Legitimacy Signals and Investor Protections: Top-Tier Law Firms in Global Venture Capital Investments

Finance Working Paper N° 934/2023
October 2023

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ECGI Working Paper Series in Finance

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Keywords: law firms; venture capital; signalling; contracting; capital allocation; valuation;

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Entrepreneurship Theory and Practice, forthcoming (2026)

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Acknowledgement

We are grateful for the comments and guidance from Markku Maula (the Editor) and three anonymous reviewers. The paper has also benefited from comments and discussions with David Dowling, Elise Gourier, Benjamin Wache, and participants at the 2023 "The Law and Finance of Private Equity and Venture Capital" conference and 2023 "Entrepreneurial Finance Association" conference. All errors are ours.

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Abstract

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INTRODUCTION

Venture capital is among the most intensive information transactions in modern finance. Entrepreneurs possess private knowledge about the quality of their ventures, including the strength of their technology, the capability of the founding team, and the viability of the business model, that they cannot credibly convey to prospective investors through unverifiable claims alone. This information asymmetry creates a lemons problem (Akerlof, 1970; Leland & Pyle, 1977): investors rationally discount entrepreneurial assertions and impose excessive risk premiums, while high-quality ventures suffer by being unable to distinguish themselves from lower-quality rivals. Even after the investment decision is made, investors face a second, distinct problem: they must govern a multi-year relationship under deep uncertainty, using contracts that are necessarily incomplete and whose effectiveness depends on courts being willing and able to enforce complex, contingent arrangements (Hart & Moore, 1990; Kaplan & Strömberg, 2003). Prior research has examined how networks, social ties, reputation, and experience help mitigate each friction in isolation (Hegde & Tumlinson, 2014; Bertoni, Colombo & Quas, 2019; Duke et al., 2022). Whether any single class of intermediary can address both simultaneously, and through what mechanisms, has received far less attention. This paper examines that question through the lens of top-tier law firms in global venture capital markets.

We argue that top-tier law firms are boundary-spanning intermediaries whose value creation differs qualitatively across transaction sides. The existing literature on third-party endorsements in entrepreneurial finance focuses primarily on affiliates with financial stakes, including reputable VC investors, underwriters, and investment banks, whose credibility derives partly from shared exposure to outcomes (Carter & Manaster, 1990; Megginson & Weiss, 1991; Stuart, Hoang, & Hybels, 1999). Law firms are structurally different: they do not hold equity or share in the financial upside of the transactions they advise. Their influence arises instead from two functional roles. On the sell side, top-tier law firm engagement constitutes a costly, observable signal of venture quality, including the prestige of the firm appearing on the term sheet certifies that the venture has survived elite due diligence scrutiny, helping entrepreneurs overcome the legitimacy deficits that otherwise block resource acquisition (Suchman, 1995; Zimmerman & Zeitz, 2002). On the buy side, top-tier law firms create value through contractual expertise, including deep knowledge of optimal deal structures, investor-protective provisions, and governance arrangements that address the agency problems inherent in venture capital relationships (Sahlman, 1990; Gompers & Lerner, 2004;

Kaplan & Strömberg, 2003). We do not claim that each side operates exclusively through a single mechanism; rather, the dominant mechanism differs systematically, and that asymmetry has testable empirical implications.

A central theoretical contribution of this paper is to explain why both mechanisms converge on the same dependent variable, VC ownership stakes, through logically distinct mechanism, making VC ownership the natural equilibrium outcome through which to evaluate elite legal representation. On the sell side, credible signalling attracts higher-caliber investors who are more selective and may demand larger stakes as a condition of their involvement (Gompers et al., 2020). Entrepreneurs who engage top-tier sell-side counsel gain access to investors who provide substantial value-added services beyond capital provision (Hsu, 2004). The additional equity represents the rational price of that access, not a negotiating failure. On the buy side, superior contractual protection reduces the expected loss from adverse outcomes through stronger anti-dilution provisions, board representation rights, protective covenants, and more thorough due diligence, enabling investors to commit larger amounts with greater confidence. One mechanism operates through the *informational* environment, changing what investors believe about quality; the other operates through the *contractual* environment, changing the structure of protections governing capital deployment. Both mechanisms predict larger VC stakes, which is why the fact that top-tier law firms on both sides of the transaction are associated with higher VC ownership is not a theoretical puzzle but a predicted consequence of two distinct value-creation mechanisms reaching the same equilibrium.

A second contribution concerns the institutional conditions under which these mechanisms matter most. We argue that both are amplified in weaker legal environments for theoretically distinct reasons. The signalling amplification reflects signal scarcity: when formal certification mechanisms, including reliable regulatory oversight, credible disclosure requirements, and trustworthy auditor opinions, are less available, investors rely more heavily on private quality signals from elite intermediaries (Bergh et al., 2014; Connelly et al., 2025). The contractual expertise amplification reflects the heightened demand for contractual completeness: when courts cannot reliably fill gaps in incomplete contracts, parties must draft more exhaustively specified agreements that anticipate contingencies explicitly, increasing the value of the sophisticated legal skills that top-tier firms possess (Gilson, 1984; Djankov et al., 2003; Schwartz & Scott, 2003).

Elite law firms thus function as institutional substitutes in weak legal environments, providing privately what formal institutions fail to supply.

We test these arguments using deal-level data from Pitchbook covering 71,129 VC deals across 22 countries from 2005 to 2020. We classify top-tier law firms as those in the top 10th percentile of jurisdiction-specific annual rankings based on rolling five-year deal value market share, a dynamic, market-revealed measure that respects the contextual construction of legal reputation across institutional settings (Alvarez-Garrido & Guler, 2018; Liu & Maula, 2021; Liu et al., 2024). The main results show that top-tier law firm involvement is associated with a 2.4% increase in VC ownership stakes on average, with buy-side involvement (2.9%) exceeding sell-side involvement (1.3%), and with effects that are systematically stronger in countries with weaker legal institutions. Beyond ownership, top-tier law firm involvement is associated with higher pre-money valuations, greater cross-round annualized returns, higher likelihoods of survival and successful exit, longer strategic exit horizons, larger investor syndicates, and more financing rounds. Collectively, these results suggest that top-tier law firms enhance both deal pricing and post-deal performance.

We go beyond main effects to test each mechanism directly. To probe the sell-side signalling channel, we examine whether top-tier sell-side representation is associated with more new investors in the next financing round and shorter intervals between financing rounds, the behavioral fingerprint predicted by signalling theory (Connelly et al., 2011).[1] Both predictions are confirmed. To probe the buy-side contractual expertise channel, we examine whether top-tier buy-side representation is associated with greater VC board representation, a concrete governance outcome that depends directly on the board rights negotiated in the investment contract (Lerner, 1995). This prediction is also confirmed. The buy-side signalling channel, which we develop theoretically but treat as secondary, receives only weak empirical support.

A fundamental challenge is that top-tier law firms may select higher-quality clients rather than cause better outcomes, a selection effect that could generate the observed associations without any causal mechanism. We address this through four complementary strategies. VC fixed effects

[1] To complement our quantitative analysis, we conducted semi-structured interviews with three entrepreneurs and representatives from two venture capital firms involved in large VC transactions (valuation ranging from approximately USD 30 million to USD 1.2 billion). The key insight emerging from these interviews is that entrepreneurs are motivated to engage elite law firms to signal the quality of their businesses to prospective investors, corroborating our theoretical arguments regarding sell-side signalling. A summary of the interviews is provided in Internet Appendix A3.

compare deals within the same investor portfolio, controlling for investor quality and deal-sourcing strategy. Propensity score matching, entropy balancing, and inverse probability weighting balance observable pre-treatment characteristics. Heckman selection models use industry-level legal demand and judge ideology as instruments for law firm appointment to correct for unobservable selection. Finally, subsamples restricted to competitive startup hub markets, where intense competition among elite law firms undermines quality-based client screening, provide conditions under which selection is attenuated. Across all approaches, the association between top-tier law firm involvement and VC deal ownership persists.

This study makes four contributions. First, it extends the literature on entrepreneurial legitimacy and third-party endorsements (Stuart, Hoang, & Hybels, 1999; Gulati & Higgins, 2003; Hsu, 2004) by establishing elite law firms as a distinct class of legitimacy intermediary whose signal credibility is structurally differentiated from financial affiliates: law firms certify without equity stakes, making their incentives to screen carefully more durable and their endorsement qualitatively different from endorsements involving shared financial exposure. Second, it extends the law firm expertise literature (Krishnan & Masulis, 2013; Moran & Pandes, 2019) from mergers and acquisitions (M&A) and initial public offering (IPO) markets to venture capital, where information asymmetries are more severe at the point of legal engagement and the scope for both signalling and contractual value creation is correspondingly greater. Third, it contributes to signalling theory (Bergh et al., 2014; Connelly et al., 2025) and VC contracting research (Kaplan & Strömberg, 2003) by demonstrating that these two mechanisms are empirically distinguishable through the sell-side/buy-side structure of legal representation, and by providing mechanism tests that validate each channel independently. Fourth, it contributes to institutional voids research (Khanna & Palepu, 1997, 2000; Peng, Wang, & Jiang, 2008) by showing that legal intermediaries serve as institutional substitutes whose value is systematically contingent on the quality of formal legal infrastructure, a finding with direct implications for entrepreneurship in emerging and transition economies.

The remainder of the paper proceeds as follows. The next section develops our theoretical framework and derives two hypotheses. We then describe our data, measurement strategy, and empirical approach. We present the main findings and mechanism tests, followed by robustness analyses. We subsequently discuss the limitations of this study and directions for future research. We conclude with theoretical contributions and practical recommendations.

HYPOTHESIS DEVELOPMENT AND RELATED LITERATURE

Law Firms as Boundary-Spanning Intermediaries in Venture Capital

Venture capital transactions are characterized by severe information asymmetries that create two distinct but related problems. Entrepreneurs possess private information about the quality, viability, and growth potential of their ventures that they cannot credibly communicate to prospective investors through claims alone, a classic lemons problem (Akerlof, 1970). At the same time, VC investors who do commit capital face extensive contracting challenges: they must design complex agreements that allocate cash flow rights, control rights, and contingent claims across multiple future states of the world, many of which cannot be fully anticipated at the time of investment (Sahlman, 1990; Kaplan & Strömberg, 2003). Failure to address either problem, including venture quality uncertainty on the entrepreneur's side or governance and protection risk on the investor's side, produces suboptimal capital allocation.

We argue that top-tier law firms function as boundary-spanning intermediaries that address both problems simultaneously, though through mechanisms that differ systematically between the sell side and the buy side. This distinction is analytically important and resolves a key theoretical ambiguity: because the problems facing entrepreneurs and investors are qualitatively different, the mechanisms through which elite legal representation creates value for each party must also be different. Conflating sell-side and buy-side law firm effects as a single undifferentiated phenomenon obscures the logic through which elite legal advisors affect deal outcomes.

It is important to note that each side does not operate exclusively through a single mechanism. Both sell-side and buy-side elite law firms operate through both signalling and contractual expertise channels, but the intensity of each channel differs systematically. On the sell side, signalling is the dominant value-creation mechanism: the entrepreneur's primary challenge is to credibly communicate quality to sceptical investors, and the engagement of a top-tier law firm serves this purpose. Contractual expertise remains relevant for sell-side counsel, high-quality legal advice protects founder equity and facilitates deal closure, but it is secondary to the informational function. On the buy side, contractual expertise is the dominant mechanism: the investor's primary challenge is to design agreements that protect its interests and allocate governance rights appropriately. Signalling may also occur on the buy side, with investors who engage elite counsel signal seriousness and sophistication to entrepreneurs in competitive deal markets. We develop each mechanism in turn before deriving our hypotheses.

Venture Legitimacy, Information Asymmetry, and Sell-Side Signalling

Legitimacy, the generalized perception that an entity's actions are desirable, proper, and appropriate within a social system (Suchman, 1995), is a critical prerequisite for resource acquisition by new ventures. Stinchcombe's (1965) foundational work identifies *the liability of newness* as the primary source of venture vulnerability: nascent firms have no track record, limited observable assets, and unverifiable claims about their quality. This information asymmetry creates a lemons problem in entrepreneurial finance (Akerlof, 1970). Entrepreneurs have incentives to overstate their prospects; investors, aware of these incentives, rationally discount entrepreneurial claims and impose excessive risk premiums or onerous terms. High-quality ventures suffer disproportionately, unable to credibly distinguish themselves from lower-quality rivals making similar assertions.

Prior research documents a range of signalling strategies that entrepreneurs use to mitigate legitimacy deficits. Affiliations with prominent exchange partners, including reputable VC investors, strategic alliance partners, and underwriters, confer legitimacy through association (Carter & Manaster, 1990; Megginson & Weiss, 1991; Stuart, Hoang, & Hybels, 1999; Gulati & Higgins, 2003). Top management team credentials, board composition, third-party certifications, and entrepreneurial narratives also function as quality signals (Cohen & Dean, 2005; Certo, 2003; Islam, Fremeth, & Marcus, 2018; Lounsbury & Glynn, 2001). What these signals share is a structural property: they are more costly for low-quality ventures to produce than for high-quality ones, thereby generating a separating equilibrium in which high-quality ventures credibly distinguish themselves (Spence, 1973; Bergh et al., 2014).

Despite this rich signalling literature, the potential role of legal advisors as legitimacy signals has received little systematic attention. We argue that top-tier sell-side law firm involvement constitutes a particularly powerful and credible signal for three reasons. First, it is costly in the precise sense that signalling theory requires. Top-tier law firms charge premium fees relative to their peers. Beyond financial costs, elite law firms conduct rigorous due diligence before accepting and continuing to represent clients: they scrutinize corporate structure, intellectual property portfolios, cap tables, and regulatory compliance in ways that inferior counsel does not. High-quality ventures can withstand this scrutiny and welcome it; low-quality ventures may avoid top-tier representation precisely because it exposes deficiencies. This differential cost structure creates the separating equilibrium essential for credible signalling (Bergh et al., 2014). Second, the signal

is observable. Law firm identity appears on correspondence, term sheets, and closing documents, and the VC community maintains shared knowledge of law firm reputation hierarchies through deal announcements, professional networks, and market rankings, ensuring the signal is readily interpretable by its intended audience (Connelly et al., 2025). Third, top-tier legal representation is qualitatively distinct from other intermediary affiliations. Unlike auditors or general advisors, whose roles are diagnostic and episodic, law firms structure the investment contract itself, embedding their reputational capital into the transaction's core contractual architecture at its most information-intensive stage. This continuous, structurally embedded involvement amplifies signal credibility beyond what episodic intermediaries can achieve.

Through these channels, top-tier sell-side law firm representation reduces investor uncertainty about venture quality, attracts higher-caliber investors who might otherwise not engage with the venture, and facilitates larger capital commitments. Critically, the increase in VC ownership that results from successful sell-side signalling should not be interpreted as a failure of negotiation. Rather, it reflects a successful matching process: entrepreneurs who engage elite counsel gain access to more sophisticated investors who provide substantial value-added services beyond capital provision (Megginson & Weiss, 1991; Hsu, 2004), and the additional equity represents the price of that access.

Two important qualifications bear on this sell-side ownership prediction. First, the prediction requires that the investment amount, and not merely valuation, also rises in deals involving top-tier sell-side counsel. This follows from basic arithmetic: ownership share equals investment amount divided by post-money valuation, so for both valuation and ownership share to increase simultaneously, the investment amount must rise by a proportionally larger amount. Under the investor-quality matching argument, this condition is theoretically plausible. Higher-caliber investors attracted by the legitimacy signal commit more capital precisely because the signal resolves their uncertainty about venture quality. The increase in investment amount thus dominates the upward revaluation, yielding both higher valuations and higher ownership stakes simultaneously.

Second, the investor-quality matching argument requires that top-tier sell-side representation attracts not merely more investors, but higher-quality investors specifically. The prediction is that credible quality signalling serves as a screening device, drawing investors who would otherwise not engage with the venture. These higher-caliber investors provide substantial value-added

services beyond capital provision, including strategic guidance, network access, and certification to downstream stakeholders (Hsu, 2004). Because their involvement is conditional on the quality signal, and because their greater resources and experience enable them to commit larger amounts with confidence, the ownership increase reflects a rational equilibrium outcome of the matching process rather than a failure of negotiation. Taken together, these two qualifications establish that VC ownership is a theoretically justified focal outcome for the sell-side signalling mechanism.

Agency Problems, Incomplete Contracts, and Buy-Side Contractual Expertise

The second major problem in venture capital finance is contractual: even after an investment decision is made, investors must design agreements that govern a multi-year relationship under deep uncertainty. Kaplan and Strömberg (2003) document the extraordinary complexity of VC contracts, which allocate cash flow rights, voting rights, board rights, liquidation rights, and contingent control provisions across multiple states of the world. These arrangements reflect the fundamental incompleteness of contracts (Grossman & Hart, 1986; Hart & Moore, 1990): parties cannot anticipate and specify responses to every contingency, meaning that the governance provisions embedded in the initial contract will determine how unanticipated situations are handled throughout the investment lifecycle.

The quality of legal expertise materially affects the governance outcomes investors secure. Elite VC law firms possess deep knowledge of optimal deal structures across different contexts (Gilson, 1984; Coates, 2001). This expertise manifests in several ways. Superior due diligence identifies legal risks, including IP defects, undisclosed liabilities, and regulatory gaps, that less experienced counsel may miss, protecting investor capital from undetected hazards. Expert contract design yields investor-protective provisions that are more precisely calibrated to the risks of a given venture: board representation rights that facilitate monitoring (Lerner, 1995; Hochberg, 2012); anti-dilution provisions that protect against value erosion; liquidation preferences that prioritize investor recovery; and protective covenants that constrain opportunistic behavior (Kaplan & Strömberg, 2003; Cumming, 2008; Bengtsson & Sensoy, 2011). Superior negotiating skill and market knowledge enable elite firms to secure more favorable terms for their investor clients. Collectively, by reducing the expected loss from adverse outcomes, buy-side contractual expertise reduces the perceived risk of capital commitment, enabling investors to commit larger amounts with greater confidence.

