

The Performance Puzzle in Venture Capital and Private Equity Style Drifts

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Abstract

Prior research shows directly conflicting evidence on the performance implications of style drift in venture capital and private equity, which represents an unresolved puzzle. In this paper, we identify one compelling source for this conflicting evidence. We differentiate between initial style drift, occurring when a venture capital (VC) fund invests in a company for the first time, and follow-on style drift, which occurs when a VC makes subsequent investments in the same company. We hypothesize that follow-on style drift investments involve an exacerbated escalation of commitment, leading to a negative impact on performance. Consistent with this hypothesis, we provide large sample evidence that initial style drift investments have superior, positive exit performance, while follow-on style drift investments have substantially worse exit performance. We discuss implications and future research suggestions.

Keywords: Private Equity, Venture Capital, Style Drift, IPO

JEL Classifications: G24, G28, G31, G32, G35

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The Performance Puzzle in Venture Capital and Private Equity Style Drifts

Abstract

Prior research shows directly conflicting evidence on the performance implications of style drift in venture capital and private equity, which represents an unresolved puzzle. In this paper, we identify one compelling source for this conflicting evidence. We differentiate between initial style drift, occurring when a venture capital (VC) fund invests in a company for the first time, and follow-on style drift, which occurs when a VC makes subsequent investments in the same company. We hypothesize that follow-on style drift investments involve an exacerbated escalation of commitment, leading to a negative impact on performance. Consistent with this hypothesis, we provide large sample evidence that initial style drift investments have superior, positive exit performance, while follow-on style drift investments have substantially worse exit performance. We discuss implications and future research suggestions.

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1. Introduction

It is widely reported in practice that venture capital investment decisions can be subjected to the sunk cost fallacy, which gives rise to escalation of commitment (EOC) problems. For example, in July 2023, it was reported that governance problems were ignored by Prosus made decisions to continue investment in Byju.¹ Escalation of commitment is sufficiently common that numerous practitioner sources offer advice on how to avoid escalation of commitment.² While EOC can lead to reduced performance due to inefficient investment decisions, it may be particularly severe when involving a style drift.

A “style drift” refers to deviations from a fund’s originally stated mandate. It generally also indicates the VC fund managers’ expertise, with style drifts being outside this area. Venture capital and private equity funds are normally organized as 10-year limited partnerships with an option to continue for 1-3 years to enable the investments to be exited. The limited partnership contracts specify a fund mandate. For early-stage venture capital funds, style drift could involve investments in late-stage venture capital and private equity deals; for private equity funds, style drift could involve early state investment in venture capital deals. Style drifts could involve reputation costs, particularly if the investment turns out poorly such as involving an EOC, and it would be more difficult for the fund managers to raise another fund in the future. Style drifts could possibly involve legal costs in the event of poor performance if the deviation from the fund mandate in the limited partnership contract was sufficiently clear, depending on the language in

¹ “Venture capitalists find it tough to escape the sunk cost fallacy” <https://www.livemint.com/opinion/online-views/venture-capitalists-find-it-tough-to-escape-the-sunk-cost-fallacy-11690821927860.html>

² E.g., <https://ceoworld.biz/2023/08/25/avoid-escalating-your-commitment-to-an-endeavor-thats-falling-flat/>

the contract and changes in economic conditions that might give rise to legal issues of frustration of contract.

Causes of style drift in venture capital and private equity have been documented in prior work (Cumming, Fleming, & Schwienbacher, 2009; Lars & Trombley, 2020; Koenig & Burghof, 2022). Style drift tends to be more likely when economic conditions change from the time of setting up a fund to the time of investment. Also, first-time fund managers are less likely to style drift, and fund managers that have had better past performance are more likely to style drift, since the reputation costs of a poor exit outcome from a style drift investment would be more pronounced in the absence of a good track record. Evidence to date on topic is quite consistent across different studies.

The consequences of style drift in venture capital and private equity have also been studied in prior work. There are two conflicting tensions. On one hand, exit performance of style drift investments might be worse due to the lack of expertise in fund manager screening and value-added activities, consistent with the evidence in Lars & Trombley (2020); and Koenig & Burghof, (2022). On the other hand, performance may be better if fund managers are sufficiently risk averse to only style drift when they are quite certain about the quality of the investment, consistent with Cumming, Fleming, & Schwienbacher, (2003).

There are various possible reasons for the differences in conclusions across studies. For example, Lahr and Trombley (2020) argue that including recession periods in analysis and controlling for more variables in regressions explain the difference between their findings and those of Cumming et al. (2009). However, a crucial difference in the studies comes from the fact that Cumming et al. (2009) has only examined initial style drifts (i.e., the first time a fund invests in the company), while Lahr and Trombley (2020) included follow-on style drifts too (i.e., style

drifts when a fund that has already invested in the company before makes a style drift during his/her follow-on investments in that same company). We argue that the causes and thus the consequences of style drift between initial and follow-on style drifts are different.

