings	907	521	514	766	680	3,388
<i>Fraction of Rankings</i>	27%	15%	15%	23%	20%	100%
<u>Ranking: Operating Competence</u>						
Number of Rankings	837	494	456	721	608	3,116
<i>Fraction of Rankings</i>	27%	16%	15%	23%	20%	100%
<u>Ranking: Execution Assistance</u>						
Number of Rankings	812	357	342	483	689	2,683
<i>Fraction of Rankings</i>	30%	13%	13%	18%	26%	100%
<u>Ranking: Favorable Deal Terms</u>						
Number of Rankings	661	447	573	594	423	2,698
<i>Fraction of Rankings</i>	24%	17%	21%	22%	16%	100%

Panel D: Correlations of Rankings

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
1. Ranking: Track Record				
2. Ranking: Pitching Efficiency	0.71			
3. Ranking: Favorable Deal Terms	0.71	0.77		
4. Ranking: Operating Competence	0.82	0.78	0.76	
5. Ranking: Execution Assistance	0.78	0.76	0.78	0.87

Panel E: Adjusted R-squared From ANOVA Analysis

	With Entrepreneur Fixed Effects	With VC Firm Fixed Effects
Ranking: Track Record	0.266	0.218
Ranking: Pitching Efficiency	0.262	0.088
Ranking: Operating Competence	0.311	0.120
Ranking: Execution Assistance	0.323	0.121
Ranking: Favorable Deal Terms	0.304	0.113

Panel F: Number of Rankings per User (Observation is unique user, N=1,472)

	<u>Nr of Obs.</u>	<u>Fraction</u>
1	779	53%
2	312	21%
3	139	9%
4	89	6%
5-9	111	8%
10-19	31	2%
20 or more	11	1%

Panel G: Summary Statistics of VC Firm Type and Characteristics (Observation is VC firm, N=526)

<u>VC Firm Type (Dummy Variables)</u>	<u>Fraction</u>			
VC Independent Partnership	79.5%			
VC Financial	5.7%			
VC Corporate	2.9%			
VC Government	4.2%			
Angel VC	2.5%			
Other non-PEP VC Type	4.8%			
<u>VC Firm Characteristics</u>	<u>Mean</u>	<u>St Dev.</u>	<u>Min</u>	<u>Max</u>
VC IPO Fraction	0.09	0.10	0.00	0.75
VC Merger Fraction	0.24	0.15	0.00	1.00
VC Number of Portfolio Companies	69.70	101.38	1.00	781.00
VC Age	12.20	9.75	1.00	47.00
VC Fund Sequence	3.31	4.29	1.00	47.00
VC Fund Size (\$ millions), (N=456)	270.05	409.95	0.20	5340.00

Table 2 - Regression Analysis of Track Record Rankings

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. The variables that capture and VC characteristics are from VentureEconomics and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable is the entrepreneurs ranking of the VC's track record, ranging from 1 (worst ranking) to 5 (best ranking). Ordered logit regressions with residuals clustered by VC. The omitted VC type is Independent Partnership. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6	7
Dependent Variable	Ranking: Track Record						
Corporate VC	-0.795*** [0.265]	-0.787*** [0.235]	-0.798*** [0.237]	-0.827*** [0.257]	-0.741*** [0.246]	-0.864*** [0.220]	-0.485* [0.286]
Financial VC	-0.223 [0.326]	-0.229 [0.354]	-0.218 [0.350]	-0.133 [0.327]	-0.239 [0.313]	-0.179 [0.327]	-0.192 [0.335]
Government VC	-0.906** [0.354]	-0.727** [0.351]	-0.708* [0.363]	-0.674* [0.363]	-0.786** [0.380]	-0.775* [0.412]	-0.650* [0.370]
Angel VC	-1.401*** [0.470]	-1.149** [0.457]	-1.104*** [0.410]	-1.047** [0.518]	-1.228*** [0.428]	-0.014 [0.423]	-1.077** [0.458]
Other non-PEP VC Type	0.011 [0.291]	-0.021 [0.312]	0.013 [0.309]	0.058 [0.300]	-0.016 [0.334]	0.116 [0.248]	-0.025 [0.320]
VC IPO Fraction		2.973*** [0.959]	2.188*** [0.847]				
VC Merger Fraction			1.071* [0.573]				
log VC Number of Portfolio Companies				0.231*** [0.069]			
log VC Age					0.333*** [0.115]		
log VC Fund Sequence						0.167** [0.081]	
log VC Fund Size (\$ millions)							0.277*** [0.103]
log Number of Rankings per User	-0.556*** [0.043]	-0.583*** [0.043]	-0.584*** [0.043]	-0.588*** [0.044]	-0.580*** [0.043]	-0.585*** [0.045]	-0.581*** [0.045]
Other Entrepreneurs Agree	-0.763*** [0.155]	-0.762*** [0.152]	-0.757*** [0.151]	-0.715*** [0.155]	-0.738*** [0.152]	-0.736*** [0.154]	-0.756*** [0.152]
Observations	2,973	2,973	2,973	2,973	2,973	2,778	2,973
R-squared	0.03	0.04	0.04	0.04	0.04	0.04	0.04