This mechanism explains the buy-side effect on VC ownership through a distinct channel from the sell-side signalling effect. While sell-side signalling increases ownership by attracting stronger investors who demand more equity, buy-side contractual expertise increases ownership by reducing the contractual risk that would otherwise cause investors to limit their exposure. Both mechanisms converge on the same outcome, larger VC stakes, but through fundamentally different mechanisms: one operates through the informational environment (changing beliefs about quality), the other through the contractual environment (changing the structure of protections governing capital deployment). This dual-mechanism account is theoretically necessary because it explains why top-tier law firm involvement on both sides of the transaction is associated with larger VC stakes, even though the underlying mechanisms are distinct.

Taken together, the sell-side signalling mechanism and the buy-side contractual expertise mechanism both predict that top-tier law firm involvement will be associated with larger VC ownership stakes. This gives rise to our first hypothesis:

H1: *There is a positive relationship between the involvement of top-tier law firms and VC deal ownership.*

Legal Environment and the Institutional Contingency of Law Firm Value

If the value of top-tier law firms derives from their ability to signal quality credibly and to design contractually sophisticated agreements, then the magnitude of this value should vary systematically with the institutional environment in which transactions occur. We argue that both mechanisms are amplified in weaker legal environments, and for reasons that are theoretically distinct.

With respect to the signalling mechanism, Bergh et al. (2014) observe that signals operate within competitive information environments in which multiple signals may be simultaneously available to receivers. When formal institutional certification mechanisms are strong, as in high-quality legal environments with reliable disclosure requirements, credible auditor opinions, and effective regulatory oversight, law firm signals compete with these institutional sources of quality information. Connelly et al. (2025) note that receiver attention is a scarce resource; when abundant institutional signals are available, the incremental informational value of any single private signal is diminished. In weaker legal environments, by contrast, formal verification mechanisms are less reliable, disclosure requirements are weaker, and institutional certification sources are less credible (La Porta et al., 1997, 1998; Khanna & Palepu, 2000). The relative scarcity of credible institutional

signals increases investor dependence on private quality signals from intermediaries such as elite law firms. As a result, the *incremental* signalling value of top-tier legal representation is higher where institutional alternatives are less available or less trustworthy.

In terms of contractual expertise mechanism, while all contracts are incomplete, the consequences of incompleteness depend critically on whether courts can reliably fill contractual gaps. In strong legal environments, judicial gap-filling is reliable: courts interpret incomplete agreements based on commercial reasonableness, industry practice, and party intent (Schwartz & Scott, 2003), and parties can design contracts that are intentionally incomplete, knowing that courts will fill gaps sensibly. In weak legal environments, judicial gap-filling is unreliable as courts may lack commercial expertise, be susceptible to corruption or political influence, or be inaccessible due to cost and delay (Djankov et al., 2003). When parties cannot rely on courts, they must design more complete contracts that anticipate contingencies explicitly and minimize interpretive ambiguity (Crocker & Reynolds, 1993). This heightened need for contractual completeness, including drafting agreements that must stand alone without judicial support, increases the value of the sophisticated legal skills that elite law firms possess (Gilson, 1984; Coates, 2001). Top-tier law firms add greater contractual value in weak legal environments precisely because the cost of inferior drafting is higher when courts cannot correct contractual deficiencies post hoc.[2]

These two mechanisms are mutually reinforcing rather than competing: both predict that the association between top-tier law firm involvement and VC deal ownership is stronger in weaker legal environments. This yields our second hypothesis:

H2: *The positive association between the involvement of top-tier law firms and VC deal ownership is more pronounced in countries with weaker legal environments.*

DATA COLLECTION AND METHODOLOGY

Data collection

We collect global round-by-round VC deals from Pitchbook database which satisfy the following conditions: (i) the deal date is between 2005 and 2020; (ii) the deal class is " VC"; (iii) the deal stages are seed, early, or later stage; (iv) the round number is disclosed, and (v) the deal status is labelled either "failed" or "completed".

[2] In Internet Appendix A2, we provide a further discussion on the functions of law firms in VC deals and institutional contingency.

Previous studies frequently utilize VentureXpert and Venture Source data to gather round-by-round VC deals. However, these datasets have limited and inconsistent coverage of portfolio company valuations, a crucial aspect of empirical analysis (Kaplan and Lerner, 2017). To address this issue, more recent studies have employed Pitchbook (e.g., Cumming and Zhang, 2019; Johan and Zhang, 2021; Smith, Smith, and Smith, 2022) to investigate research questions in private markets.

We collect information for our analyses from VC deals, including information on the portfolio company's country and primary industry. To ensure the validity of our results, we only consider deals from country-year groups with at least one top-tier law firm on either the buy-side or the sell-side. Our final sample includes 71,129 deals from 22 countries.

Methodology

Our approach to identify top-tier law firms follows the study of Krishnan & Masulis (2013) on the role of legal advisors in the M&A context, which suggests that market share can capture law firm expertise. A high market share indicates the firm is able to consistently attract a large portion of clients, signalling their trust in the firm's ability to effectively handle complex VC legal issues. Clients generally favour firms that have demonstrated their expertise through successful outcomes in past VC deals. Also, increased market share typically is a result of more VC transactions and/or larger deal values. By handling more transactions and/or high value deals, law firms can accumulate extensive experience, which enhances their specialized knowledge and ability to navigate sophisticated legal challenges. In addition, law firms with a large market share generally have better reputations and greater visibility. This prominence helps attract highly skilled attorneys, which further enhances their expertise. Overall, these arguments corroborate the use of market share as a measure of law firm expertise in the VC context.

To identify the law firms for the buy-side and sell-side in each VC deal, we merge Pitchbook deal data with the deal service provider relation data which includes information on the law firms that provided legal services to VCs (the buy-side) and portfolio companies (the sell-side). We calculate annual rankings of law firms based on their relative involvement in VC deals in the past five years. Specifically, we determine the ranking by calculating the ratio between the total value

of transactions a law firm participated in and the overall value of all VC deals in the last five years.[3] We define top-tier law firms as those in the top 10th percentile of the annual ranking.

We employ VC ownership as the main dependent variable in this study for two key reasons. First, VC ownership stakes represent an equilibrium outcome reflecting negotiations between entrepreneurs and investors, capturing the bargaining outcome that both parties' legal counsel influence. This variable is particularly relevant for examining how relative legal quality on each side affects negotiated outcomes. Second, VC ownership size reflects the magnitude of capital commitment, capturing whether law firm involvement facilitates larger resource flows from investors to entrepreneurs. When sell-side elite law firm representation confers legitimacy through signalling, ventures become more attractive to investors. This enhanced attractiveness may manifest in larger investment commitments as investors compete to participate in legitimated deals. With respect to buy-side elite counsel. their expertise in designing sophisticated contracts that protect investor interests can reduce the risks associated with capital commitment. Reduced contractual risk enables investors to commit larger amounts because the expected loss from adverse scenarios is mitigated. Therefore, larger investments indicate that signalling successfully attracted greater investor interest and that contractual protections enabled investors to commit more capital with confidence. This makes VC ownership the ideal main dependent variable of interest in our study as it reflects the outcomes that both sell-side signalling and buy-side contractual expertise are theorized to affect.

To examine the relationship between top-tier law firm involvement and VC deal ownership, we estimate the following regression model:

$$Percentage\ acquired_{i,t} = \alpha + \beta \times Top\text{-}tier\ law\ firm_{i,t} + Round, Year, Country, Deal\ type, Industry\ FEs + \varepsilon_{i,t} \quad (1)$$

[3] We create dummy variables indicating whether the VC's and portfolio company's law firms appear in the top 10th percentile of annual rankings on the buy-side and the sell-side: *Top-tier buy-side law firm* and *Top-tier sell-side law firm*. We also construct a more general indicator, *Top-tier law firm*, which equals to one if the deal is serviced by at least one top-tier law firm, either on buy-side or sell-side, and zero otherwise.

Alternatively, rankings of law firms can be sourced from reputable publications such as Chambers and Partners and Legal500. However, these rankings primarily relate to various legal practice areas with a specific focus on private equity rather than venture capital. As such, the categories within these rankings do not consistently cover the nuances of the venture capital domain. Most importantly, a significant number of law firms across in our study are not evaluated or ranked by Chambers and Partners and Legal500. Given this limitation, we have chosen to use the total value of the transactions to determine law firms' rankings.

In this equation, $Percentage\ acquired$, the percentage of stake acquired in the financing round. We use three measures of top-tier law firm: *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on buy-side or sell-side, and zero otherwise; *Top-tier buy-side law firm* (*Top-tier sell-side law firm*) is a dummy variable equal to one if the deal is serviced by one top-tier law firm on the buy (sell) side, and zero otherwise. We also control for round, year, country, deal type, and company industry fixed effects in Equation (1). The standard errors are clustered at investment years.[4] Table 1 provides summary statistics of key variables used in this study.

{INSERT TABLE 1}

MAIN FINDINGS

Main empirical findings

The estimation results of Equation (1) are presented in Table 2. In Column (1), the coefficient estimate on *Top-tier law firm* is 0.024 and statistically significant at the 1% level. Thus, if a VC deal receives services from a top-tier law firm, average ownership acquired in this specific round of financing is 2.4% higher, ceteris paribus. The result remains unchanged in Columns (2) to (4), where we analyze top-tier law firms separately from the buy-side and the sell-side. We observe that the coefficients for both *Top-tier buy-side law firm* and *Top-tier sell-side law firm* are statistically significant at the 1% level, whether they are examined independently in the regression analysis (Columns (2)-(3)) or they are combined in the same regression (Column (4)). In Column (4), when VCs receive legal services from top-tier law firms acting on the buy-side, there is a 2.9% increase in acquired ownership. In contrast, when entrepreneurs receive legal services from top-tier law firms acting on the sell-side, there is a 1.3% increase in acquired ownership.

{INSERT TABLE 2}

Overall, the results from Table 2 support our hypothesis *H1* that there is a higher VC deal ownership when there is an engagement of top-tier law firms. Interestingly, the effects come from both the buy-side and sell-side legal services.

[4] Tables IA1 and IA2 show the distribution of VC deals by year and country. Table IA1 sheds light on the global trajectory of VC investments, revealing a steady growth pattern. In Table IA2, a conspicuous observation emerges as the VC from the U.S. landscape takes the center stage.

While entrepreneurs may hesitate to give up more ownership of their firms, effective signalling through the representation of top-tier law firms may attract higher-caliber VCs who are more selective, more sophisticated, and may demand larger ownership stakes as a condition of their involvement (Gompers et al., 2020). From this perspective, the positive association between elite legal counsel and VC ownership does not reflect a failure of negotiation but rather a successful matching process. Entrepreneurs who retain top-tier counsel gain access to investors they might otherwise be unable to attract, and the additional equity represents the price of that access. This interpretation is further supported by evidence that higher-quality VCs provide substantial "extra-financial" value beyond capital provision (Hsu, 2004), including certification to downstream parties such as investors in future initial public offerings (Megginson and Weiss, 1991). To the extent that top-tier law firms facilitate access to these higher-quality investors, the resulting increase in VC ownership may be a rational cost of obtaining superior investor value-added services.

We provide two additional tests to directly support this interpretation. First, we test whether investment amount rises alongside valuation when top-tier sell-side counsel is present, the arithmetic precondition for simultaneous increases in valuation and ownership share. Table IA3 reports results from a regression with the natural logarithm of investment amount as the dependent variable. The coefficients on *Top-tier sell-side law firm* is positive and statistically significant across different model specifications ($p < 0.01$), indicating that deals with elite sell-side counsel attract larger capital commitments. This reconciles the positive effects of top-tier sell-side advisors on both valuation and ownership: investment amounts rise sufficiently to dominate the valuation effect, thereby producing higher ownership stakes.

Second, we test the investor-quality matching argument directly. Table IA4 reports regressions in which the dependent variable is VC investor quality, proxied alternatively by VC past successful exits through IPOs and M&As, Nahata's (2008) VC reputation measure, VC investment experience, and VC fund size. In these specifications, top-tier sell-side law firm involvement is positively and significantly associated with higher investor quality, consistent with the mechanism through which credible signalling attracts higher-caliber investors who demand larger stakes. Taken together, these tests convert the investor-quality matching argument from an assertion into a tested empirical claim.

Cross-sectional analysis

We complement the main inference from Tables 2 with four cross-sectional tests to examine the relationship between top-law firms and VC deals' acquired ownership. In particular, we investigate whether the association between top-tier law firms and VC deal ownership fluctuates across various legal system characteristics specific to each country. Table 3 presents the results of this analysis.

As a starting point, we analyze court structure based on the court structure and proceedings index of the World Bank, which measures the sophistication and efficiency of court systems. As shown in Table 3 Column (1), the interaction coefficient *Top-tier law firm* × *Court structure* is negative and statistically significant at the 10% level. Thus, the role of a top-tier law firm is less pronounced among countries a sophisticated and efficient court system. In Column (2), we investigate the cross-sectional variation in *Rule of law* defined by the Worldwide Governance Indicators' rule of law index. The interaction coefficient *Top-tier law firm* × *Rule of law* is negative and statistically significant at the 5%, suggesting that *Rule of law* matters to the relationship between VC deal ownership and the presence of top-tier law firms.

Column (3) presents the result based on *Judicial quality,* which is a dummy variable equal to one if the quality of judicial processes index is greater than its median, and zero otherwise. The coefficient estimate on *Top-tier law firm* × *Judicial quality* is negative and statistically significant at the 1% level, indicating that the association between VC deals' acquired stakes and the engagement of legal services provided by top-tier law firms is weaker among transactions from countries of high-quality judicial systems. Finally, in Column (4), we assess cross-country variation in *Dispute resolution*, which is a dummy variable equal to one if the alternative dispute resolution index of a country is greater than its median and zero otherwise. The coefficient estimate on *Top-tier law firm* × *Dispute resolution* is negative and statistically significant at the 1% level. Therefore, the observed relationship between VC deals' acquired ownership and the involvement of top-tier law firms is weaker among countries with a strong dispute resolution mechanism

Collectively, the results in Table 3 support hypothesis *H2* and reveal that the role of top-tier law firms in advising VC deals is more pronounced among countries with weaker legal environments.[5]

[5] As shown in Table IA22 Panel A, some institutional characteristics are highly correlated. For example, rule of law, property rights, democracy, and dispute resolution are highly correlated among one another. To disentangle their

{INSERT TABLE 3}

POST-DEAL OUTCOMES

Beyond initial deal success, top-tier law firms may influence post-investment outcomes such as valuation trajectories and exit pathways. Their involvement ensures that ownership structures and disclosure practices are clean, contracts are enforceable, and governance rights are clearly delineated factors that enhance firm value and facilitate subsequent funding rounds. At exit, elite law firms play a direct role in regulatory compliance, IPO-readiness, and negotiations with acquirers or underwriters, thereby lowering transaction costs and increasing the credibility of ventures in the eyes of external stakeholders (Johnson et al., 2010; Scott, Choi, & Gulati, 2024). These functions suggest that law firms are not merely selection markers but also active contributors to valuation growth and exit success.

Top law firms and transaction valuation

In this section, we examine the potential correlation between the presence of a top legal advisor and pre-money valuation in the context of VC investment. Pre-money valuation refers to a company's value before any new funding rounds. The involvement of top-tier legal advisors can reduce litigation risk, improve governance, and facilitate cleaner contracts, which are all key to preserving and growing firm value. In addition, top law firms may contribute indirectly by supporting negotiations over follow-on funding or M&A interest, influencing post-deal valuations reported by VCs. Therefore, it is plausible to hypothesize that having a top legal advisor is associated with a higher deal valuation. To test this hypothesis, we adjust the baseline regression and introduce *Transaction valuation*, a measure of pre-money valuation, as the dependent variable.

{INSERT TABLE 4}

The results from Table 4 demonstrate a significant and positive relationship between *Transaction valuation* and the presence of top legal advisors. Column (1) shows that having a top

effects, we orthogonalize each variable based on the other three and include the interaction term between top-tier law firm and the orthogonalized version of each variable of interest in the regression analysis. Table IA22 Panel B Column (1) show the moderating effect of rule of law on the relationship between top-tier law firm and VC investment intensity is subsumed by other institutional characteristics. However, Table IA22 Panel B Column (2) lends support to the distinct role of dispute resolution mechanisms in affecting the relationship between the involvement of top-tier law firms and VC deal ownership. These results highlight the dynamic in the interactions among institutional characteristics.

legal advisor on either the investor or target side increases deal valuation by 57.7%. Column (2) further supports this finding by showing that investors advised by top law firms are willing to place a higher deal valuation. Similarly, Column (3) indicates that the participation of a top legal advisor on the sell-side also facilitates a significantly higher deal valuation. In Column (4), when both *Top-tier buy-side law firm* and *Top-tier sell-side law firm* are included, the results are consistent with higher valuation in the presence of top legal advisors on both sides. In summary, these findings suggest that the involvement of top law firms is associated with a higher deal valuation in VC transactions.

Top law firms and annualized returns between VC financing rounds

Moving forward, we investigate the relationship between hiring top legal advisors and cross-round returns. The specialized capabilities of elite law firms help mitigate litigation risk, strengthen corporate governance, and ensure contracts are drafted with greater precision which are crucial for safeguarding and enhancing firm value after investment. These firms also support negotiations for subsequent financing rounds, thereby shaping the returns between financing rounds. Thus, we hypothesize that the involvement of top legal advisors can result in improved investment performance, as reflected in cross-round returns. To test this hypothesis empirically, we modify the baseline model and add a measure of annualized returns from the current financing round to the next (*Annualized return*) as the dependent variable.

