

The Broader Impact of Venture Capital on Innovation: Reducing Entrepreneurial Constraints Through Due-diligence

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Abstract :

We examine the value that venture capital (VC) investors add to companies during the investment due diligence process, even if they ultimately choose not to invest in them. We use data from a seed Fund that quasi-randomly assigns reviewers to select companies for due diligence. We find that due diligence assignment leads to higher average business growth, even for companies rejected for investment by the Fund. However, the growth effects concentrate in the upper quantiles of the growth distribution, while business continuation decreases. These results suggest that VC due diligence can mitigate constraints faced by entrepreneurs when developing their businesses.