Table 3 - Regression Analysis of Other Rankings

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. The variables that capture and VC characteristics are from VentureEconomics and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable is the entrepreneurs ranking of the VC's pitching efficiency (specifications 1-2), operating competence (specifications 3-4) execution assistance (specifications 5-6), and favorable deal terms (specifications 7-8). The range for each ranking variable is from 1 (worst ranking) to 5 (best ranking). Ordered logit regressions with residuals clustered by VC. The omitted VC type is Independent Partnership. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6	7	8
Dependent Variable	Ranking: Pitching Efficiency		Ranking: Operating Competence		Ranking: Execution Assistance		Ranking: Favorable Deal Terms	
Corporate VC	-0.694*** [0.194]	-0.685*** [0.186]	-0.472** [0.209]	-0.483** [0.208]	-0.338 [0.270]	-0.336 [0.274]	-0.018 [0.211]	-0.014 [0.208]
Financial VC	-0.32 [0.205]	-0.344* [0.206]	-0.327 [0.292]	-0.306 [0.289]	-0.642** [0.261]	-0.651** [0.262]	-0.084 [0.243]	-0.089 [0.245]
Government VC	-0.692** [0.270]	-0.726*** [0.267]	-0.590** [0.275]	-0.585** [0.277]	-0.671** [0.330]	-0.676** [0.328]	-0.496 [0.304]	-0.481 [0.300]
Angel VC	-1.237*** [0.344]	-1.299*** [0.337]	-0.951*** [0.338]	-0.945*** [0.346]	-1.242*** [0.375]	-1.250*** [0.376]	-1.196*** [0.328]	-1.173*** [0.328]
Other non-PEP VC Type	0.042 [0.276]	0.032 [0.272]	0.175 [0.249]	0.189 [0.247]	-0.095 [0.282]	-0.107 [0.282]	0.207 [0.249]	0.197 [0.249]
VC IPO Fraction	-0.175 [0.533]		0.614 [0.653]		-0.361 [0.657]		-0.478 [0.597]	
log VC Number of Portfolio Companies		-0.046 [0.040]		0.04 [0.046]		-0.025 [0.044]		-0.013 [0.046]
log Number of Rankings per User	-0.610*** [0.042]	-0.607*** [0.042]	-0.655*** [0.043]	-0.654*** [0.043]	-0.641*** [0.045]	-0.642*** [0.045]	-0.688*** [0.046]	-0.690*** [0.046]
Other Entrepreneurs Agree	-0.782*** [0.167]	-0.795*** [0.168]	-1.104*** [0.185]	-1.095*** [0.184]	-0.871*** [0.159]	-0.876*** [0.159]	-0.797*** [0.171]	-0.799*** [0.171]
Observations	3,388	3,388	3,116	3,116	2,683	2,683	2,698	2,698
R-squared	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04

Table 4 - Regression Analysis of Rankings for Different Number of Rankings per User