{INSERT TABLE 5}

Table 5 presents the results of our analysis on the relationship between hiring top law firms and cross-round returns. Column (1) shows a significant and positive correlation between having top law firms on either side of the deal (*Top-tier law firm*) and *Annualized return*, indicating that the involvement of top law firms in private deal transactions is associated with higher cross-round returns. The coefficient is 0.115 and statistically significant at the 1% level. Thus, cross-round returns are 11.5% higher when there is an engagement of top-tier law firms.

In Column (2), we find that appointing a top law firm on the buy-side is positively associated with higher cross-round returns. Similarly, in Column (3), we observe that having a top legal advisor on the sell-side is also linked to a higher cross-round return. When we consider both *Top-tier buy-side law firm* and *Top-tier sell-side law firm* in the regression model (Column (4)), we find that cross-round returns are positively associated with the involvement of top law firms on

both the buy and sell-side. The coefficient estimates are 0.065 and 0.118 respectively, indicating that the engagement of buy-side law firms is associated with a 6.5% higher return, while the engagement of sell-side law firms is associated with a 11.8% higher return. These results suggest that the participation of top law firms is associated with better investment performance across financing rounds.

Overall, in Table 5, we consistently document evidence showing the engagement of top-tier law firms by VC investors and entrepreneurial companies is associated higher returns across financing rounds.

Top law firms and likelihood of survival and success

Next, we examine the relationship between the involvement of top law firms and the survival of portfolio companies. In the context of VC investments, the likelihood of survival refers to the possibility that in the next round, VCs will continue to finance the company, or it exits successfully. We expect that the engagement of top law firms can mitigate information asymmetry between the VC and the portfolio company, enhancing legitimacy as well as improving the company's likelihood of survival for deals involving top law firms. To test this conjecture, we modify the baseline model using a dummy variable for survival (*Survival*) as the dependent variable and report the regression results in Table 6.

{INSERT TABLE 6}

Table 6 Column (1) shows a significant positive relationship between *Survival* and *Top-tier law firm*, indicating that the involvement of a top law firm on either side results in a higher likelihood of deal survival. In Table 6 Column (2), we find that having a top legal advisor on the buy-side is also positively associated with a greater likelihood of deal survival. Similarly, Column (3) results suggest that the probability of survival is significantly greater when the entrepreneur hires a top law firm. We further investigate whether the appointment of a top law firm from the other side of the deal is associated with an increase in likelihood of survival when one side already has a top legal advisor. In Column (4), we find that the relationship between each of buy-side and sell-side top law firms on the likelihood of deal survival is largely independent of each other.

In a similar line of inquiry, we investigate the relationship between the portfolio company's successful exit likelihood and the involvement of a top legal advisor. VCs typically seek exit strategies to take their portfolio companies public or sell them in the M&A market. Top-tier law

firms play a key role in shaping the successful exit by ensuring deal and ownership structures are clean and comply with regulatory norms, which is crucial for IPO-readiness. In addition, they facilitate complex negotiations with underwriters and acquirers by signalling deal quality and legal preparedness. They also provide strong legal safeguards for involved parties through their contractual expertise, which can increase acquirer confidence and reduce due diligence friction. Accordingly, we hypothesize that the likelihood of a successful exit through IPO or M&A is positively associated with the engagement of a top legal advisor.

To test this conjecture, we use the sample of first-round investments (to avoid duplicated observations due to multiple financing rounds) and regress the exit outcome on the appearance of top law firms. Table 7 presents our linear probability regression results. As shown in Column (1), we find a significant positive relationship between the presence of a top law firm (*Top-tier law firm*) and the likelihood of a successful exit (*Success*). This supports the notion that the engagement of top law firms can facilitate information flows and improve the likelihood of success.

In Column (2), we include additional control variables. We document similar evidence of the positive association between the involvement of top law firms and the probability of a successful exit. We also conduct additional tests on the association between the likelihood of a successful exit and the engagement of top law firms for periods on or before 2015 in Column (3) and control for additional variables as in Column (4). It is important to note that portfolio companies often require three to five years realize their outcome, and for deals made after 2015, the outcomes may have yet to be observed fully in our sample. Therefore, we include only first-round deals conducted on or before 2015 to avoid this potential estimation bias. Our results consistently show a positive relationship between the participation of top law firms and the likelihood of successful exits, supporting the argument that top law firms play a crucial role in helping portfolio companies achieve successful exits.

{INSERT TABLE 7}

The results from Table 7 provide strong evidence for a positive association between the involvement of a top law firm and the likelihood of a successful exit. This finding supports the notion that top law firms can effectively facilitate information exchange between VCs and start-ups, resulting in better outcomes for both parties.

Top law firms and time to exit

In this analysis, we investigate the relationship between the involvement of a top legal advisor and the length of time it takes for VC firms to exit a deal. As we observe in Table 8, the presence of a top law firm is positively associated with more financing rounds, which may lead to a longer time period for VCs to exit a deal. To examine this further, we measure the length of time it takes for a VC firm to exit a deal *(Time to exit*) by taking the natural logarithm of one plus the number of years until a successful exit via an IPO or a M&A. We use the sample of first-round deals in which portfolio companies exit successfully and present the regression results in Table 8.

{INSERT TABLE 8}

Column (1) reveals a significant and positive relationship between *Time to exit* and *Top-tier law firm*, indicating that VCs take longer to exit a deal when a top legal advisor is involved in either side of the transaction. Furthermore, the findings are robust to additional controls, as shown in Column (2), where we control for the total number of investors (*Log(Investors)*), the total number of investment rounds (*Log(Rounds)*), and company age (*Log(Company age)*). In Columns (3) and (4), we find consistent evidence of a positive relationship between the involvement of a top legal advisor and deal exit time for the first-round deals conducted on or before 2015, indicating that VCs take longer to exit deals when a top legal advisor is involved.

Overall, the results in Table 8 show that it takes a greater length of time for VCs to exit a deal in the presence of a top legal advisor.[6]

Other non-price attributes and top-tier law firms

Next, we investigate how VCs' risk management strategies change when they hire top law firms. The expertise of top law firms can signal deal quality and safeguard the interests of involved parties, reducing the overall riskiness of VC deals. This could lead VCs to rely less on active risk management approaches. However, it's also possible that top law firms have a strong interest in protecting their reputation and, therefore, advise their clients to undertake more active risk management approaches. Both arguments suggest that the involvement of top law firms is likely

[6] Our results reinforce the idea that law firms act as both signals and contractual expertise. On the one hand, their involvement may indicate that ventures are of higher ex-ante quality. On the other, law firms actively facilitate exit readiness by structuring clean capitalization tables, providing regulatory assurance, and negotiating effectively with acquirers and underwriters. This dual role explains why we observe consistent positive associations between top-tier law firms and exit outcomes, even after controlling for selection effects.

We employ the Cox's proportional hazard model to address the right-censoring issue facing the modelling of exit times. Results from Table IA23 are qualitatively similar to those in Table 8, showing a significant positive relationship between the involvement of top-tier law firms and time to exit.

to affect VCs' risk management. VCs can limit their risk exposure to a deal through risk sharing in a syndication (Wright & Lockett, 2003; Mäkelä & Maula, 2006; Dai & Nahata, 2016; Khursed, Mohamed, Schwienbacher, & Wang, 2020) and/or staged financing (Barry,1994; Gompers, 1995; Kaplan & Strömberg, 2003; Wang & Zhou, 2004).

To test this hypothesis, we construct several measures for VC risk management strategies, including the natural logarithm of the number of investors involved in a deal (*Log(Investors)*), syndication (*Syndication*), the number of financing rounds (*Log(Rounds*)), and staging (*Staging*). We then modify the baseline regression model and include these risk management variables as dependent variables.

{INSERT TABLE 9}

Table 9 reveals that the involvement of a top legal advisor is positively associated with various risk management measures used by VCs. In Column (1), we find a positive relationship between the number of investors participating in a deal and the appointment of a top legal advisor. Similarly, Column (2) shows that VC deals advised by top law firms tend to have multiple investors. In Column (3), the results show that the number of financing rounds is positively related to the involvement of a top legal advisor. Furthermore, there is significant evidence indicating VC deals involving top law firms are associated with multiple financing rounds.

Overall, these results suggest that VCs may undertake more active risk management approaches in the presence of top-tier law firms.

SIGNALLING AND CONTRACTUAL EXPERTISE MECHANISMS

In this section, we examine two channels through the presence of top-tier law firms affects VC transactions, including signalling and contractual expertise.

Signalling mechanism

We investigate whether top-tier legal advisor involvement in a deal signals to the market about its quality. To empirically examine the signalling channel, we adopt two alternative measures including the number of new investors in the next financing rounds and the time gap between rounds (i.e., number of years to the next financing round). According to signalling theory, credible indicators of quality generate increased investor attention and enable faster resource acquisition (Connelly et al., 2011). If the involvement of a top-tier law firm carries a positive signal about the quality of the deal, we expect to observe more new investors in the next financing round

and shorter time gap between rounds. Table 10 reports results for this analysis. Consistent with our conjecture, there is a significant positive relationship between the presence of top-tier legal advisors and the number of new investors in the next financing round. In addition, we document that the time gap between financing rounds is shorter among venture capital deals advised by top-tier law firms. Taken together, these results corroborate the signalling effect stemming from the involvement of top-tier legal advisors.[7]

The involvement of elite legal advisors on the buy-side could operate through the signalling channel. In competitive deal markets, VCs need to compete for high-quality entrepreneurs who have choices among potential investors. Entrepreneurs evaluate not only capital and valuation but also investor quality, value-add capabilities, and reputation. The law firm a VC engages signals information about investor sophistication, seriousness, and professionalism. In addition, the involvement of top-tier legal counsel in early financing rounds creates a certification effect that persists through the company lifecycle and influences exit outcomes. When strategic or financial acquirers evaluate potential targets, they assess not only current performance but also corporate history and governance quality. Companies that have been financed by reputable VCs using elite legal counsel signal higher quality than companies with less distinguished investor and advisor histories. This certification reduces acquirer uncertainty about target quality, potentially increasing acquisition likelihood and valuations. Despite these arguments, there is weak empirical evidence from Table 10 to support the existence of signalling mechanism of top-tier law firms on the buy side.

{INSERT TABLE 10}

Contractual expertise

To empirically investigate the substantive mechanism (i.e., contractual expertise) of elite legal advisors, we test involvement of top-tier law firms with their contractual expertise is associated with greater VC board representation. Board representation provides VC investors with essential mechanisms for monitoring portfolio companies, accessing information, influencing strategic decisions, protecting contractual rights, facilitating exits, and managing downside

[7] We also examine whether the signalling function of top-tier buy-side law firms is dependent on the strength of the legal environment. Results from Table IA5 lend support to the notion that the signalling role of top-tier law firm involvement plays a more pronounced role in countries with weaker legal environments

scenarios (Lerner, 1995). Top-tier law firms can help VC investors secure and protect board representation rights by negotiating favorable board composition, structuring committee arrangements, addressing board dynamics in complex situations. This legal expertise directly affects the governance structures that determine how VCs exercise control and protect their investments throughout the company lifecycle. We measure VC board representation as a dummy variable equal to one if at least one investor-appointed director serves on the startup's board of directors, and zero otherwise. The results presented in Table 11 reveal a positive and statistically significant association between top-tier buy-side law firm involvement and the likelihood of having a VC-appointed director serving on the start-up's board of directors. This evidence supports our argument that elite legal counsel, leveraging superior contractual expertise in negotiating governance provisions, enables VC investors to secure greater board representation in their portfolio companies.

{INSERT TABLE 11}

ADDITIONAL TESTS AND ROBUSTNESS CHECKS

Deal incompletion

We further examine the relationship between the involvement of top-tier law firms and the likelihood of deal incompletion. We construct the variable *Deal incompletion*, which takes the value of one if the VC investment transaction is incomplete, and zero otherwise. We employ the linear probability model to conduct this test. Results from Table IA6 indicate the engagement of a top-tier law firm by either the buy-side or the sell-side is associated with a lower likelihood of a VC transaction failing. Specifically, securing services from a top-tier law firm translates to a 0.9% reduction in the risk of a failed fund-raising endeavour, holding all other factors constant (ceteris paribus).

Alternative measurements of top law firms

Some countries may have very few law firms and that our current definition of top law firms may bias against less developed countries due to the presence of fewer law firms. Since different countries have different numbers of law firms, which translate into different numbers of top law firms in each country based on our current definition. As a robustness test, we redefine a top law firm in a country (*Top 1 law firm*) as the one having the highest ratio between the total value of

transactions a law firm participated in and the overall value of all VC deals in the last five years. Under this new definition of top law firms, every country in our sample has only one top firm in a given year regardless of how many law firms the country has. This alternative definition of top law firms allows us to control for the difference in the number of top-tier law firms across countries.

In previous sections, we manually created annual league table rankings based on the relative values of VC deals in which a legal advisor participated in the last five years. We use the top 10th percentile threshold as a benchmark to define a top advisor. However, one concern is that changes in the strictness of this threshold could lead to significant variations in the ratio of transactions with a top legal advisor in our sample, which may affect the robustness of our results. To address this concern, we compute alternative measurements indicating top advisors. We adopt a similar approach and change the threshold from top 10th percentile to 5th percentile, 15th percentile, and 20th percentile. We define *Top 5% (15%, 20%) law firm* as a dummy variable that equals one if the deal is serviced by at least one top 5% (15%, 20%) law firm, either on the buy-side or sell-side, and zero otherwise.

It is possible the notion of top law firms may mean different things in different markets. Instead of determining top law firms based on their shares of overall VC deal value, we construct two alternative measures of top law firms on the basis of their law reputation and deal experience. We estimate the reputation of a law firm based on the number of VC deals with successful exits via IPOs or M&As the law firm is involved with over the past five year. We then classify top law firms as those belonging to the top 10th percentile of annual ranking of reputation (*Top-tier law firm (reputation)*). With respect to deal experience, we consider top law firms as those in the upper 10th percentile of the distribution regarding the number of VC deals each law firm advises over the past five years (*Top-tier law firm (experience)*).

The dichotomization of continuous values to construct binary variables to proxy for top-tier law firms may result in information loss. As a robustness test, we use the continuous values based the total value of VC transactions a law firm participated in during the last 5 years on the buy-side and sell side (*Top-tier buy-side (sell-side) law firm (value))*.

The results of our baseline regressions with these new independent variables are presented in Table IA7. As shown, our baseline findings hold under the alternative measures of top-tier law firms.

Addressing endogeneity

VC fixed effects

To account for the possibility that changes in VC firms' investment strategies may be correlated with the development of law firms, we also include VC fixed effects in our baseline regression model. Doing so allows us to compare the start-up investment outcomes between deals involving top-law firms and other law firms by the same VC. To facilitate the inclusion of VC fixed effects, we consider a subsample of non-syndicate VC deals (i.e., deals with only one VC firm). We re-run our baseline regressions using this subsample and controlling for VC fixed effects. Results from Table IA8 suggest that a particular VC firm is more willing to proceed and allocate more funding to a deal advised by a top-tier law firm than to one without such advice.[8]

Propensity score matching, entropy balancing, and inverse probability weighting

In previous analyses, we demonstrated that the group of transactions that received guidance from top law firms (treatment group) and the group that did not receive any advice, whether from top law firms or otherwise (control group), may not have been randomly assigned. Specifically, the characteristics of the portfolio companies, such as age and industry, and the details of the transactions, such as transaction types and financing round number, in the treatment group may inherently differ from those in the control group. We employed the propensity score matching (PSM) method to address this issue, using a 1:5 matching ratio with replacement. The PSM method computes propensity scores based on the fitted probability of receiving advice from a top legal advisor, and then matches each observation in the treatment group with five observations in the control group with the closest scores. Table IA9 Column (1), presents the regression results obtained from the propensity-matched sample. We document a significant positive relationship between the involvement of top-tier law firms and the investors' ownership in the portfolio company.[9]

Next, we complement the propensity score matching analysis with the entropy balancing approach developed by Hainmueller (2012). Despite being a practical approach to address

[8] To visualize the strength of the relationship between top-tier law firms and VC deal ownership (Maula and Stam, 2020), we plot the coefficient size of Top-tier law firm across a range of VC asset under management and VC age thresholds. As shown in Figure IA4, the coefficient of *Top-tier law firm* increases significantly across subsamples, suggesting the association between top-tier law firm and stake acquired is more pronounced with larger and older VCs.

[9] We employ the propensity score matching approach to investigate the relationship between the involvement of top-tier law firms and each of transaction valuation, annualized returns, and likelihood of successful exits. Results from Table IA24 consistent with those presented earlier.

endogeneity concerns, propensity score matching is sensitive to arbitrary choices (e.g., the number of nearest neighbors and the choice of caliper width) (Defond et al., 2016). In addition, propensity score matching reduces the sample size. Entropy balancing can overcome these drawbacks. In Table IA9 Column (2), we re-estimate our baseline regressions using post-entropy balancing weights. Consistent with the baseline findings, we document evidence from the entropy-balancing approach indicating that the involvement of a top-tier legal firm is associated with a higher level of acquired ownership.

As an alternative approach to entropy balancing, we adopt the inverse probability weighting to control for differences in observed characteristics between top-tier and non-top-tier law firms. In particular, we utilize inverse probability weights and re-estimate our baseline regressions. Results from Table IA9 columns (3) show that VC deals advised by top-tier legal firms are associated with a higher percentage of ownership acquired by investors.

Taken together, the empirical evidence in Table IA9 indicates that our main findings are robust to endogeneity controls and that top-tier law firm expertise plays a significant role in inducing greater capital allocation.

Sample selection bias

In this section, we use Heckman's (1979) two-step procedure to address selection bias in the appointment of top law firms. In the first stage, we estimate a probit model that predicts the probability of appointing a top-tier buy-side/sell-side law firm in a VC transaction. As per standard practice, we include all fixed effects in the second-step regression and use instrumental variables in the first-step regression. In the second-step regression, we incorporate the inverse Mills ratio from the first-step estimation results and include additional control variables to account for potential confounding factors.