In this paper, we reconcile prior evidence by examining style drifts for initial style drift³ versus follow-on style drift pursuant to staged financing. We use a large international sample of VC and private equity (PE) investments covering investee companies from 79 countries over the years 1980-2020. The data show a remarkably consistent pattern. Initial style drift is associated with a 2.2-2.4 percentage point higher likelihood of an IPO exit, representing a significant 17.98% to 19.68% increase compared to the average IPO exit probability. Follow-on style drift is associated with a 1.5-1.7 percentage point lower likelihood of an IPO exit, representing a significant 12.63% to 13.77% reduction compared to the average IPO exit probability. Both results are statistically significant at the 1% level, and the economic significance is greater when controlling for endogeneity of doing a style drift. We examined many different robustness checks, including alternative control variables, up- versus down-drifts, different subsets of the data by fund types, countries, and years.

We contribute to a growing body of literature on venture capital and private equity by examining three competing explanations for the results on style drifts. The first explanation is a behavioral explanation associated with escalation of commitment. Escalation of commitment in the context of venture capital means that investors make decisions that overly focus on the past, without strictly focusing on the expected net present value of future decisions. This explanation is

³ The term 'Initial style drift' denotes the occurrence of style drift when a venture capital (VC) firm invests in a company for the first time. It does not necessarily imply that the financing round for the invested company is the first round. In essence, even if a company has secured funding from other investors in previous rounds, if a particular VC enters the business for the first time, we categorize it as the initial investment for that specific VC.

directly supported by the empirical evidence: when an early-stage VC fund, with little experience coaching a later stage business, made a follow-on investment in a later stage company, the early-stage VC fund's style drift has a strong negative impact on the probability of investee company's IPO exit.

From an alternate standpoint, prior work has shown that escalation of commitment is more pronounced in venture capital when investors are engaged in international investments (Devigne, Manigart, & Wright, 2016). We conjecture that escalation of commitment will naturally be more pronounced for follow-on staged rounds than new rounds. Consistent with this view, we examine separate countries with different cultural attributes. Escalation of commitment is higher in high individualism countries, higher power distance, and higher masculinity countries (Geiger, Robertson, & Irwin, 1998; Salter & Sharpe, 2001; Greer & Stevens, 2001). The data indicate consistent evidence in respect of initial versus follow-on style drift investments and performance outcomes when we separate out these high- versus low-cultural scores.

The second possible explanation involves agency costs and information asymmetry. Follow-on investments in venture capital face pronounced problems whereby entrepreneurs inflate quality signals to secure the follow-on funding (Gompers, 1995). A style-drift investor will be less capable of proper due diligence in follow-on rounds than a non-style-drift investor due to the comparative dearth of experience and skills. These information problems will be more severe when the follow-on investor was not involved in the first stage round of the investment (Bergemann and Hege 1998). This explanation is not supported by empirical evidence as we show that initial style drift significantly increases, not decreases, the probability of investee companies' IPO exits.

The third explanation pertains to the risk-return tradeoff, a fundamental tenet in investment theory (Markowitz, 1952; Sharpe, 1964;). It is widely accepted that investors are generally risk averse, thus demand compensation when venturing into projects with inherent risks. In the context of venture capital, where initial style drifts often manifest as early-stage investments, it becomes apparent that these endeavors carry a higher risk compared to their later-stage counterparts (Sahlman, 1990; Gompers, 1995). Given the inherent riskiness of initial style drifts, one would expect investors to seek commensurate compensation, thus anticipating superior expected performance. This explanation implies a direct correlation between the stage of an investee company and the outcome of style drift: the earlier the drift occurs, the better the expected outcome. However, this reasoning is inconsistent with our findings.

We present detailed empirical evidence supporting the first explanation over the second and third explanations; nevertheless, we do not argue that escalation of commitment is the sole reason behind VC style drift and performance.

The next section of this paper delves deeper into these theoretical propositions. Section 3 presents the data. Empirical tests are provided in section 4. Section 5 discusses the research limitations and directions for future studies.

2. Hypotheses

Escalation of commitment means that economic agents spend extra resources on sunk costs in a way that is economically irrational. A rational agent would focus only on expected future marginal benefits and costs when deciding. Escalation of commitment in venture capital and

private equity can be explained by self-justification theory, prospect theory, attribution theory, and social identity theory.