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. The variables that capture and VC characteristics are from VentureEconomics and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable is the entrepreneurs' rankings of the VC's track record (specification 1-2), pitching efficiency (specifications 3-4), operating competence (specifications 5-6) execution assistance (specifications 7-8), and favorable deal terms (specifications 9-10). The range for each ranking variable is from 1 (worst ranking) to 5 (best ranking). Ordered logit regressions with residuals clustered by VC. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6	7	8	9	10
Dependent Variable: Within VC Firm Standard Deviation	Ranking: Track Record		Ranking: Pitching Efficiency		Ranking: Operating Competence		Ranking: Execution Assistance		Ranking: Favorable Deal Terms	
VC Independent Partnership	0.896*** [0.237]	0.808*** [0.244]	0.828*** [0.190]	0.848*** [0.194]	0.747*** [0.228]	0.740*** [0.232]	0.985*** [0.220]	1.032*** [0.222]	0.609*** [0.206]	0.617*** [0.204]
VC Independent Partnership X log Number of Rankings per User	-0.327*** [0.115]	-0.293** [0.121]	-0.284*** [0.105]	-0.284*** [0.107]	-0.312*** [0.116]	-0.309*** [0.117]	-0.383*** [0.127]	-0.410*** [0.127]	-0.331*** [0.121]	-0.337*** [0.120]
VC IPO Fraction	2.254** [1.075]		-0.007 [0.810]		0.193 [0.970]		-1.016 [0.932]		-0.726 [0.797]	
VC IPO Fraction X X log Number of Rankings per User	0.830* [0.444]		0.061 [0.412]		0.539 [0.471]		0.799* [0.478]		0.493 [0.452]	
log VC Number of Portfolio Companies	0.170** [0.076]		-0.026 [0.056]		0.013 [0.066]		-0.084 [0.060]		-0.033 [0.060]	
log VC Number of Portfolio Companies X log Number of Rankings per User	0.058** [0.029]		-0.008 [0.029]		0.029 [0.030]		0.064** [0.030]		0.031 [0.031]	
Rankings per User	-0.379*** [0.112]	-0.579*** [0.156]	-0.363*** [0.105]	-0.317** [0.150]	-0.434*** [0.117]	-0.505*** [0.155]	-0.383*** [0.124]	-0.549*** [0.157]	-0.438*** [0.118]	-0.517*** [0.164]
Other Entrepreneurs Agree	-0.749*** [0.151]	-0.710*** [0.154]	-0.763*** [0.167]	-0.774*** [0.169]	-1.086*** [0.184]	-1.080*** [0.184]	-0.852*** [0.157]	-0.864*** [0.158]	-0.783*** [0.171]	-0.788*** [0.172]
Observations	2973	2973	3388	3388	3116	3116	2683	2683	2698	2698
R-squared	0.04	0.04	0.03	0.03	0.04	0.04	0.04	0.04	0.04	0.04

Table 5 - Regression Analysis of Rankings and VC Firm Financed Entrepreneur

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. In this table, sample is also limited to rankings for which entrepreneur stated whether he received financing from the ranked VC or not. The variables that capture and VC characteristics are from VentureEconomics and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable is the entrepreneurs' rankings of the VC's track record (specification 1-2), pitching efficiency (specifications 3-4), operating competence (specifications 5-6) execution assistance (specifications 7-8), and favorable deal terms (specifications 9-10). The range for each ranking variable is from 1 (worst ranking) to 5 (best ranking). Ordered logit regressions with residuals clustered by VC. The omitted VC type is Independent Partnership. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6	7	8	9	10
Dependent Variable	Ranking: Track Record		Ranking: Pitching Efficiency		Ranking: Operating Competence		Ranking: Execution Assistance		Ranking: Favorable Deal Terms	
Corporate VC	-1.754*** [0.460]	-1.099*** [0.311]	-1.448*** [0.245]	-1.236*** [0.386]	-0.979*** [0.277]	-0.644** [0.285]	-1.540*** [0.490]	-0.823* [0.441]	-1.393* [0.740]	-0.195 [1.018]
Financial VC	-0.147 [0.661]	-0.158 [0.783]	-0.426 [0.377]	-1.257* [0.667]	-0.487 [0.696]	-0.566 [0.774]	-0.45 [0.704]	-0.751 [0.923]	-0.87 [0.709]	-0.865 [0.735]
Government VC	-1.467*** [0.453]	-1.119* [0.618]	-1.047** [0.463]	-0.437 [0.571]	-0.581 [0.364]	-0.474 [0.444]	-0.833 [0.650]	-0.164 [0.672]	-0.822* [0.453]	-0.267 [0.460]
Angel VC	-1.485*** [0.489]	-1.513** [0.672]	-1.204* [0.689]	-2.450*** [0.915]	-2.177*** [0.578]	-2.183*** [0.570]	-1.042** [0.451]	-0.211 [0.559]	-1.321** [0.579]	-1.019 [1.023]
Other non-PEP VC Type	-0.246 [0.546]	-0.28 [0.815]	0.252 [0.679]	-0.189 [1.116]	-0.639 [0.941]	-0.564 [0.845]	-0.364 [0.562]	-0.35 [1.231]	-0.814 [0.668]	-0.443 [0.716]
VC IPO Fraction	5.184*** [1.365]	5.004*** [1.824]	-0.385 [0.955]	-2.071 [1.905]	0.736 [1.142]	-0.105 [1.599]	1.276 [1.093]	0.655 [1.658]	1.084 [1.192]	0.059 [1.704]
VC Financed Entrepreneur	0.790*** [0.200]		1.016*** [0.162]		1.321*** [0.214]		1.017*** [0.178]		1.088*** [0.200]	
log Number of Rankings per User	-0.374*** [0.093]	-0.184 [0.170]	-0.380*** [0.088]	-0.091 [0.160]	-0.261** [0.109]	-0.089 [0.165]	-0.482*** [0.096]	-0.434** [0.171]	-0.451*** [0.116]	-0.332** [0.160]
Other Entrepreneurs Agree	-0.157 [0.272]	-0.234 [0.340]	-0.203 [0.275]	-0.397 [0.413]	-0.683** [0.297]	-0.771** [0.362]	-0.538* [0.303]	-0.669* [0.351]	-0.493 [0.303]	-0.824** [0.393]
Observations	527	233	646	246	427	246	544	246	433	237
R-squared	0.08	0.05	0.05	0.04	0.08	0.04	0.07	0.04	0.07	0.03
VC Financed Entrepreneur Only	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes

Table 6 - Fixed Effect Regression Analysis of Rankings

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. The variables that capture and VC characteristics are from VentureEconomics and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable is the entrepreneurs ranking of the VC's track record (specifications 1-2), pitching efficiency (specifications 3-4), operating competence (specifications 5-6) execution assistance (specifications 7-8), and favorable deal terms (specifications 9-10). The range for each ranking variable is from 1 (worst ranking) to 5 (best ranking). The dependent variable takes the value 1 if the ranking is above 3 and 0 otherwise. Logit regressions with residuals clustered by VC. Specifications 1, 3, 5, 7, 9 include fixed effect dummies for each entrepreneur. Specifications 2, 4, 6, 8, 10 include fixed effect dummies for each VC firm. The omitted VC type is Independent Partnership. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6	7	8	9	10
Dependent Variable	High Ranking: Track Record		High Ranking: Pitching Efficiency		High Ranking: Operating Comp.		High Ranking: Execution Assistance		High Ranking: Favorab. Deal Terms	
Corporate VC	-0.748**		-1.156***		-0.968***		-0.175		-0.363	
	[0.319]		[0.395]		[0.351]		[0.318]		[0.319]	
Financial VC	0.025		-0.593*		-0.543*		-0.526*		-0.095	
	[0.302]		[0.324]		[0.300]		[0.305]		[0.294]	
Government VC	-1.011**		-1.522***		-1.282**		-1.540***		-1.184**	
	[0.501]		[0.535]		[0.548]		[0.534]		[0.531]	
Angel VC	-0.508		-0.517		-0.937**		-1.128**		-0.546	
	[0.426]		[0.431]		[0.449]		[0.471]		[0.419]	
Other non-PEP VC Type	0.258		0.378		0.42		-0.098		0.314	
	[0.265]		[0.263]		[0.274]		[0.282]		[0.288]	
VC IPO Fraction	3.467***		-0.385		1.674**		-0.316		-0.363	
	[0.666]		[0.641]		[0.669]		[0.681]		[0.645]	
log Number of Rankings per User		-0.445***		-0.412***		-0.680***		-0.269*		-0.361**
		[0.147]		[0.141]		[0.153]		[0.142]		[0.141]
Other Entrepreneurs Agree		0.327		-0.684*		-0.606		-0.107		-0.173
		[0.415]		[0.410]		[0.430]		[0.400]		[0.393]
VC Financed Entrepreneur		0.535**		0.819***		0.573**		-0.058		-0.238
		[0.272]		[0.261]		[0.266]		[0.261]		[0.246]
Observations	1,971	942	1,972	978	1,979	957	1,846	955	1,893	953
R-squared	0.03	0.10	0.02	0.12	0.03	0.14	0.02	0.05	0.01	0.06
Fixed Effects	Entrep.	VC Firm	Entrep.	VC Firm	Entrep.	VC Firm	Entrep.	VC Firm	Entrep.	VC Firm