We adopt two approaches to generate instrument variables (IVs) for the first-step regression. To serve as a valid instrument, the IVs must be highly predictive of the appointment of a top legal advisor and unrelated to the dependent variables in the baseline regressions, transaction outcome, or acquired ownership. Furthermore, as companies may appoint law firms and other types of advisors, we require that the IVs are unrelated to the appointment of a general advisor (the second most popular type of advisor).

First, we follow the approach of Krishnan & Masulis (2013). To identify the IVs, we examine a prior 3-year rolling window of VC investments for each calendar year. We focus on investments

that involve the appointment of a top-tier buy-side or sell-side legal advisor, but no top-tier general advisor. We then identify the top 10 industries for the buy-side and the sell-side based on the number of such occurrences. We assume these industries have a high demand for top legal advice but do not have a critical need for other general advice. Furthermore, we find no compelling reason to believe that past industry associations with top law firms are related to transaction outcomes.

Table IA10, Panel A, presents the regression results. In Column (1), we find a positive and statistically significant coefficient for *Top 10 buy-side industry legal advice* at the 1% level, indicating that investors who invest in industries with strong demand for top-tier legal advice are more likely to appoint a top-tier law firm. In Column (2), the coefficient of *the Top-tier buy-side law firm remains* robust after controlling for the inverse Mills ratio from the first-step estimation. To further address selection concerns, we employ *Top 10 industry legal advice sell-side* as an instrument in Column (3) and find it to be positive and statistically significant at the 1% level. The results in Column (4) remain consistent with earlier results after incorporating the inverse Mills ratio, indicating that our findings are robust against selection bias.

Second, we use Huang, Hui, & Li (2019)'s judge ideology measurement, *Liberal Court*, as an instrument for the first-step regression. This measurement reflects a judge's ideology in a circuit by capturing the political affiliation of the appointing president. We calculate *Liberal Court* as the probability that Democratic presidents' appointees dominate a panel of three judges randomly selected from the circuit. It is defined as follows:

$$Liberal\ Court = \frac{[L(a,3) + L(a,2) \times L(b-a,1)]}{L(b,3)} \quad (2)$$

where $L(n,r)$ is a binomial coefficient indicating the number of possible combinations of r objects from a set of distinct objects. a is the number of Democratic appointees, while b is the total number of judges in the circuit. *Liberal Court* value of 0.655 means that a 65.5% probability that a three-judge panel randomly drawn from the n^{th} Circuit is dominated by liberal judges. We measure *Liberal Court* for all transactions in which portfolio companies are in the U.S.

In light of Huang, Hui, & Li (2019)'s finding that there is a positive relationship between liberal judges and lawsuit occurrence, we expect a significant demand for top legal advisors in states where federal judges exhibit liberal preferences. We, therefore, predict a positive impact of *Liberal Court* on the likelihood of employing a top-tier law firm in the first-step regression.

Results from Table IA10 Panel B Column (1) indicate a positive and statistically significant coefficient of *Liberal Court,* consistent with our prediction. In Column (2), we include the Inverse Mills ratio generated in Column (1) as an additional control variable. The evidence suggests that our baseline results are robust to sample selection bias when controlling for it using Heckman two-step regressions.[10]

Start-up hubs

We perform a subsample analysis focusing on US startup hubs (e.g., Silicon Valley, Boston, and New York) where competitive dynamics among law firms constrain their capacity for client selectivity. Startup hubs feature intense competition among elite law firms for venture clients (Kennedy, 2021), fundamentally undermining the assumption that top-tier firms serve only high-quality ventures. The selection mechanism requires law firms to exercise quality-based screening, but competitive pressure in startup hubs erodes their ability to do so. Using a subsample of startup hubs where potential selection bias is attenuated, we examine whether the association between top-tier law firm involvement and VC deal ownership persists. Results from Table IA11 indicate a positive, significant relationship between the presence of top-tier legal advisors and VC deal ownership. This evidence is more consistent with treatment-based mechanisms (signalling and contractual expertise) than with pure selection.

Quality gap

We further examine whether the quality differential between top- and lower-tier law firms moderates the relationship between top-tier law firms and VC investment intensity. To empirically investigate this notion, we proxy for quality using the ratio of deals with successful final outcomes (deals that exit through either IPOs or M&As) to total deals advised by a cohort of law firms. In particular, we consider two cohorts of law firms: top- and bottom-tier. Top (bottom)-tier law firms are those in the top (bottom) 10 percentile of the annual ranking, which is the ratio of the total value of transactions a law firm participated in to the overall value of all VC deals in the last five

[10] We utilize the Heckman selection model to investigate to association between the engagement of legal services provided top-tier law firms and each of transaction valuation, annualized returns, and the likelihood of successful exits. Results from Table IA25 are similar to those presented earlier. To further mitigate concerns over the selection bias, we consider the sample of only VC deals with the involvement of law firms. While this sample may suffer the truncation issue, it is likely to alleviate the selection bias to some extent as all firms in this sample are subject to the same unobserved factors motivating them to get law firms involved in their VC transactions. We re-run our baseline regressions using this new sample and document results in Table IA26. Our baseline findings remain qualitatively unchanged with the use of this new sample.

years. For each country, the quality gap between top and bottom law firms is the difference in quality ratios between these two groups. We then modify the baseline regression specification to include the interaction term between the quality gap variable and *Top-tier law firm.*

Results from Table IA12 indicate that while the involvement of top-tier law firms is associated with a higher level of VC deal ownership, such relationship is more pronounced among countries with a greater quality gap between top and bottom law firms. This finding corroborates the notion that top-tier law firms play a more important role in advising VC deals in countries where there is a large gap in the quality of legal services provided by top and bottom law firms.

Region analysis

As the U.S. makes up a large proportion of our sample, we exclude US deals from the main sample to examine if our results are robust in the subsample of non-US deals. Table IA13 Panel A shows that the main findings hold for non-US deals. We further investigate whether the significant positive association between the appointment of top-tier law firms and VC deal ownership is observed across different geographical regions (e.g., US, Europe, and Asia). Overall, results from Table IA13 Panels A, B, and C consistently indicate that the positive relationship between top-tier law firms and VC investment intensity remains qualitatively unchanged in all these regions.[11]

We further examine the extent to which the relationship between top-tier law firms and VC deal ownership varies across economic development statuses. We construct two indicator variables, including *Asia* and *Developing. Asia* (*Developing*) takes the value of one if the VC deal is from an Asian (developing) country, and zero otherwise. We interact each of these two indicator variables with *Top-tier law firm* and report the regression results in Table IA14. As shown in Table IA14 Column (1), while VC deal ownership is positively associated with the presence of top-tier

[11] As a robustness check, we exclude deals involving U.S.-based law firms outside the U.S. to test whether our main results are driven by cross-market reputation transfer. Results from Table IA27 show that our main findings are robust to removing non-US deals with the involvement of US-based law firms.

We determine top-tier law firm status using the original Pitchbook deal-level dataset prior to sample restrictions. However, our baseline regression sample excludes deals lacking information necessary for constructing control variables. This filtering process disproportionately removes deals involving top-tier law firms relative to those without top-tier involvement, resulting in significant cross-country variation in the percentage of deals with top-tier representation. In cases such as Denmark, the data filtering process removes all deals involving top-tier law firms due to missing information required for baseline regressions. We also note that this filtering process results in some countries (e.g., Poland, Mexico) having fewer than 10 deals in our final sample. As a robustness test, we exclude countries with fewer than 10 deals and re-run the baseline regressions. Results in Table IA28 confirm that our key findings remain unchanged.

law firms, this relationship is stronger among deals originating from Asian countries. In addition, Table IA14 Column (2) provides evidence in which the positive relationship between the involvement of top-tier law firms and VC deal ownership is more pronounced among developing countries. These results are consistent with hypothesis *H2* as Asian and developing countries tend to have weaker legal environments relative to developed economies (Djankov et al., 2008).

Role of other institutional characteristics

We conduct additional analysis to investigate whether the association between top-tier law firm involvement and VC deal ownership varies across country characteristics beyond legal systems. First, we consider whether the expertise of top-tier law firms in facilitating VC deals is more important in periods of escalated economic policy uncertainty. As policy uncertainty results in heightened uncertainty over firms' operational performance (Chen et al., 2018), top-tier law firms' signalling and contractual expertise should play a more pronounced role in times of elevated policy uncertainty. To empirically test this conjecture, we obtain data on country-level economic policy uncertainty from Baker et al. (2016). Results from Table IA15 Column (1) show that the positive relationship between the presence of top-tier law firms and VC deal ownership is stronger as the level of policy uncertainty intensifies.

It is also interesting to gain insight into the role of democracy in the interplay between top-tier law firms and VC deals. Prior literature suggests that democracy can promote an institutional environment that reduces information asymmetries and enhances corporate governance (Delis et al., 2020; Duong et al., 2022). Therefore, the signalling and contract expertise functions of top-tier law firms are likely to be less prevalent for VC deals in countries with higher institutional democracy. We collect data on country-level democracy from Polity V Project. Lending support to our conjecture, Table IA15 Column (2) indicates that the positive association between the presence of top-tier law firms and VC deal ownership is less pronounced among countries with stronger levels of democracy.

In addition, we explore how the association between top-tier law firms and VC deals varies across countries with different levels of investment freedom. In a country with greater investment freedom, the government would impose fewer restrictions on the flow of investment capital. Fewer government-imposed restrictions give both sides of a VC deal more room to negotiate terms. Law firms are instrumental in advising and drafting investment agreements. Moreover, when there are

fewer regulations on how, where, and when investors may deploy capital, the private contract designed by the law firm acts as a primary risk-mitigation mechanism for both sides of the VC deal. Thus, it is reasonable to expect that top-tier law firms play a more important role in advising VC deals in countries with higher investment freedom. We gather data on country-level investment freedom from the Heritage Foundation. Results from Table IA15 Column (3) corroborate this notion by showing that the positive relationship between the involvement of top-tier law firms and VC deal ownership is stronger among countries with greater investment freedom.

Deal characteristics

We complement our analysis by examining the interactive dynamics when top-tier law firms represent both sides of a VC transaction. Elite firms possess expertise in navigating both cooperative and adversarial negotiations, depending on their interactions with opposing counsel. On one hand, the presence of top-tier law firms on both sides may reduce friction and facilitate more efficient deal execution through shared professional norms and established relationships. On the other hand, bilateral elite representation may produce offsetting effects as each firm vigorously advocates for its client's interests, potentially neutralizing the advantages that would accrue if only one side engaged top-tier counsel. To investigate the interactive dynamics of top-tier law firms, we include the interaction term between top-tier buy-side and sell-side law firms in the baseline regression model. Results from Table IA16 lend support to the substitution notion in which the positive relationship between top-tier legal advisor involvement and VC deal ownership becomes weaker when both sides of the deal seek legal services from elite law firms.

There are other intermediaries involved in VC deals, typically including auditors, general advisors, and investment banks. We investigate whether top-tier (Big 4) auditors and general advisors may moderate the relationship between top-tier law firms and VC deal ownership. To test this research question, we create interaction terms between top-tier law firms and each of the top-tier general advisors and auditors. We then include these interaction terms in our baseline regressions. In Table IA17, Column (1), we find that the positive relationship between top-tier law firm involvement and VC ownership is less pronounced among deals with top-tier general advisors. This evidence suggests that top-tier general advisors and top-tier law firms may serve as substitutes in VC deals. As shown Table IA17 Column (2), the coefficient on the interaction term

between top-tier law firm and top-tier auditors is not statistically significant. Thus, the presence of top-tier auditors does not affect the role of top-tier law firms in VC deals.

We further examine whether the significance of legal services provided by top-tier law firms varies across different stages of VC financing. Compared to later stages, companies in the seed stage tend to have greater legitimacy deficits, as they rarely have audited financial statements, stable revenue, or a proven product. Therefore, the signalling role of top-tier law firms may be more important in seed-stage financing than in later-stage financing. Table IA18 Column (1) shows that the coefficient on the interaction term between *Top-tier law firm* and *Seed stage* is positive despite being insignificant. In contrast, Column (2) shows the coefficient on the interaction term between *Top-tier law firm* and *Later stage* is negative and statistically significant at the 1% level. Collectively, results from Table IA18 suggest that top-tier law firms play a more important role in early-stage investments.

Additional control variables

One may be concerned that macro-environment factors affecting all investors and portfolio companies could simultaneously impact investment outcomes and the use of top legal advisor services. For example, during favourable economic conditions such as high economic growth, investment transactions can be completed more easily due to reduced uncertainty about their future success. At the same time, investors may want to engage top law firms to quickly close deals and capitalize on the positive economic environment. This simultaneity could bias our regression analysis of the relationship between top-tier law firms and VC deal ownership.

To address this concern, we include a range of macro-environment factors (e.g., GDP growth, economic policy uncertainty, democracy, investment freedom, public market access returns) in our analysis. We re-estimate our baseline regressions, controlling for new macro-environmental variables. Table IA19 shows that our main results hold in the presence of macro-environment control variables.

We also account for additional investor and company characteristics that may influence the use of top law firms and VC deal ownership. Specifically, we consider the lead VC's age and asset under management (AUM), as well as the target company's age. Older, larger investors with higher AUM may have a better reputation and greater negotiating power, making it easier to attract reputable law firms and successfully complete a deal. Failure to control for these variables could

bias our estimates of the effect of *Top-tier law firm*. To address this, we calculate *Log(Lead VC Age)*, the natural logarithm of the lead VC's age (i.e., the difference between the transaction year and the lead VC's founding year), *Log(Lead VC AUM)*, the natural logarithm of the lead VC's AUM, and *Log(Company Age)*, the natural logarithm of the target company's age (i.e., the difference between the transaction year and the company's founding year). For transactions with two or more lead VCs, we take the average of these measurements. We then include these variables as additional controls in our regression models. As shown in Table IA20 Column (1), our main findings are robust to controlling for various investor/investee characteristics.

It is possible that more reputable VCs have a greater ability to recruit top law firms, or a better chance of matching with them. If this is the case, VC reputation can affect deal outcomes and the likelihood of a top-tier law firm involvement in a VC deal, raising an endogeneity concern. To address this, we quantify VC reputation and control for it in our baseline regressions.

We use three alternative measurements for VC reputations. First, we define *Log(IPOs)* is the mean of the natural logarithm of the number of past IPO exits by all VCs in a deal. Second, *Log(Successful Exits)* is the mean of the natural logarithm of the number of past exits through IPO and M&A by all VCs in a deal. Third, *VC reputation* is the mean of VC reputation by all VC investors in a VC deal. We use Nahata's (2008) approach and define VC reputation as the ratio of a VC investor's aggregate IPO proceeds to the cumulative IPO proceeds of all VC investors. Results from Table IA20 Columns (2) to (4) show that the coefficient of *Top-tier law firm* remains significant, emphasizing that our baseline results are not driven by reputation of VCs.

There is a possibility that top law firms have a preference toward VC deals of a certain quality. To address concerns about the selection process from law firms, we control for deal quality and examine whether the significant role of top law firms persists. Sorensen (2007) finds that experienced VC investors tend to invest in inherently better deals. Thus, we consider the VC investor's experience in a deal as an ex-ante proxy for the deal's quality. Accordingly, we construct two variables to capture VC investment experience, including *VC investment experience* (the average of the natural logarithm of the number of past investments made by all VC investors that participate in a deal) and *VC industry investment experience* (the average of the natural logarithm of the number of past investments in the same industry made by VC investor that participate in a deal). Results from Table IA20 Columns (5) and (6) show that the main finding is robust to controlling for ex-ante deal quality.

Finally, we empirically test whether general advisors and auditors can subsume the role of top-tier law firms in the VC deal support business. We construct various variables to capture top-tier auditors and top-tier general advisors for both the buy and sell sides. In Table IA21 Column (1), we incorporate top-tier auditors and general advisors on the buy side, along with top-tier law firms on the buy side, in the same regression. In a similar fashion, we control for the top-tier auditors and general advisors on the sell side in Table IA21 Column (2) and for either side in Table IA19 Column (3). Taken together, results from Table IA21 consistently indicate a positive and significant relationship between top-tier law firms and acquired ownership, suggesting that top-tier auditors and general advisors do not subsume the unique role of legal advisors in VC deals.

LIMITATIONS AND FUTURE RESEARCH

Our study has limitations that point toward productive future research directions. Most importantly, while our battery of identification strategies, including VC fixed effects, matching and weighting estimators, Heckman selection models, and startup hub subsamples, consistently produce results in line with treatment mechanisms, none of these approaches permits definitive causal identification. The gold standard would be an exogenous shock to law firm availability or assignment that is plausibly independent of deal quality. Future research could exploit natural experiments, including unexpected closures, mergers, or reputational shocks among elite law firms, or geographic shocks that disrupt law firm access in specific markets, to estimate treatment effects more credibly.

While we document positive associations between top-tier legal representation and deal outcomes, we cannot assess whether these benefits exceed the costs of premium legal services because we lack data on legal fees. Future research with access to legal fee data could examine whether the documented improvements in outcomes justify any fee premium. In addition, researchers with access to startup financial records could directly estimate the relationship between legal expenditures and deal outcomes, enabling cost-benefit analysis of law firm selection decisions. Moreover, future research could explore how entrepreneurs and VC investors weigh legal costs against perceived quality when selecting counsel, and whether budget constraints systematically channel certain types of ventures toward lower-tier representation. The structural two-sided matching approach developed by Sorensen (2007) offers another promising avenue if data on legal fees and firm-level participation costs become available. Collectively, these research

topics would provide a more complete picture of the economic rationality of law firm selection decisions in entrepreneurial finance.

