# Essays on Entrepreneurial Finance

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## Abstract

This thesis explores the evolving entrepreneurial finance landscape by focusing on three distinct forms of private financing sought by high-growth technological ventures. In our first study, we explore venture capitalists' characteristics, especially their human capital in the form of their experience and prior educational background, and how it impacts the investment performance of their portfolio firms in an alternative institutional context. In our second study, we focus our attention on the often-neglected source of financing for start-ups, i.e., debt and the growing role of lenders in supporting these new-age ventures. And finally, we shed light on the up-and-coming source of financing for the start-ups in the form of business accelerators and the varied impact of the differential organizational design elements on these start-ups in their nascent stages. Overall, this thesis intends to improve our understanding of the vast start-up financing ecosystem by empirically studying diverse and often neglected venture capital ecosystems and exploring various sources of capital sought by these firms and their impact on the performance of these ventures.

Essay 1: 'Wall Street' or 'Main Street'? VC Characteristics and Investment Performance

Venture Capitalist investors act as a strategic resource for their portfolio firms, leveraging their expertise, experience, and network access. In this study, we exploit the matching of the relevant type of VC human capital with the characteristics of the firm's environment to study the impact of VC characteristics on investment performance. We find that when capital market constraints permeate the performance environment, prior finance experience ("Wall Street") proves to be instrumental in quickly securing successful performance outcomes. In case of mismatch between the relevant expertise and performance environment, it adversely impacts investment performance, as we find for Specialist VC experience ("Main Street"). This result presents a contrasting story to the extant VC literature conducted in developed markets like the United States, where Main Street VCs perform better than the Wall Street VCs. We find that Specialist investors add value for firms in early stages and high-tech industries, but the partners with finance backgrounds dominate, especially for firms in their growth stages, increasing their chances of securing an exit and reducing the chances of a firm shutting shop. We also find that generalist investors' value predominantly stems from their finance experience. Our results indicate that merely trying to replicate a thriving foreign VC market can prove ineffective as organizations and human capital strongly reflect the environmental conditions that support them. We provide direct evidence of VC partner influence by conducting our analysis at the VC partner level, using a setup where VC partners have their skin in the game and have the monitoring ability and influence to affect portfolio firm performance.

Essay 2: Venture Indebted: Role of debt in start-up financing

Capital Structure decisions of entrepreneurial firms have been of interest to academicians for several years, with studies in the entrepreneurial finance sphere conventionally focussing on equity-style investments by venture capitalists. Given the start-ups' general lack of cash flow and collateral, external debt is considered an unlikely financing vehicle and has received limited academic attention. In this paper, we explore the role of debt financing using loan-level data of start-up firms that have raised at least one round of external equity financing. The primary aim of this paper is to investigate the heterogeneity amongst different types of lenders (modern venture debt lenders versus traditional lenders) by analysing their lending determinants and subsequent firm performance outcomes. We find that a venture lender is more likely to lend to younger, smaller firms in the early and growth stage of their financing lifecycles with thin credit histories, lower asset tangibility, and lower profitability than traditional investors. Furthermore, we note that the prior relevant credit history of the respective lenders is crucial when seeking such financing. By examining the post-lending performance of these start-up firms, we find that firms that receive financing only from traditional lenders, compared to any firm which receives venture debt financing (or a mix of venture or traditional debt), perform significantly better on conventional performance metrics. On the other hand, obtaining debt from venture debt lenders vis-`a-vis traditional lenders improves the firms' chances of raising more financing rounds and a greater amount of financing from external equity investors. Our results showcase the importance of debt financing for privately-held venture-backed firms and find that every type of lender serves an essential purpose in the start-up financing ecosystem.

Essay 3: Business Accelerators and Venture Performance

In this paper, we relate the variation in the organizational design features of multiple accelerator programs to existing theories of firm-level entrepreneurial performance. We document significant heterogeneity in the cohort design features of accelerator programs, specifically cohort composition and their impact on and across start-ups post-accelerator programs. We find evidence that increased cohort diversity in terms of crucial human capital attributes, such as education, prior experiences in entrepreneurship, management, and fundraising, improves the performance of these ventures. We showcase that the cohort nature of these programs improves the performance of these participating start-ups by enabling the agglomeration of cognitive, informational, and network resources. Overall, this study improves our understanding of the heterogeneous design elements of accelerator programs.