Table 7 - Overview of Comments

Data comes from TheFunded, which is an online community that allows entrepreneurs to rank and comment on VC firms. Sample is restricted to U.S. VC firms. In this table, sample is also restricted to the 1,178 rankings for which the entrepreneur also provides a written comment. The header "Overview" reports sample-wide frequencies of positive and negative comments respectively. The header "Correlation" reports the correlation between the frequencies of comments (with positive comment coded as 1, negative as -1 and not mentioned or both positive and negative as 0) and the various rankings from TheFunded. The header "VC Type" reports the frequencies of comments for Independent Partnerships VCs and other VC types respectively, and the difference between these VC types. Significance of a Wilcoxon test at 10% is marked with *, 5% with **, and 1% with ***. The header "VC IPO Fraction" reports the frequencies of comments for each of the four sample quartiles formed using VC IPO Fraction, and the difference between these quartiles. Significance of a Kruskal-Wallis tests between all 4 quartiles (1,2,3,4) and between quartiles 1 and 4 (1-4) at 10% is marked with *, 5% with **, and 1% with ***.

	Overview		Correlation		VC Type			VC IPO Fraction					
	Positive	Negative	Track Record Ranking	Other Rankings	Independent Partnership VC	Other Types of VC	Wilcoxon Test	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Kruskal-Wallis Test 1,2,3,4	Kruskal-Wallis Test 1-4
<u>Overall Comment</u>													
Any Positive Comment	64%		0.63	0.74	66%	55%	***	64%	64%	64%	65%		
Any Negative Comment		46%	-0.62	-0.74	44%	60%	***	46%	45%	47%	47%		
<u>Behavior During Pitch and Due Diligence</u>													
Easy to set up meeting	1%	1%	0.11	0.07	0%	-2%	*	-1%	-1%	0%	0%		
Come prepared to meeting	3%	2%	0.15	0.19	1%	1%		1%	0%	1%	2%		
Acts interested	9%	4%	0.17	0.18	5%	3%		5%	6%	6%	2%		
Interact not only to learn	1%	2%	0.09	0.10	-1%	0%		-1%	-1%	0%	-3%		*
Steals business idea	1%	3%	0.19	0.20	-2%	-5%	*	-4%	-2%	-2%	-3%		
Conducts fast due diligence	15%	12%	0.31	0.36	4%	-6%	**	1%	-1%	2%	11%	**	**
Gives feedback on business plan	11%	3%	0.18	0.21	9%	4%	*	9%	9%	8%	8%		
Refers to other VCs	11%	1%	0.20	0.22	10%	7%		12%	9%	12%	6%		*