Our mechanism tests, while consistent with the theoretical predictions, cannot fully rule out alternative explanations. Future research using more granular data on contract terms, board composition, and governance provisions would allow sharper tests of the contractual expertise mechanism specifically. Researchers could also explore the process through which top-tier law firms facilitate collaboration between VCs and portfolio companies during the investment period, and how this contributes to investment success and returns. Understanding these mechanisms can help market participants better leverage legal advisors' expertise and develop more effective strategies for VC deal-making.

It is also interesting to investigate the role of boutique law firms in facilitating VC deals. Boutique law firms are specialized legal practices that focus on one or a few specific areas of law, providing in-depth service compared to general practice firms. With deep expertise in their field, boutique law firms are likely to help reduce misunderstandings, promote transparency, and build trust among parties by crafting precise agreements, offering essential legal advice, and facilitating clear communication. Thus, it is reasonable to expect that the relationship between top law firms and VC deal ownership is stronger among deals advised by boutique law firms. However, we are unable to empirically test this conjecture, as our data does not provide a means to identify boutique law firms. Future research could examine the extent to which the specialized knowledge of boutique law firms shapes the association between top-tier law firm involvement and VC deal ownership.

Finally, law firm reputations are contextually constructed and may not transfer across institutional settings (Alvarez-Garrido & Guler, 2018; Liu & Maula, 2021; Liu et al., 2024). Future research could examine whether legal reputation travels across borders and whether ventures that expand internationally face discontinuities in the value of their existing legal advisor relationships.

CONCLUSION

This paper examines top-tier law firms as boundary-spanning intermediaries in global venture capital markets, using a sample of 71,129 deals across 22 countries from 2005 to 2020. We propose that top-tier law firms address two distinct frictions in venture capital transactions through mechanisms that differ systematically by transaction side. On the sell side, elite legal

representation serves as a credible quality signal that helps entrepreneurs overcome the legitimacy deficits that prevent resource acquisition. On the buy side, elite legal representation creates value through contractual expertise, including superior drafting, due diligence, and governance design, that reduces the expected cost of capital commitment. Both mechanisms predict larger VC ownership stakes, and both are amplified in weaker legal environments where private signals substitute for absent institutional certification and contractual expertise compensates for unreliable judicial enforcement. The empirical evidence is consistent with these predictions across a wide range of outcome variables, identification strategies, and robustness checks.

Our study makes four theoretical contributions. First, we extend the literature on entrepreneurial legitimacy and third-party endorsements by identifying elite law firms as a distinct class of legitimacy intermediary whose signal credibility derives from a structural feature with no close parallel in the prior literature: law firms certify venture quality without taking equity stakes, making their incentives to screen carefully more durable, and they embed reputational capital into the contractual architecture of the transaction itself rather than providing a separate advisory layer. This contractual embedding, combined with lifecycle continuity across financing rounds, gives legal advisor endorsements a qualitatively different signal structure from the financial affiliate endorsements studied in prior work (Stuart, Hoang, & Hybels, 1999; Megginson & Weiss, 1991; Hsu, 2004). Second, we extend the law firm expertise literature (Krishnan & Masulis, 2013; Moran & Pandes, 2019) to the venture capital context, where information asymmetries at the point of legal engagement are more severe, and the mechanisms through which legal quality affects outcomes are substantively richer. Third, we contribute to signalling theory (Bergh et al., 2014; Connelly et al., 2025) and VC contracting research (Kaplan & Strömberg, 2003) by demonstrating that signalling and contractual expertise mechanisms are empirically distinguishable through the sell-side / buy-side structure of legal representation, and by providing mechanism tests, new investor participation and financing intervals for signalling, board representation for contractual expertise, that validate each channel independently. Fourth, we contribute to institutional voids research (Khanna & Palepu, 1997, 2000; Peng, Wang, & Jiang, 2008) by showing that the two mechanisms through which law firms create value are amplified by distinct institutional features, signal scarcity and demand for contractual completeness, rather than by a single undifferentiated void-filling effect, enriching our understanding of how formal and informal institutions interact in entrepreneurial finance.

For entrepreneurs, our findings suggest that law firm selection should be treated as a strategic financing decision rather than a procedural necessity. The choice of legal counsel affects not only the terms of a specific transaction but also the quality of investors accessible through that transaction: credible legal signals attract higher-caliber investors who provide value-added services, strategic guidance, network access, and reputational certification to downstream parties, which extend well beyond the capital itself. Entrepreneurs who engage top-tier counsel solely for transactional mechanics underutilise the certification function that constitutes a large share of its value. This implication is most acute in weak legal environments, where formal certification mechanisms are absent, and the reputational signal provided by elite legal representation is correspondingly more influential in shaping investor perceptions. Entrepreneurs in these contexts should secure reputable legal counsel early in the fundraising process, treating it as a legitimacy investment rather than a cost center.

For VC investors, our findings underscore that the quality of buy-side legal representation has measurable consequences for governance outcomes and long-run portfolio performance. Top-tier buy-side counsel is associated with greater board representation, the foundational governance mechanism through which investors monitor portfolio companies, protect contractual rights, and facilitate exits. Investors who treat legal advisor selection as a commodity procurement decision forgo the superior drafting, negotiating skills, and thorough due diligence that elite counsel provides. This is most consequential in jurisdictions with weaker legal infrastructure, where contractual protections must function without reliable judicial support and where the expertise required to draft enforceable, comprehensive agreements is scarce. In such settings, investing in top-tier legal representation is not merely a transaction cost but a portfolio risk management decision.

Taken together, our findings are consistent with the view that who advises entrepreneurs and investors on the legal structure of a venture capital transaction matters, not as a passive reflection of deal quality but as an active shaper of the informational and contractual environment in which capital is allocated. Law firms occupy a unique position in entrepreneurial ecosystems: they are present at the moment of highest uncertainty, embedded in the document that will govern the relationship for years, and their reputational stakes depend on the quality of their screening and craftsmanship, aligning their incentives with deal success. Understanding these intermediaries

more fully is essential for understanding how capital flows to entrepreneurs across the diverse institutional environments of global venture capital markets.

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Appendix A1: Variable definitions

Variable names	Descriptions	Sources
Percentage acquired	The percentage of stake acquired in the round of financing.	Pitchbook
Transaction valuation	The natural logarithm of the current financing round's pre-money valuation.	Pitchbook
Annualized return	The annualized return from the current round to the next round. We define Cumulative Returns = (Pre-money Valuation (lead)-Post-money Valuation(current))/Post-money Valuation (current), and Round Gap = the number of days between the current round to the next round. We calculate Annualized Returns as $(1 + \text{Cumulative Returns})^{\frac{365}{\text{Round Gap}}} - 1$.	Pitchbook
Survival	A dummy variable equal to one if the company exits through an IPO or a merger and acquisition, or it receives financing in the next round, and zero otherwise.	Pitchbook
Success	A dummy variable equal to one if a portfolio company exits through an IPO or a merger and acquisition, and zero otherwise.	Pitchbook
Deal incompletion	A dummy variable equal to one if the VC investment transaction is incomplete, and zero otherwise.	Pitchbook
Top-tier law firm	A dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. We define top-tier law firms as those in the top 10^{th} percentile of the annual ranking. We calculate the annual rankings of the law firms based on their relative involvement in VC deals in the past five years. Specifically, we determine the ranking by calculating the ratio between the total value of transactions a law firm participated in and the overall value of all VC deals in the last five years	Pitchbook
Top-tier buy-side law firm	A dummy variable equal to one if one of the law firms on the buy-side appears in the top 10^{th} percentile of the annual ranking.	Pitchbook
Top-tier sell-side law firm	A dummy variable equal to one if one of the law firms on the sell-side appears in the top 10^{th} percentile of the annual ranking.	Pitchbook
Top-tier general advisor	A dummy variable equal to one if the deal is serviced by at least one top-tier general advisor, either on the buy-side or the sell-side, and zero otherwise.	Pitchbook
Top-tier buy-side general advisor	A dummy variable equal to one if the deal is serviced by a top-tier general advisor on the buy-side, and zero otherwise.	Pitchbook
Top-tier sell-side general advisor	A dummy variable equal to one if the deal is serviced by a top-tier general advisor on the sell-side, and zero otherwise.	Pitchbook
Top-tier auditor	A dummy variable equal to one if the deal is serviced by at least one top-tier (Big 4) auditor, either on the buy-side or the sell-side, and zero otherwise.	Pitchbook
Top-tier buy-side auditor	A dummy variable equal to one if the deal is serviced by a top-tier (Big 4) auditor on the buy-side, and zero otherwise.	Pitchbook
Top-tier sell-side auditor	A dummy variable equal to one if the deal is serviced by a top-tier auditor on the sell-side, and zero otherwise.	Pitchbook
Log(Company age)	The natural logarithm of one plus the difference between the transaction year and the company's founding year.	Pitchbook
Log(Investors)	The natural logarithm of the total number of investors in the transaction.	Pitchbook
Log(Rounds)	The natural logarithm of the company's number of financing rounds.	Pitchbook
Time to exit	The natural logarithm of one plus time to exit which is measured as the number of years between the exit date and the first-round date.	Pitchbook
Syndication	A dummy variable equal to one if the total number of investors in the transaction is greater than zero, and zero otherwise.	Pitchbook
Staging	A dummy variable equal to one if the number of financing rounds is greater than one, and zero otherwise.	Pitchbook

Civil justice	The World Justice Project's civil justice index. The index ranges between 0 to 1, reflecting how ordinary people can resolve their grievances peacefully and effectively through the civil justice system.	The World Justice Project
Court structure	The World Bank's court structure and proceedings index. The index ranges from -1 to 5, reflecting how sophisticated and streamlined the court structure is.	The World Bank Doing Business Report
Rule of law	The Worldwide Governance Indicators' rule of law index. The index captures agents' confidence in the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The measurement is in units of a standard normal distribution.	The World Governance Indicators project
Properties rights	The Heritage's properties rights index. The index is the average scores of three sub-factors: (i) risk of expropriation, (2) respect for intellectual property rights, and (iii) quality of contract enforcement, property rights, and law enforcement.	The Heritage Foundation
Democracy	The Polity V Project (2018)'s democracy index. The index ranges from 0 to 10. The higher values indicate a higher level of institutional democracy.	Polity V Project (2018)
Judicial effectiveness	A dummy variable equal to one if the judicial effectiveness is greater than its median, and zero otherwise. The judicial effectiveness is the average scores of three sub-factors: (i) judicial independence, (ii) quality of the judicial process, and (iii) perceptions of the quality of public services and the independence of the civil service. The higher values suggest that laws are fully respected.	The Heritage Foundation
Judicial quality	A dummy variable equal to one if the quality of judicial processes index is greater than its median, and zero otherwise. The index ranges from 0 to 18, with higher values indicating better and more efficient judicial processes.	The World Bank Doing Business Report
Dispute resolution	A dummy variable equal to one if the alternative dispute resolution index is greater than its median, and zero otherwise. The index ranges from 0 to 3, and higher values indicate greater availability of alternative dispute resolution mechanisms.	The World Bank Doing Business Report
Top 1 law firm	A dummy variable taking the value of one if the law firm has the highest ratio between the total value of transactions a law firm participated in and the overall value of all VC deals in the last five years.	Pitchbook
Top 5% (15%, 20%) law firm	A dummy variable which equals to one if the deal is serviced by at least one top 5 percentile (15 percentile, 20 percentile) law firm, either on buy-side or sell-side, and zero otherwise.	Pitchbook
Top-tier law firm (reputation)	A dummy variable equal to one if one of the law firms on the buy-side or the sell-side appears in the top 10^{th} percentile of annual rankings based on the number of successful deals advised by all law firms. Successful are deals that exit successfully from IPOs or M&As.	Pitchbook
Top-tier law firm (experience)	A dummy variable equal to one if one of the law firms on the buy-side or the sell-side appears in the top 10^{th} percentile of annual rankings based on the number of deals advised by all law firms.	Pitchbook
Top-tier buy-side law firm (value)	The average of the natural logarithm of the total value of VC transactions a law firm on the buy side participated in over the last five years.	Pitchbook
Top-tier sell-side law firm (value)	The average of the natural logarithm of the total value of VC transactions a law firm on the sell side participated in over the last five years.	Pitchbook
Log(VC age)	The natural logarithm of one plus the lead VC's age. VC's age is the difference between the transaction year and the VC's founding year plus one.	Pitchbook
Log(Deal Size)	The natural logarithm of investment amount	Pitchbook
Log(Successful Exits)	The mean of the natural logarithm of the number of past successful exits through IPO and M&A by VCs in a deal	Pitchbook
VC investment experience	The average of the natural logarithm of the number of past investments made by VCs that participate in a deal.	Pitchbook
Log(AUM)	The mean of the natural logarithm of total asset undermanagement across VCs in a deal.	Pitchbook
VC reputation	The mean of VC reputation across all VC investors in a VC deal. For each VC, VC reputation is estimated as the ratio of a VC investor's aggregate IPO proceeds to the cumulative IPO proceeds of all VC investors (Nahata, 2008).	Pitchbook
Top 10 industry legal advice buy-side	A dummy variable indicating top 10 industries with legal advice on the buy-side. The ranking is based on the number of times a top buy-side legal advisor is appointed but no top 10 general advisor is hired within 3 years.	Pitchbook

Top 10 industry legal advice sell-side	A dummy variable indicating top 10 industries with legal advice on the sell-side. The ranking is based on the number of times a top sell-side legal advisor is appointed but no top 10 general advisor is hired within years.	Pitchbook
Liberal Court	A measure of judge ideology in a circuit calculated as the probability that Democratic presidents' judicial appointees dominate a panel of three judges randomly selected from the circuit.	Huang, Hui, & Li (2019)
Quality gap	The average quality gap in the last 5 years in which the quality gap is the difference in the exit ratio of deals advised by top and non-top law firms in a given country.	Pitchbook
New investors	The natural logarithm of the number of new investors in the next financing round.	Pitchbook
Financing time	The natural logarithm of the number of years from the current financing round to the next financing round.	Pitchbook
Board representation	A dummy variable is equal to one if at least one investor-appointed director serves on the startup's board of directors, and zero otherwise	Pitchbook
Asian	A dummy variable equal to one if the transaction is from an Asian country, and zero otherwise.	Pitchbook
Developing	A dummy variable equal to one if the transaction is from a developing country, and zero otherwise.	Pitchbook
Trade as % of GDP	The sum of exports and imports of goods and services scaled by the GDP.	World Bank
GDP Growth	The country's annual gross domestic product growth rate.	World Bank
Market cap as % of GDP	Market capitalization of listed domestic companies as percentage of GDP.	World Bank
Political stability	The political stability index.	World Bank
Government integrity	The government integrity index.	The Heritage Foundation
EPU	The country's average monthly economic policy uncertainty index in a given year.	Baker, Bloom, and Davis (2016)
Investment freedom	The Heritage's investment freedom index.	The Heritage Foundation
Market return	The country's average monthly market returns in a given year.	DataStream
Seed stage	A dummy variable equal to one if the financing round is in a seed stage, and zero otherwise.	Pitchbook
Later stage	A dummy variable equal to one if the financing round is in a later stage, and zero otherwise.	Pitchbook
Log(Lead VC age)	The natural logarithm of one plus the lead VC's age which is the difference between the transaction year and the lead VC's founding year.	Pitchbook
Log(Lead VC AUM)	The natural logarithm of the lead VC's asset undermanagement.	Pitchbook
Log(IPOs)	The mean of the natural logarithm of the number of past IPO exits by all VCs in a VC deal.	Pitchbook
Log(Exits)	The mean of the natural logarithm of the number of past exits through IPO and M&A by all VCs in a VC deal.	Pitchbook
Average VC reputation	The average VC reputation of VCs in a VC deal.	Pitchbook
VC industry investment experience	The average of the natural logarithm of the number of past investments in the same industry made by VCs that participate in the focal financing round.	Pitchbook

Table 1: Summary statistics

This table provides summary statistics of main variables. Variable definitions are provided in Table A1.