Table 7 continued

	Overview		Correlation		VC Type			VC IPO Fraction					
	Positive	Negative	Track Record	Other Rankings	Independent Partnership %	Other Types of VC	Wilcoxon Test	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Kruskal-Wallis Test	Kruskal-Wallis Test
<u>Fit Between VC Firm and Company</u>													
Fits with industry	12%	5%	0.24	0.26	8%	-1%	***	5%	8%	9%	5%		
Fits with stage	2%	5%	0.10	0.15	-1%	-7%	***	-2%	-4%	-1%	-3%		
Fits with location	0%	1%	0.09	0.09	0%	-1%		-1%	0%	0%	0%		
Has enough capital	0%	1%	0.10	0.13	0%	-1%		-1%	0%	0%	0%		*
Understands entrepreneurial process	6%	2%	0.23	0.27	4%	-1%	**	3%	2%	5%	4%		
<u>Deal Characteristics and Negotiation</u>													
Enough capital raised	2%	1%	0.03	0.02	1%	3%		1%	2%	2%	2%		
Favorable deal terms (other than valuation)	3%	2%	0.14	0.17	0%	-2%		0%	-1%	2%	1%		
Favorable valuation	0%	1%	0.01	0.07	0%	-2%	**	-1%	-1%	-1%	0%		
Syndication	1%	0%	0.02	0.03	1%	1%		0%	1%	1%	0%		
Honest and fair negotiator	4%	3%	0.23	0.23	1%	0%		1%	0%	2%	1%		
<u>Formal and Informal Control Over Company</u>													
Exercise control over company	5%	1%	0.18	0.22	4%	5%		2%	6%	3%	5%		
Does not replace management team	1%	2%	0.18	0.17	-1%	-2%		-2%	0%	-1%	-2%		
Partnership has no internal problems	10%	13%	0.34	0.40	-1%	-12%	***	-1%	-1%	-5%	-4%		
<u>Value-Add to Company</u>													
Actively involved	16%	2%	0.31	0.40	15%	9%	*	15%	20%	12%	11%		*
Has valuable contracts	4%	1%	0.14	0.16	3%	5%		3%	4%	4%	4%		
Provides operational help	2%	1%	0.08	0.15	2%	1%		2%	2%	1%	2%		
Help recruit new employees	4%	0%	0.15	0.19	4%	3%		3%	5%	3%	6%		*
Assist company at exit (sale/IPO)	1%	0%	0.09	0.12	0%	1%		1%	0%	1%	0%		
Help company raise more capital	3%	0%	0.10	0.12	3%	1%		3%	4%	0%	3%		*

Table 8 - Regression Analysis of Comments

Data comes from *TheFunded*, which is an online community that allows entrepreneurs to rank and comment on VCs. Sample is restricted to U.S. VCs. In this table, sample is also limited to rankings for which entrepreneur provide a verbal comment. In specifications 3 and 6, sample is limited to entrepreneur who revealed whether they received financing from the ranked VC or not. The variables that capture and VC characteristics are from *VentureEconomics* and the VC track record and investment experience variables reflect the situation as of 1st of January 2008. The dependent variable in specifications 1-3 takes the value 1 if the entrepreneur makes a positive comment about the VC (as per the 27 coded comment categories) and 0 otherwise. The dependent variable in specifications 4-6 takes the value 1 if the entrepreneur makes a negative comment about the VC (as per the 27 coded comment categories) and 0 otherwise. Logit regressions with residuals clustered by VC. The omitted VC type is *Independent Partnership*. All specifications include year (2007, 2008, 2009) dummies and VC location (California, Massachusetts, New York, Texas, Other State) dummies. Significance at 10% marked with *, 5% with **, and 1% with ***.

Specification	1	2	3	4	5	6
Dependent Variable	Positive Comment (1=Yes, 0=No)			Negative Comment (1=Yes, 0=No)		
Corporate VC	-0.647** [0.300]	-0.635** [0.302]	-1.346*** [0.501]	1.035** [0.423]	1.003** [0.392]	2.724*** [0.909]
Financial VC	0.224 [0.290]	0.217 [0.289]	-0.194 [0.417]	0.329 [0.304]	0.35 [0.307]	0.258 [0.411]
Government VC	-0.185 [0.466]	-0.185 [0.461]	1.052 [0.904]	0.496 [0.540]	0.523 [0.530]	-0.908 [0.784]
Angel VC	-1.385*** [0.449]	-1.391*** [0.441]		1.167*** [0.408]	1.214*** [0.398]	
Other non-PEP VC Type	-0.399 [0.357]	-0.406 [0.356]	-1.154* [0.608]	0.17 [0.404]	0.189 [0.405]	0.437 [0.611]
VC IPO Fraction	-0.223 [0.823]		0.298 [1.414]	0.358 [0.805]		0.616 [1.349]
log VC Number of Portfolio Companies		-0.02 [0.054]			0.066 [0.060]	
log Number of Rankings per User	-0.700*** [0.080]	-0.700*** [0.080]	-0.494*** [0.131]	0.667*** [0.076]	0.663*** [0.076]	0.457*** [0.126]
Other Entrepreneurs Agree	-1.054*** [0.296]	-1.060*** [0.301]	-1.071** [0.450]	1.101*** [0.248]	1.124*** [0.254]	1.345*** [0.375]
VC Financed Entrepreneur			0.659** [0.276]			-0.775*** [0.247]
Observations	1178	1178	359	1178	1178	359
R-squared	0.09	0.09	0.11	0.09	0.09	0.13