Variables	N	Mean	Std. Dev	P25	Median	P75
Top-tier law firm	71,129	0.367	0.482	0.000	0.000	1.000
Top-tier buy-side law firm	71,129	0.251	0.433	0.000	0.000	1.000
Top-tier sell-side law firm	71,129	0.315	0.464	0.000	0.000	1.000
Percentage acquired	71,129	0.250	0.146	0.141	0.230	0.333
Transaction valuation	74,927	2.634	1.656	1.559	2.485	3.611
Annualized return	34,259	0.823	1.494	0.0185	0.294	0.881
Success	79,413	0.155	0.362	0.000	0.000	0.000
Log(Time to exit)	12,318	1.513	0.572	1.111	1.541	1.936
Survival	58,237	0.657	0.475	0.000	1.000	1.000
Log(Investors)	67,051	0.663	0.748	0.000	0.693	1.099
Syndication	67,051	0.534	0.499	0.000	1.000	1.000
Log(Rounds)	77,161	0.490	0.581	0.000	0.000	0.693
Staging	77,161	0.474	0.499	0.000	0.000	1.000
New investors	59,952	0.704	0.716	0.000	0.693	1.099
Financing time	87,506	1.482	1.055	0.762	1.241	1.926
Board representation	51,158	0.612	0.487	0.000	1.000	1.000

Table 2: Top law firms and the percentage of ownership

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Percentage acquired*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.024**			
	(0.000)			
Top-tier buy-side law firm		0.032**		0.029**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.016**	0.013**
			(0.000)	(0.000)
Observations	71,129	71,129	71,129	71,129
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.138	0.137	0.135	0.138

Table 3: Top law firms and legal environment characteristics

This table presents the results for the linear regressions of the percentage of the stake acquired on the appearance of top law firms, the legal environment characteristics for the location of the transaction, and their interaction terms. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Court structure* is defined by the World Bank's court structure and proceedings index, which ranges from -1 to 5, reflecting how sophisticated and streamlined the court structure is. *Rule of law* is defined by the Worldwide Governance Indicators' rule of law index. *Judicial quality* is a dummy variable equal to one if the quality of judicial processes index is greater than its median, and zero otherwise. *Dispute resolution* is a dummy variable equal to one if the alternative dispute resolution index is greater than its median, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Percentage acquired*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.136*	0.051**	0.033**	0.033**
	(0.016)	(0.001)	(0.000)	(0.000)
Top-tier law firm × *Court structure*	-0.022*			
	(0.036)			
Court structure	-0.001			
	(0.878)			
Top-tier law firm × *Rule of law*		-0.018*		
		(0.031)		
Rule of law		0.012		
		(0.731)		
Top-tier law firm × *Judicial quality*			-0.018**	
			(0.000)	
Judicial quality			-0.012***	
			(0.009)	
Top-tier law firm × *Dispute resolution*				-0.016**
				(0.000)
Dispute resolution				-0.015**
				(0.000)
Observations	38,582	62,863	71,129	71,129
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.155	0.132	0.139	0.139

Table 4: Top law firms and transaction valuation

This table presents the results for the linear regressions of the transaction valuation on the appearance of top law firms. *Transaction valuation* is the natural logarithm of the current financing round's pre-money valuation. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Transaction valuation*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.577**			
	(0.000)			
Top-tier buy-side law firm		0.603**		0.430**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.507**	0.286**
			(0.000)	(0.000)
Observations	74,927	74,927	74,927	74,927
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.518	0.515	0.511	0.519

Table 5: Top law firms and annualized returns between VC financing rounds

This table presents the results for the linear regressions of the cross-round returns (annualized) on the appearance of top law firms. *Annualized return* is defined as the annualized return from the current round to the next round. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Annualized return*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.115**			
	(0.003)			
Top-tier buy-side law firm		0.134**		0.065
		(0.001)		(0.058)
Top-tier sell-side law firm			0.148**	0.118*
			(0.001)	(0.010)
Observations	34,259	34,259	34,259	34,259
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.081	0.090	0.091	0.091

Table 6: Top law firms and likelihood of survival

This table presents the results for the linear regressions of the status whether the company survives to the next round on the appearance of top law firms. *Survival* is defined as a dummy variable equal to one if the company either exits through an IPO or a merger and acquisition, or it receives financing in the next round, and zero otherwise. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy-side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *Log(Company age)* is the natural logarithm of one plus the difference between the transaction year and the company's founding year. *Log(Investors)* is the natural logarithm of the total number of investors in the transaction. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Survival*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.049***			
	(0.000)			
Top-tier buy-side law firm		0.039***		0.013
		(0.000)		(0.113)
Top-tier sell-side law firm			0.053***	0.047***
			(0.000)	(0.000)
Log(Company age)	-0.038***	-0.023**	-0.023**	-0.022**
	(0.000)	(0.012)	(0.012)	(0.012)
Log(Investors)	0.036***	0.044***	0.043***	0.043***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	58,237	58,237	58,237	58,237
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal Type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.306	0.302	0.303	0.303

Table 7: Top law firms and likelihood of success

This table presents the results for the linear regressions of the company's success on the appearance of top law firms. *Success* is a dummy variable equal to one if a portfolio company exits through an IPO or a merger and acquisition, and zero otherwise. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Log(Investors)* is the natural logarithm of the total number of investors in the transaction. *Log(Rounds)* is the natural logarithm of the company's number of financing rounds. *Log(Company age)* is the natural logarithm of one plus the difference between the transaction year and the company's founding year. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Success*			
	Full sample		*Year ≤ 2015*	
	(1)	(2)	(3)	(4)
Top-tier law firm	0.078**	0.054**	0.122**	0.084**
	(0.000)	(0.001)	(0.000)	(0.000)
Log(Investors)		0.039**		0.068**
		(0.000)		(0.000)
Log(Rounds)		0.008		0.014
		(0.219)		(0.056)
Log(Company age)		0.007		0.012
		(0.057)		(0.090)
Observations	79,413	67,051	34,577	28,583
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal Type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.141	0.152	0.083	0.094

Table 8: Top law firms and time to exit

This table presents linear regressions of time to exit. *Time to exit* is the natural logarithm of one plus time to exit which is measured as the number of years between the exit date and the first-round date. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Log(Investors)* is the natural logarithm of the total number of investors in the transaction. *Log(Rounds)* is the natural logarithm of the company's number of financing rounds. *Log(Company age)* is the natural logarithm of one plus the difference between the transaction year and the company's founding year. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Time to exit*			
	Full sample		*Year ≤ 2015*	
	(1)	(2)	(3)	(4)
Top-tier law firm	0.177**	0.053**	0.205**	0.050**
	(0.000)	(0.001)	(0.000)	(0.007)
Log(Investors)		-0.023*		-0.035**
		(0.018)		(0.004)
Log(Rounds)		0.432**		0.458**
		(0.000)		(0.000)
Log(Company age)		0.011		0.011
		(0.296)		(0.353)
Observations	12,318	10,822	9,425	8,222
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal Type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.259	0.445	0.148	0.384

Table 9: Top law firms and VC investment strategies: Syndication and staging

This table presents the results of the linear regressions of syndication and staging on the appearance of top law firms. *Log(Investors)* is the natural logarithm of the total number of investors in the transaction. *Log(Rounds)* is the natural logarithm of the company's number of financing rounds. *Syndication* is a dummy variable equal to one if the total number of investors in the transaction is greater than one, and zero otherwise. *Staging* is a dummy variable equal to one if the number of financing rounds is greater than one, and zero otherwise. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Log(Company age)* is the natural logarithm of one plus the difference between the transaction year and the company's founding year. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variables	*Log(Investors)*	*Syndication*	*Log(Rounds)*	*Staging*
	(1)	(2)	(3)	(4)
Top-tier law firm	0.438**	0.221**	0.237**	0.162**
	(0.000)	(0.000)	(0.000)	(0.000)
Log(Company age)	0.018	0.011*	-0.072**	-0.051**
	(0.086)	(0.025)	(0.000)	(0.000)
Observations	67,051	67,051	77,161	77,161
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.147	0.082	0.220	0.183

Table 10: Signalling mechanism

This table presents the results of the linear regressions of the number of new investors and time to the next financing round on the appearance of top law firms. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *New investors* is the natural logarithm of the number of new investors in the next financing round. *Time to the next financing round* is the natural logarithm of the number of years from the current financing round to the next financing round. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	New investors			*Financing time*		
	(1)	(2)	(3)	(4)	(5)	(6)
Top-tier law firm	0.131**			-0.077**		
	(0.000)			(0.008)		
Top-tier buy-side law firm		0.132**			-0.029	
		(0.000)			(0.244)	
Top-tier sell-side law firm			0.132**			-0.086**
			(0.000)			(0.003)
Observations	59,952	59,952	59,952	87,506	87,506	87,506
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.092	0.091	0.092	0.102	0.102	0.103

Table 11: Contractual expertise

This table presents the results of the linear regressions of the number of VC-appointed directors serving on the board of directors of the start-up (*Board representation*) on the presence of top-tier law firms. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *Board representation* is a dummy variable equal to one if at least one investor-appointed director serves on the startup's board of directors, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Board representation		
	(1)	(2)	(3)
Top-tier law firm	0.110**		
	(0.019)		
Top-tier buy-side law firm		0.092**	
		(0.018)	
Top-tier sell-side law firm			0.074**
			(0.019)
Observations	51,158	51,158	51,158
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.407	0.407	0.404

Legitimacy Signals and Investor Protections: Top-Tier Law Firms in Global Venture Capital Investments

Internet Appendix

This appendix contains supplemental material to the paper.

Figure IA1: Advisory services by service types in VC industry

This pie chart provides the distribution of the number of services and the total value of serviced deals by service types, including accounting and auditing, advisor and general advisor, general insurance, lead manager and arranger, legal advisor, underwriter, and other for VC deals between 2005-2020.

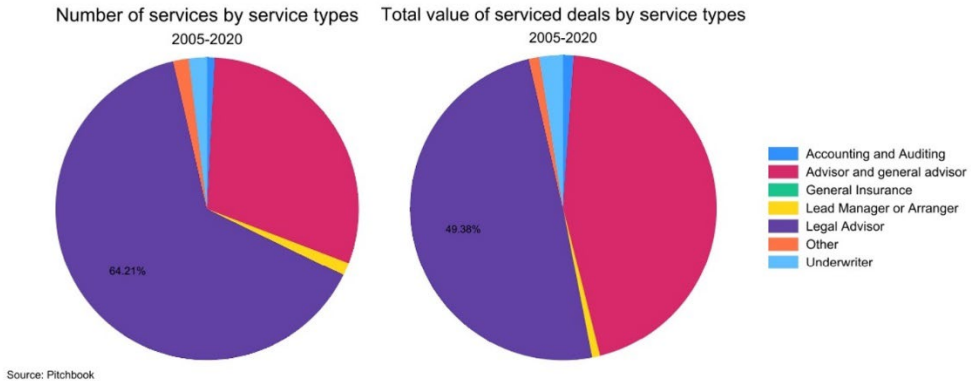


Figure IA2: The number and ratio of VC deals with legal services by year

This figure provides the distribution of the number VC deals with and without legal services by year for the period 2005-2020. The number of deals is displayed in 1000 units.

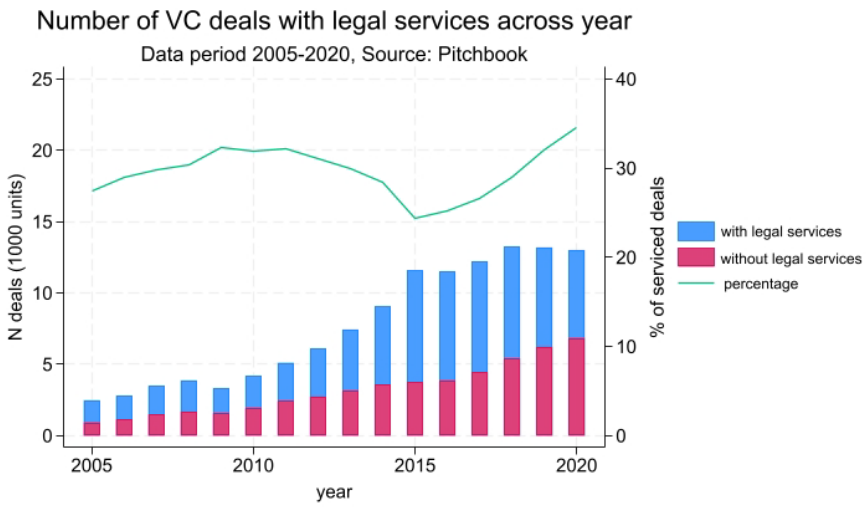


Figure IA3: The proportion of VC deals with legal services by country

This figure presents the fraction of VC deals covered with legal services by country for the period 2005-2020. Only countries with equal or more than 1000 deals are shown.

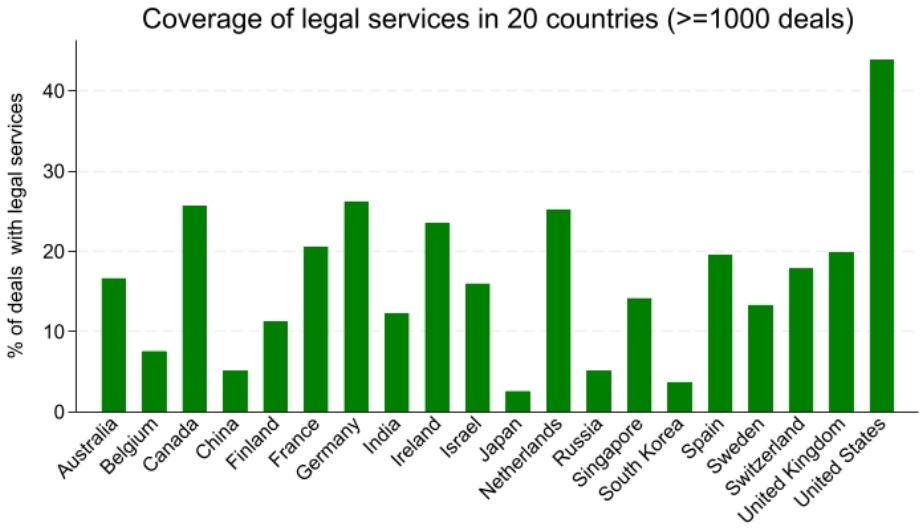
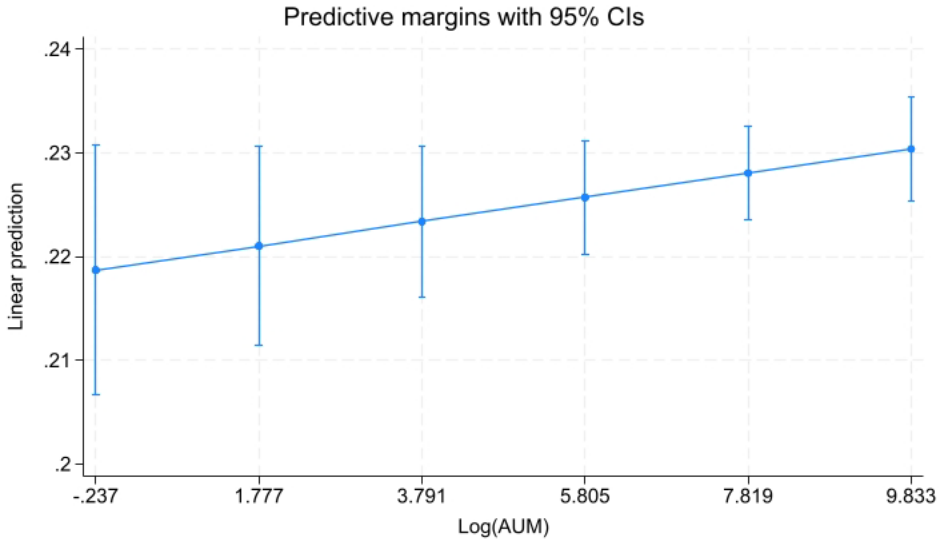


Figure IA4: Coefficient size of top-tier law firms

The figures show the size of the coefficient on *Top-tier law firm* across different levels of VC asset under management and VC age. We split our sample into different subsamples based on the minimum and maximum values of *Log(AUM)* and its standard deviation in Panel A. In Panel B, similarly, we divide our sample into different subsamples based on *Log(VC age)*. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise.



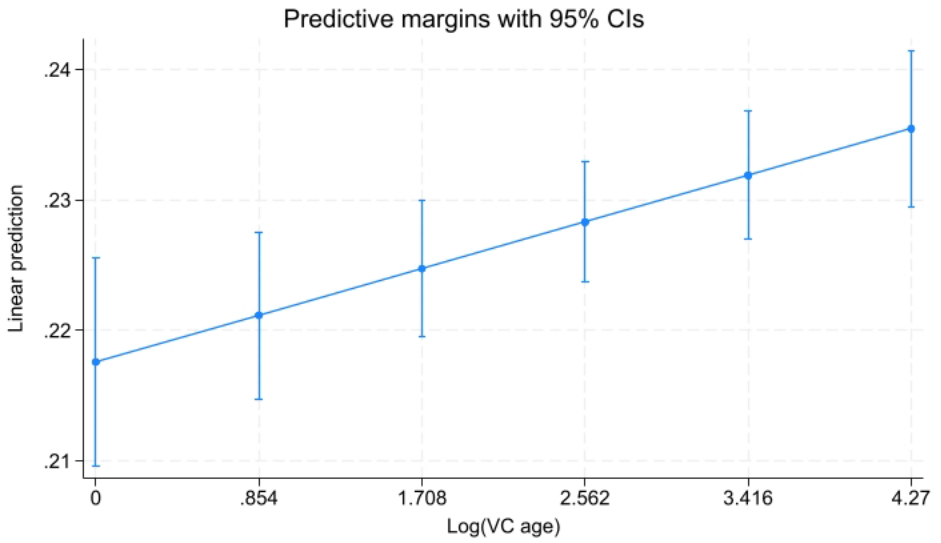


Table IA1: The distribution of VC deals and top law firms by year

This table provides the distribution of VC deals by year from 2005 to 2020 with the annual proportions of top-tier on the buy side, the sell side, and both sides. The sample has 71,129 observations with acquired ownership information.

Year	N	% Top-tier law firm	% Top-tier buy-side law firm	% Top-tier sell-side law firm
2005	1,307	0.286	0.008	0.281
2006	1,460	0.290	0.012	0.285
2007	1,880	0.360	0.035	0.349
2008	2,111	0.381	0.069	0.367
2009	1,805	0.384	0.056	0.370
2010	2,391	0.417	0.118	0.389
2011	2,997	0.412	0.140	0.380
2012	3,420	0.420	0.198	0.396
2013	4,143	0.409	0.245	0.383
2014	4,993	0.408	0.321	0.364
2015	5,777	0.353	0.264	0.310
2016	6,451	0.327	0.265	0.273
2017	7,338	0.320	0.277	0.265
2018	7,881	0.360	0.311	0.296
2019	8,909	0.348	0.315	0.271
2020	8,266	0.395	0.360	0.297
Total	71,129	0.367	0.251	0.315

Table IA2: The distribution of VC deals and top law firms by country

This table provides the distribution of VC deals by country with the annual proportions of top-tier law firms on the buy side, the sell side, and both sides. The sample has 71,129 observations with acquired ownership information.

Country	N	% Top-tier law firm	% Top-tier buy-side law firm	% Top-tier sell-side law firm
Australia	82	0.366	0.329	0.073
Belgium	297	0.027	0.024	0.003
Brazil	55	0.145	0.145	0.073
Canada	205	0.078	0.044	0.063
China	2,711	0.014	0.013	0.008
Denmark	24	0.000	0.000	0.000
Finland	273	0.051	0.051	0.015
France	3,330	0.117	0.085	0.071
Germany	1,172	0.135	0.122	0.046
India	824	0.100	0.089	0.038
Ireland	72	0.014	0.000	0.014
Israel	838	0.073	0.045	0.049
Italy	19	0.053	0.053	0.053
Mexico	6	0.167	0.167	0.167
Netherlands	44	0.023	0.000	0.023
Poland	5	0.400	0.200	0.400
Singapore	13	0.077	0.077	0.000
Spain	697	0.159	0.072	0.131
Sweden	72	0.097	0.028	0.097
Switzerland	263	0.110	0.049	0.072
United Kingdom	10,477	0.098	0.073	0.055
United States	49,650	0.485	0.330	0.429
Total	71,129	0.367	0.251	0.315

Table IA3: Top law firms and investment size

This table presents the results of the linear regressions of deal size on the appearance of top law firms. *Log(Deal Size)* is the natural logarithm of investment amount. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Log(Deal Size)*			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.738**			
	(0.000)			
Top-tier buy-side law firm		0.779**		0.589**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.615**	0.316**
			(0.000)	(0.000)
Observations	70,466	70,466	70,466	70,466
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.432	0.428	0.417	0.433

Table IA4: Top law firms and VC quality

This table presents the results of the regressions of alternative VC quality proxies on the appearance of top law firms on both sides of a transaction. *Log(Successful Exits)* is the mean of the natural logarithm of the number of past successful exits through IPO and M&A by VCs in a deal. *VC Reputation* is the mean of VC reputation across all VC investors in a VC deal. For each VC, VC reputation is estimated as the ratio of a VC investor's aggregate IPO proceeds to the cumulative IPO proceeds of all VC investors (Nahata, 2008). *VC Investment Experience* is the average of the natural logarithm of the number of past investments made by VCs in a deal. *Log(AUM)* is the mean of natural logarithm of the total assets under management across all VCs in a deal. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Log(Successful Exits)*	*VC Reputation*	*VC Investment Experience*	*Log(AUM)*
	(1)	(2)	(3)	(4)
Top-tier buy-side law firm	0.004***	0.002***	0.345***	0.006***
	(0.000)	(0.000)	(0.000)	(0.000)
Top-tier sell-side law firm	0.003***	0.001***	0.251***	0.003***
	(0.000)	(0.000)	(0.001)	(0.000)
Observations	55,957	55,957	55,957	41,335
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.137	0.129	0.081	0.142

Table IA5: Signalling and legal environments

This table presents the results for the linear regressions of the number of new investors in the next financing round on the appearance of top law firms on the sell side, the legal environment characteristics for the location of the transaction, and their interaction terms. *New investors* is the natural logarithm of the number of new investors in the next financing round *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *Court structure* is defined by the World Bank's court structure and proceedings index, which ranges from -1 to 5, reflecting how sophisticated and streamlined the court structure is. *Rule of law* is defined by the Worldwide Governance Indicators' rule of law index. *Judicial quality* is a dummy variable equal to one if the quality of judicial processes index is greater than its median, and zero otherwise. *Dispute resolution* is a dummy variable equal to one if the alternative dispute resolution index is greater than its median, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*New investors*			
	(1)	(2)	(3)	(4)
Top-tier sell-side law firm	0.018	0.316**	0.158**	0.163**
	(0.869)	(0.000)	(0.000)	(0.000)
Top-tier sell-side law firm × *Court structure*	0.026			
	(0.328)			
Court structure	0.061			
	(0.151)			
Top-tier sell-side law firm × *Rule of law*		-0.116**		
		(0.003)		
Rule of law		0.079		
		(0.464)		
Top-tier sell-side law firm × *Judicial quality*			-0.041	
			(0.105)	
Judicial quality			0.076***	
			(0.000)	
Top-tier sell-side law firm × *Dispute resolution*				-0.048
				(0.074)
Dispute resolution				0.037
				(0.115)
Observations	28,891	58,690	59,952	59,952
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.103	0.093	0.092	0.092

Table IA6: Top law firms and the likelihood of deal incompletion

This table presents the results for the linear regressions of the deal status on the appearance of top law firms. *Deal incompletion* is a dummy variable equal to one if the VC investment transaction is incomplete, and zero otherwise. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. The sample has 181,944 observations of deals with and without information of acquired ownership. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Deal incompletion*			
	(1)	(2)	(3)	(4)
Top-tier buy-side law firm		-0.009**	-0.011**	
		(0.002)	(0.002)	
Top-tier sell-side law firm		-0.003**		-0.008**
		(0.001)		(0.002)
Top-tier law firm	-0.010**			
	(0.002)			
Observations	181,944	181,944	181,944	181,944
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.014	0.014	0.014	0.013

Table IA7: Alternative measures of top law firms

This table presents the results of the linear regressions of the stake acquired on the appearance of top law firms defined by alternative thresholds. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top 1 law firm* is a dummy variable taking the value of one if the law firm has the highest ratio between the total value of transactions a law firm participated in and the overall value of all VC deals in the last five years. *Top 5% (15%, 20%) law firm* is defined as a dummy variable which equals one if the deal is serviced by at least one top 5 (15, 20) percentile law firm, either on buy-side or sell-side, and zero otherwise. *Top-tier law firm (reputation) is* a dummy variable equal to one if one of the law firms on the buy-side or the sell-side appears in the top 10th percentile of annual rankings based on the number of successful deals advised by all law firms. Successful are deals that exit successfully from IPOs or M&As. *Top-tier law firm (experience) is* a dummy variable equal to one if one of the law firms on the buy-side or the sell-side appears in the top 10th percentile of annual rankings based on the number of deals advised by all law firms. *Top-tier buy-side (sell-side) law firm (value)* is defined as the average of the natural logarithm of the total value of VC transactions a law firm on the buy side (sell side) participated in over the last five years. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Percentage acquired*							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top 1 law firm	0.021**							
	(0.000)							
Top 5% law firm		0.021**						
		(0.000)						
Top 15% law firm			0.025**					
			(0.000)					
Top 20% law firm				0.026**				
				(0.000)				
Top-tier law firm (reputation)					0.016**			
					(0.000)			
Top-tier law firm (experience)						0.024**		
						(0.000)		
Top-tier buy-side law firm (value)							0.002**	
							(0.000)	
Top-tier sell-side law firm (value)								0.002**
								(0.000)
Observations	71,129	71,129	71,129	71,129	71,129	71,129	71,129	71,129
Round FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.133	0.137	0.138	0.139	0.135	0.138	0.140	0.140

Table IA8. Non-syndicated VC investments: Controlling for VC fixed effects

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 14,886 observations of non-syndicated VC investments. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *Log(AUM)* is the natural logarithm of the lead VC's asset under management. *Log(VC age)* is the natural logarithm of one plus the VC's age which is the gap between the current year and the VC's founding year. *VC reputation* is the ratio between the VC's aggregate IPO proceeds and the cumulative IPO proceeds by all VCs. *p*-values are in parentheses. Standard errors are clustered at the year level from columns (1) to (4) and at the year and VC investor levels from columns (5) to (8). ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Top-tier law firm	0.008*				0.008*			
	(0.022)				(0.031)			
Top-tier buy-side law firm		0.010*		0.010*		0.010*		0.010*
		(0.013)		(0.085)		(0.016)		(0.089)
Top-tier sell-side law firm			0.005	-0.000			0.005	-0.000
			(0.129)	(0.987)			(0.159)	(0.987)
Log(AUM)	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
	(0.122)	(0.112)	(0.112)	(0.115)	(0.231)	(0.222)	(0.217)	(0.224)
Log(VC age)	0.004**	0.004**	0.004**	0.004**	0.004**	0.004**	0.004**	0.004**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.004)	(0.004)	(0.004)	(0.001)
VC reputation	0.911**	0.936**	0.946**	0.936**	0.911**	0.936**	0.946**	0.936**
	(0.001)	(0.000)	(0.001)	(0.001)	(0.007)	(0.005)	(0.006)	(0.007)
Observations	14,886	14,886	14,886	14,886	14,886	14,886	14,886	14,886
Round FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
VC Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.134	0.134	0.134	0.134	0.134	0.134	0.134	0.134

Table IA9: Propensity scores matching, entropy balancing and inverse probability weighting

This table presents the results of the linear regressions of the ownership on the appearance of top law firms using a new sample created by propensity scores matching. The table also provides regression adjustments using entropy balancing and inverse probability weighting. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	Propensity Score Matching	*Entropy Balancing*	*Inverse Probability Weighting*
	(1)	(2)	(3)
Top-tier law firm	0.036**	0.021**	0.022**
	(0.000)	(0.000)	(0.000)
Observations	8,161	70,107	70,107
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.108	0.143	0.079

Table IA10: Heckman two-step regressions

Panel A. Top-tier industry legal advice buy/sell side dummies as instruments

This table presents the estimation results of Heckman (1979) two-step procedure. The purpose is to address selection concerns associated with top legal advisor appointments. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy-side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if one of the law firms on the sell-side appears in the top 10th percentile of annual rankings. *Top 10 industry legal advice buy-side* is a dummy variable indicating top 10 industries using legal services provided by top-tier buy-side law firms. *Top 10 industry legal advice sell-side* is a dummy variable indicating top 10 industries using legal services provided by top-tier sell-side law firms. *Inverse Mills ratio* is generated from the first-step estimation. The standard errors are robust to heteroskedasticity. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Prob(Top-tier buy-side law firm)	*Percentage acquired*	*Prob(Top-tier sell-side law firm)*	*Percentage acquired*
	(1)	*(2)*	*(3)*	*(4)*
Top-tier buy-side law firm		0.026**		
		(0.000)		
Top-tier sell-side law firm				0.015**
				(0.000)
Top 10 industry legal advice buy-side	0.130**			
	(0.000)			
Top 10 industry legal advice sell-side			0.081**	
			(0.000)	
Inverse Mills ratio		-0.059**		-0.049**
		(0.000)		(0.000)
Observations	70,88	70,988	70,088	70,988
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Pseudo/Adjusted R-squared	0.207	0.109	0.170	0.106

Panel B. Judge ideology as an instrument

This table presents the estimation results of Heckman (1979) two-step procedure to address selection concerns associated with top legal advisor appointments. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Liberal Court,* a measure of judge ideology in a circuit, is calculated as the probability that Democratic presidents' judicial appointees dominate a panel of three judges randomly selected from the circuit. The standard errors are robust to heteroskedasticity. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Prob(Top-tier law firm)	*Percentage acquired*
	(1)	(2)
Liberal Court	0.841**	
	(0.001)	
Top-tier law firm		0.024**
		(0.000)
Inverse Mills ratio		-0.030
		(0.056)
Observations	49,620	49,620
Round FE	Yes	Yes
Year FE	Yes	Yes
Country FE	Yes	Yes
Deal type FE	Yes	Yes
Industry FE	Yes	Yes
Circuit FE	Yes	Yes
Pseudo/Adjusted R-squared	0.099	0.149

Table IA11: Start-up hubs

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. *Percentage acquired* is the percentage of stake acquired in the round of financing, using the subsample of deals in US start-up hubs (e.g., g., Silicon Valley, Boston, and New York). *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy-side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier law firm	0.027**		
	(0.000)		
Top-tier buy-side law firm		0.031**	
		(0.000)	
Top-tier sell-side law firm			0.020**
			(0.000)
Observations	17,344	17,344	17,344
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.112	0.112	0.108

Table IA12: Quality gap

This table presents linear regressions of the percentage of the stake acquired on the appearance of top law firms, the cross-country heterogeneity in the quality gap between top and bottom law firms, and their interaction terms. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm is* a dummy variable equal to one if one of the law firms on the sell side appears in the top 10th percentile of annual rankings. *Quality gap* is the average quality gap in the last 5 years in which the quality gap is the difference in the exit ratio of deals advised by top and non-top law firms in a given country. *p*-values are reported in parentheses. Standard errors are clustered at the level of year. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier law firm	0.015**		
	(0.000)		
Top-tier law firm × *Quality gap*	0.160**		
	(0.000)		
Top-tier buy-side law firm		0.013*	
		(0.046)	
Top-tier buy-side law firm × *Quality gap*		0.197**	
		(0.006)	
Top-tier sell-side law firm			0.013**
			(0.000)
Top-tier sell-side law firm × *Quality gap*			0.063*
			(0.022)
Quality gap	0.051	0.054	0.049
	(0.126)	(0.075)	(0.146)
Observations	68,641	68,641	68,641
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.136	0.136	0.133

Table IA13: Region analysis

Panel A: Non-US sample

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 21,479 financing rounds to non-US companies. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm is* a dummy variable equal to one if one of the law firms on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.050**			
	(0.000)			
Top-tier buy-side law firm		0.056**		0.051**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.038**	0.014*
			(0.000)	(0.021)
Observations	21,479	21,479	21,479	21,479
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.131	0.131	0.124	0.131

Panel B: US sample

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 49,650 financing rounds to US companies. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy-side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.022**			
	(0.000)			
Top-tier buy-side law firm		0.024**		0.021**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.016**	0.005
			(0.000)	(0.095)
Observations	49,650	49,650	49,650	49,650
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.146	0.145	0.143	0.146

Panel C: European sample

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 16,745 financing rounds to European companies. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier buy-side law firm is* a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual ranking*s. Top-tier sell-side law firm* is a dummy variable equal to one if one of the law firms on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.053**			
	(0.000)			
Top-tier buy-side law firm		0.060**		0.054**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.040**	0.015*
			(0.000)	(0.025)
Observations	16,745	16,745	16,745	16,745
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.066	0.065	0.058	0.066

Panel D: Asian sample

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 3,548 financing rounds to Asian companies. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual league table rankings. *Top-tier sell-side law firm is* a dummy variable equal to one if law firm on the sell-side appears in the top 10th percentile of annual league table rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.028			
	(0.097)			
To-tier buy-side law firm		0.028		0.019
		(0.075)		(0.176)
Top-tier sell-side law firm			0.039*	0.026
			(0.023)	(0.055)
Observations	3,548	3,548	3,548	3,548
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.091	0.092	0.092	0.092

Table IA14: Asian and developing countries

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction terms between the involvement of top law firms and deal locations (e.g., Asian and developing countries). *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Asian (Developing)* is a dummy variable equal to one if the transaction is from an Asian (developing) country. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired	
	(1)	(2)
Top-tier law firm	0.026**	0.026**
	(0.000)	(0.000)
Top-tier law firm × *Asia*	0.041**	
	(0.004)	
Asia	-0.086**	
	(0.000)	
To-tier law firm × *Developing*		0.047**
		(0.001)
Developing		-0.087**
		(0.000)
Observations	71,129	71,129
Round FE	Yes	Yes
Year FE	Yes	Yes
Deal type FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R-squared	0.131	0.132

Table IA15: Top law firms and institutional characteristics

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction terms between the involvement of top law firms and each of institutional characteristics (e.g., economic policy uncertainty, democracy, and investment freedom). *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *EPU* is Baker et al. (2016)'s economic policy uncertainty. *Democracy* is defined by the Polity V Project (2018)'s democracy index. *Investment freedom* captures the level of constraints on the flow of investment capital. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier law firm	0.003	0.042*	-0.010
	(0.337)	(0.000)	(0.351)
Top-tier law firm × EPU	0.013**		
	(0.009)		
EPU	-0.000**		
	(0.003)		
Top-tier law firm × Democracy		-0.002*	
		(0.030)	
Democracy		-0.003	
		(0.217)	
To-tier law firm × Investment freedom			0.049*
			(0.024)
Investment Freedom			0.121
			(0.253)
Observations	69,423	71,129	71,129
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.139	0.138	0.140

Table IA16: Presence of top-tier law firms on both sides

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction between the involvement of top-tier law firms on both sides of a deal. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell-side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired
Top-tier sell-side law firm	0.013**
	(0.000)
Top-tier buy-side law firm	0.044**
	(0.000)
Top-tier sell-side law firm × *Top-tier buy-side law firm*	-0.031**
	(0.000)
Observations	71,129
Round FE	Yes
Year FE	Yes
Country FE	Yes
Deal type FE	Yes
Industry FE	Yes
Adjusted R-squared	0.140

Table IA17: Top-tier general advisors and auditors

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction terms between top-tier law firms and each of top-tier general advisors and top-tier audit firm. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Top-tier general advisor* is a dummy variable equal to one if the deal is serviced by at least one top-tier general advisor, either on the buy-side or the sell-side, and zero otherwise. *Top-tier auditor* is a dummy variable equal to one if the deal is serviced by at least one top-tier (Big 4) auditor, either on the buy-side or the sell-side, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired	
	(1)	(2)
Top-tier law firm	0.025**	0.024**
	(0.000)	(0.000)
Top-tier law firm × *Top-tier general advisor*	-0.040**	
	(0.000)	
Top-tier general advisor	0.051**	
	(0.000)	
Top-tier law firm × *Top-tier auditor*		-0.025
		(0.729)
Top-tier auditor		0.107
		(0.067)
Observations	71,129	71,129
Round FE	Yes	Yes
Year FE	Yes	Yes
Country FE	Yes	Yes
Deal type FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R-squared	0.139	0.138

Table IA18: Top law firms and financing stages

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction terms between top-tier law firms and seed/later stage indicators. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Seed stage* is a dummy variable equal to one if the financing round is in a seed stage, and zero otherwise. *Later stage* is a dummy variable equal to one if the financing round is in a later stage, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired	
	(1)	(2)
Top-tier law firm	0.024**	0.031**
	(0.000)	(0.000)
Top-tier law firm × *Seed stage*	0.000	
	(0.948)	
Top-tier law firm × *Later stage*		-0.020**
		(0.000)
Observations	71,129	71,129
Round FE	Yes	Yes
Year FE	Yes	Yes
Country FE	Yes	Yes
Deal type FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R-squared	0.138	0.139

Table IA19: Controlling for macro-environment factors

This table presents the results of linear regressions of the stake acquired on the appearance of top law firms while controlling for macro-environment factors. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *GDP growth* is the country's gross domestic product growth rate. *Trade as % of GDP* is the sum of exports and imports of goods and services scaled by the GPD. *Market return* is the growth rate of annual average stock market index. *GDP Growth* is the country's annual gross domestic product growth rate. *Market cap as % of GDP* is market capitalization of listed domestic companies as percentage of GDP. *EPU* is country's average monthly economic policy uncertainty index in a given year. *Democracy* is the Polity V Project (2018)'s democracy index. *Investment freedom* is the investment freedom index. *p*-values are in parentheses. *Rule of law* is defined by the Worldwide Governance Indicators' rule of law index. *Political stability* is the political stability index. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier law firm	0.021**	0.022**	0.028**
	(0.000)	(0.000)	(0.000)
GDP growth (×10²)	-0.0055		
	(0.55072)		
Trade as % of GDP	0.007*		
	(0.046)		
Market return	-0.023		
	(0.597)		
Market cap as % of GDP	0.007		
	(0.660)		
EPU		-0.00005*	
		(0.04586)	
Democracy		-0.001	
		(0.657)	
Political stability		-0.012	
		(0.333)	
Investment freedom		0.001**	
		(0.007)	
Rule of law			-0.013**
			(0.004)
Government integrity			0.00004
			(0.91533)
Observations	55,463	58,527	53,758
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.150	0.133	0.139

Table IA20: Controlling for VC investor/investee characteristics

This table presents the results of linear regressions of the stake acquired on the appearance of top law firms while controlling VC investor/investee characteristics. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy side or the sell side, and zero otherwise. *Log(Lead VC age)* is the natural logarithm of one plus the lead VC's age which is the difference between the transaction year and the lead VC's founding year. *Log(Company age)* is the natural logarithm of one plus the difference between the transaction year and the company's founding year. *Log(Lead VC AUM)* is the natural logarithm of the lead VC's asset undermanagement. *Log(IPOs)* is the mean of the natural logarithm of the number of past IPO exits by VCs in a VC deal. *Log(Successful Exits)* is the mean of the natural logarithm of the number of past exits through IPO and M&A by all VCs in a VC deal. *Average VC reputation* is the average VC reputation of VCs in a VC deal. VC reputation is the ratio between the VC's aggregate IPO proceeds and the cumulative IPO proceeds by all VCs in a VC deal. *VC investment experience* is the average of the natural logarithm of the number of past investments made by all VCs that participate in a deal. *VC industry investment experience* is the average of the natural logarithm of the number of past investments in the same industry made by VCs that participate in a deal. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

Dependent variable	*Percentage acquired*					
	(1)	(2)	(3)	(4)	(5)	(6)
Top-tier law firm	0.014**	0.016**	0.015**	0.018**	0.016**	0.016**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Log(Lead VC age)	0.569**					
	(0.003)					
Log(Company age)	0.099					
	(0.569)					
Log(Lead VC AUM)	0.064					
	(0.151)					
Log(IPOs)		0.811**				
		(0.000)				
Log(Successful Exits)			0.694**			
			(0.000)			
Average VC reputation				0.527**		
				(0.010)		
VC investment experience					0.005**	
					(0.000)	
VC industry investment experience						0.007**
						(0.000)
Observations	40,198	55,957	55,957	55,957	55,957	55,957
Round FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.185	0.166	0.167	0.162	0.165	0.166

Table IA21: Controlling for top-tier auditors and general advisors

This table presents the results of the linear regressions of the percentage of stake acquired on the involvement of top law firms, auditors and general advisors. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier buy-side law firm* is a dummy variable equal to one if the portfolio company's law firm appears in the top-tier annual league table rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the portfolio company's law firm appears in the top-tier annual league table rankings. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side auditor* is a dummy variable equal to one if the deal is serviced by a top-tier (Big 4) auditor on the buy-side, and zero otherwise. *Top-tier sell-side auditor* is a dummy variable equal to one if the deal is serviced by a top-tier (Big 4) auditor on the sell-side, and zero otherwise. *Top-tier auditor* is a dummy variable equal to one if the deal is serviced by at least one top-tier (Big 4) auditor, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side general advisor* is a dummy variable equal to one if the deal is serviced by at a top-tier general advisor on the buy side, and zero otherwise. *Top-tier sell-side general advisor* is a dummy variable equal to one if the deal is serviced by at a top-tier general advisor on the sell side, and zero otherwise. *Top-tier general advisor* is a dummy variable equal to one if the deal is serviced by at least one top-tier general advisor, either on the buy-side or the sell-side, and zero otherwise. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier buy-side law firm	0.027**		
	(0.000)		
Top-tier buy-side auditor	-0.002		
	(0.790)		
Top-tier buy-side general advisor	0.051**		
	(0.000)		
Top-tier sell-side law firm		0.016**	
		(0.000)	
Top-tier sell-side auditor		0.032	
		(0.081)	
Top-tier sell-side general advisor		0.040**	
		(0.000)	
Top-tier law firm			0.024**
			(0.000)
Top-tier auditor			0.026
			(0.112)
Top-tier general advisor			0.041**
			(0.000)
Observations	71,129	71,129	71,129
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.139	0.138	0.142

Table IA22: Correlation among institutional characteristics and orthogonalization

Panel A: Correlation matrix

This table shows the correlation coefficients of main institutional characteristics.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Civil justice (1)	1.000							
Court structure (2)	-0.559	1.000						
Rule of law (3)	0.235	-0.104	1.000					
Property rights (4)	0.234	-0.184	0.979	1.000				
Democracy (5)	0.233	-0.356	0.897	0.948	1.000			
Judicial effectiveness (6)	0.187	-0.086	0.390	0.403	0.333	1.000		
Judicial quality (7)	0.828	-0.465	0.036	0.063	0.079	0.116	1.000	
Dispute resolution (8)	0.042	-0.014	-0.849	-0.884	-0.828	-0.327	0.135	1.000

Panel B: Orthogonalized legal environment variables

This table presents the results for the linear regressions of the percentage of the stake acquired on the interaction terms between top-tier law firms and orthogonalized variables for rule of law and dispute resolution. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Rule of law (Orth)* is the value of *Rule of law* orthogonalized based on property rights, democracy and dispute resolution. *Dispute resolution (Orth)* is the value of *Dispute resolution* orthogonalized based on rule of law, property rights, and democracy. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired	
	(1)	(2)
Top-tier law firm	0.024**	0.024**
	(0.000)	(0.000)
Top-tier law firm × *Rule of law(Orth)*	0.048	
	(0.110)	
Rule of law (Orth)	-0.015	
	(0.681)	
Top-tier law firm × *Dispute resolution (Orth)*		-0.021**
		(0.000)
Dispute resolution (Orth)		-0.002
		(0.885)
Observations	41,616	41,616
Round FE	Yes	Yes
Year FE	Yes	Yes
Country FE	Yes	Yes
Deal type FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R-squared	0.131	0.132

Table IA23: Top law firms and time to exit (proportional hazard model)

This table presents the results of Cox's proportional hazard model. The dependent variable is the hazard rate of exit. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firms on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. The standard errors are robust to heteroskedasticity. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Hazard rate of exit			
	(1)	(2)	(3)	(4)
Top-tier law firm	1.408**			
	(0.000)			
Top-tier buy-side law firm		1.604**		1.394*
		(0.000)		(0.000)
Top-tier sell-side law firm			1.382*	1.249**
			(0.000)	(0.000)
Observations	34,577	34,577	34,577	34,577
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal Type FE	Yes	Yes	Yes	Yes
Prob > χ^2	0.000	0.000	0.000	0.000

Table IA24: Additional propensity scores matching

This table presents the results of the linear regressions using a new sample created by propensity scores matching. *Transaction valuation* is the natural logarithm of the current financing round's pre-money valuation. *Annualized return* is defined as the annualized return from the current round to the next round. *Success* is a dummy variable equal to one if a portfolio company exits through an IPO or a merger and acquisition, and zero otherwise. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Transaction valuation	*Annualized return*	*Success*
	(1)	(2)	(3)
Top-tier law firm	0.810***	0.101**	0.046**
	(0.000)	(0.027)	(0.031)
Observations	8,961	4,507	4,376
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.495	0.089	0.118

Table IA25: Additional Heckman two-step regressions

This table presents the second-stage estimation results of Heckman (1979) two-step procedure to address selection concerns associated with top legal advisor appointments. *Transaction valuation* is the natural logarithm of the current financing round's pre-money valuation. *Annualized return* is defined as the annualized return from the current round to the next round. *Success* is a dummy variable equal to one if a portfolio company exits through an IPO or a merger and acquisition, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if the VC's law firm appears in the top-tier annual league table rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the portfolio company's law firm appears in the top-tier annual league table rankings. The instruments are *Top 10 industry legal advice buy-side* and *Top 10 industry legal advice sell-side*. *Top 10 industry legal advice buy-side* is a dummy variable indicating top 10 industries using legal services provided by top-tier buy-side law firms. *Top 10 industry legal advice sell-side* is a dummy variable indicating top 10 industries using legal services provided by top-tier sell-side law firms. *Inverse Mills ratio* is generated from the first-step estimation. The standard errors are robust to heteroskedasticity. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Transaction valuation		*Annualized return*		*Success*	
	(1)	(2)	(3)	(4)	(5)	(6)
Top-tier buy-side law firm	0.622**		0.155**		0.070**	
	(0.000)		(0.000)		(0.000)	
Top-tier sell-side law firm		0.516**		0.158**		0.086**
		(0.000)		(0.000)		(0.000)
Inverse Mills ratio	0.134	0.994**	0.415**	0.894**	-0.298**	-0.223**
	(0.098)	(0.000)	(0.007)	(0.000)	(0.000)	(0.000)
Observations	74,761	74,878	34,250	34,259	79,131	78,891
Round FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.506	0.503	0.082	0.083	0.135	0.136

Table IA26: Transactions with legal advisors

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms. The sample includes 32,337 financing rounds which have the involvement of a law firm either on the buy side or the sell side. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.012**			
	(0.000)			
Top-tier buy-side law firm		0.016**		0.018**
		(0.000)		(0.000)
Top-tier sell-side law firm			-0.001	-0.005
			(0.742)	(0.091)
Observations	32,337	32,337	32,337	32,337
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.170	0.172	0.169	0.172

Table IA27: Excluding transactions involving US-based law firms outside the U.S.

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms using the sample excluding transactions involving US-based law firms outside the U.S. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy-side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired			
	(1)	(2)	(3)	(4)
Top-tier law firm	0.022**			
	(0.000)			
Top-tier buy-side law firm		0.025**		0.023**
		(0.000)		(0.000)
Top-tier sell-side law firm			0.015**	0.003
			(0.000)	(0.282)
Observations	69,545	69,545	69,545	69,545
Round FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.139	0.140	0.137	0.140

Table IA28: Excluding countries having less than 10 VC deals in the main sample

This table presents the results of the linear regressions of the percentage of stake acquired on the appearance of top law firms using the sample excluding countries that has less than 10 VC deals. *Percentage acquired* is the percentage of stake acquired in the round of financing. *Top-tier law firm* is a dummy variable equal to one if the deal is serviced by at least one top-tier law firm, either on the buy-side or the sell-side, and zero otherwise. *Top-tier buy-side law firm* is a dummy variable equal to one if one of the law firms on the buy side appears in the top 10th percentile of annual rankings. *Top-tier sell-side law firm* is a dummy variable equal to one if the law firm on the sell side appears in the top 10th percentile of annual rankings. *p*-values are in parentheses. Standard errors are clustered at the year level. ** and * represent statistical significance at the 1% and 5% levels, respectively.

	Percentage acquired		
	(1)	(2)	(3)
Top-tier law firm	0.024***		
	(0.000)		
Top-tier buy-side law firm		0.028***	
		(0.000)	
Top-tier sell-side law firm			0.016***
			(0.000)
Observations	71,062	71,062	71,062
Round FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Deal type FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R-squared	0.138	0.139	0.135

Appendix A2: Law firms' functions in VC transactions and institutional contingency

Law firms in venture capital transactions perform a spectrum of activities that can be broadly categorized into procedural (or transactional) tasks and strategic advisory functions. In particular, procedural tasks include drafting and reviewing investment agreements, conducting legal due diligence on corporate structure, intellectual property portfolios, material contracts, and regulatory compliance, and managing the closing process, including coordinating signatures and fund transfers. Strategic advisory functions extend beyond procedural execution to encompass negotiating deal terms on behalf of clients, including valuation, liquidation preferences, anti-dilution provisions, board composition, and protective covenants; advising on deal structure and security design to optimize risk allocation between entrepreneurs and investors; identifying and mitigating legal risks that could affect investment outcomes; providing ongoing governance advice as portfolio companies mature; and facilitating communication and trust-building between parties with potentially divergent interests (Gilson, 1984; Kaplan and Strömberg, 2003).

The scope for law firm value creation is not uniform across deal types. In seed and early-stage financings, significant uncertainty surrounds venture quality, founder capabilities, and market potential. Contractual provisions governing cash flow rights, control rights, and founder vesting schedules are subject to intensive negotiation, and the expertise of legal counsel in structuring these provisions can materially affect deal outcomes (Kaplan and Strömberg, 2003). At these stages, the advisory function of law firms (advising on term sheet negotiations, identifying protective provisions, and structuring contingent arrangements) is particularly salient. By contrast, in later-stage financings and follow-on rounds, many contractual terms are inherited from prior rounds, and the scope for renegotiation is correspondingly limited. Legal work at these stages may be more procedural, focusing on due diligence updates, compliance verification, and documentation. The marginal contribution of law firm quality may thus be smaller in later-stage deals, a pattern that would be consistent with diminishing returns to legal expertise as deals become more standardized.

In addition, the importance of functions performed by law firms in VC deals may vary across different jurisdictions. For example. the US venture capital market, particularly in Silicon Valley,

has developed highly standardized contractual practices. Model documents promulgated by the National Venture Capital Association (NVCA) provide templates for preferred stock financings, and experienced law firms are deeply familiar with these templates and the range of acceptable modifications. In this mature market, law firms perform both procedural and advisory functions, but the high degree of standardization may limit the scope for differentiation based on procedural execution alone. The advisory function, particularly the ability to negotiate favorable terms within the established framework, remains important.

With respect to European venture capital markets, recent research by Enriques, Nigro, and Troger (2025) demonstrates that the rigidity of corporate law in jurisdictions such as Germany and Italy forces parties to adopt contractual structures that are less effective than those commonly used in the United States. Mandatory corporate law provisions in these jurisdictions limit the scope for private ordering, meaning that law firms must navigate around legal constraints rather than simply implementing US-style templates. In such contexts, legal expertise in adapting contractual structures to local legal requirements becomes particularly valuable. Law firms with experience operating across European jurisdictions can help parties identify which US-style provisions are enforceable locally and craft alternative arrangements where they are not.

Asian venture capital markets present additional variation. In China, for example, certain provisions common in US practice (e.g., company-borne redemption rights) are not legally enforceable, requiring parties to allocate these obligations to founders instead (Zhou, 2023). The legal infrastructure supporting venture capital in China has evolved rapidly but differs materially from the US model. Cultural factors, including the importance of relational networks and personality compatibility, may also affect how legal advisors operate in the region (Wright et al., 2005). In other Asian markets, such as Singapore and Hong Kong, legal systems more closely resemble common law traditions, and venture capital practices are correspondingly more similar to those in the United States and United Kingdom.

To summarize, law firms in venture capital transactions perform both procedural tasks (e.g., document drafting, due diligence, closing coordination) and strategic advisory functions (e.g., term

negotiation, deal structuring, governance counsel), with the scope for value creation varying systematically across deal characteristics and institutional contexts.

Appendix A3: Anecdotal evidence

We conducted semi-structured interviews with three entrepreneurs and representatives from two venture capital firms involved in large VC transactions (valuation ranging from approximately USD 30 million to USD 1.2 billion). Across interviews, respondents consistently emphasized the signalling value of engaging brand-name or marquee legal counsel, particularly in settings characterized by high information asymmetry, cross-border transactions, and investor unfamiliarity with the venture's home market.

Entrepreneurs described elite legal advisors as functioning as a visible credibility marker that materially shaped how investors perceived deal quality. One founder explained:
"*Once a well-known firm came in as our counsel, the conversation changed. Investors stopped questioning whether we were 'real' and started asking about growth and structure instead*."
Another noted that engaging a top-tier advisor served as a reputational shortcut for outsiders:
"*You can say you're a high-quality company, but when a recognised firm is on your documents, it does the talking for you*."

This signalling role became particularly salient in the context of international scaling and exit preparation. One interviewee described a unicorn headquartered outside the United States that was targeting a NASDAQ IPO. According to the founder, securing globally recognised legal counsel was viewed as essential for the IPO roadshow:
"*For U.S. investors, the brand of advisors mattered. Having a globally recognised firm on board signalled that we were operating at international standards and could navigate U.S. regulatory expectations. It made the roadshow conversations smoother because credibility was already assumed*."

A similar signalling logic emerged in a traditional, asset-heavy sector. One entrepreneur from an agricultural firm explained that engaging a highly reputable legal advisor helped signal compliance

with stringent local agricultural and environmental standards, which were otherwise difficult for external investors to verify:

"*Agriculture is messy for outsiders. When a recognised firm was advising us, investors felt more comfortable that we were operating to proper local standards. It meant that compliance risks were being taken seriously*."

VC interviewees echoed this signalling interpretation, noting that brand-name legal advisors convey information about the seriousness, preparedness, and governance quality of both the entrepreneur and the transaction. As one VC partner stated:

"*When we see a respected firm involved, it tells us the founders are serious and that the deal has been professionally structured. It lowers our initial screening costs*."

While interviewees also acknowledged that experienced legal advisors contributed through superior contract design and due diligence, these contributions were often framed as secondary to the reputational and signalling function, particularly at early screening and capital allocation stages. Overall, the interviews suggest that the primary value of elite legal affiliations lies in their ability to signal venture quality, reduce investor scepticism, and facilitate trust formation.

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