Self-justification theory refers to the decision maker feeling personally responsible for past choices (Kelly and Milkman, 2013). There is an affirmation bias towards reinforcing past choices and justifying the original decision to keep going with the prior investment. Self-justification is particularly pronounced when the past decision can be questioned by others, such as in the case of a style-drift investment. Success with a follow-on style drift investment would make the original decision look correct, therefore reinforcing the self-justification motive. As such, scholars have found that when managers feel personally responsible for the original decision and a threat to their ego, there is an exacerbated escalation of commitment (Sleesman et al., 2012).

Prospect theory (Kahneman and Tversky, 1979) refers to an asymmetric behavioral view where agents view losses greater than they view equivalent gains. Hence, to avoid losses, agents will put extra resources to try to overcome those losses, which gives rise to an escalation of commitment (Brockner, 1992). In the case of style drift with venture capital, prospect theory directly gives rise to the prediction that follow-on style drift investments will have more negative outcomes than initial style drift investments due to the asymmetric perspective that agents will have in trying to avoid those overweighted negative investment by spending more resources.

Attribution theory posits that agents will focus on causal explanations for events. The agent with decision control will focus on their personal characteristics and ability to complete the task successfully. Agents will also assess task difficulty. In a style drift investment, escalation of

commitment will be more pronounced in a follow-on investment because there is a greater proximity to project completion through an exit event as compared to an initial investment. That is, the proximity to completion in a follow-on investment exacerbates escalation of commitment (Sleesman et al., 2012).

Finally, social identity theory refers to the private thoughts and opinions of an economic agent, and how it influences their actions. How an agent perceives how others view themselves will significantly affect their behaviors. In venture capital and private equity, agents care significantly about their perceptions about how they view perceptions of entrepreneurs (as it affects the decision to see capital from their fund), other venture capital and private equity fund managers (as it affects decisions to syndicate), and institutional investors (as they provide capital for the current and follow-on funds). There is a culture in venture capital and private equity that it is better to try and fail than to not try at all.⁴ Giving up in a follow-on style drift investment would go against this culture, and adversely impact a fund manager's social identity. All else being equal, therefore, style drifted follow-on investments will have a lower likelihood of success than new investments as the risk of social identity threat is more pronounced.

Hypothesis 1. *Initial style drift investments will result in better exit outcomes than follow-on style drift investments.*

While Hypothesis 1 states that we expect a positive difference in performance between initial and follow-on style drifts, it does not imply anything about the overall effect on

⁴ See, e.g., <https://www.forbes.com/sites/amyblankson/2018/05/08/the-secret-reason-why-venture-capital-investments-often-fail/?sh=d6ba9d35ea93>

performance. However, following the theoretical work of Cumming et al. (2009), initial style drifts should be associated with positive performance, consistent with their empirical findings also. As for follow-on performance, which was not studied in Cumming et al. (2009) but in Lahr and Trombley (2020), we may expect a negative or slightly positive effect on performance. Still, ultimately it will depend on the relative importance of the EOC and the channel identified by Cumming et al. (2009). An additional consideration gives rise to a consistent explanation for Hypothesis 1 that is unrelated to escalation of commitment. This second explanation refers to the idea that there are “inside” and “outside” syndicated investors in follow-on venture capital deals (Gompers, 1995). Inside investors are those that have been in the earlier rounds of financing the company, while outside investors are those that are new to the investment. The number of investors tends to increase with each financing round. The new investors face an adverse selection problem whereby participation in a new round involves information asymmetry (the outside investors know less about the firm than the insider investors), and as such they may overpay for the investment, or possibly even finance a negative expected NPV project. There are contractual solutions to mitigate these adverse selection agency costs, but contracts can at best mitigate and never eliminate adverse selection and agency costs (Cumming and Johan, 2013). These adverse selection and agency costs will be more pronounced in cases where the outside, new investor is less likely to have the skills to properly do due diligence on the deal, as in the case of a style-drift investment. Hence, initial style drift investments are expected to generate negative outcomes due to information asymmetries, adverse selection, and agency problems regardless of issues associated with escalation of commitment.

Hofstede's (2001) cultural dimensions offer an added lens through which to view style drift and escalation of commitment in venture capital and private equity. Earlier research has demonstrated in other contexts that escalation of commitment is more pronounced in countries with different cultural scores (Geiger, Robertson, & Irwin, 1998; Salter & Sharpe, 2001; Greer & Stevens, 2001). First, in low individualism culture countries, people are more likely to engage in group loyalty and not only think about themselves. Self-justification theory, prospect theory, attribution theory, and social identity theory all give rise to the prediction that escalation of commitment is more pronounced in countries with high individualism scores. Second, escalation of commitment is more pronounced in countries with higher power distance, as the cultural conditions better enable individuals to proceed with the escalating behavior without questioning and governance. Moreover, the escalating behavioral incentives associated with self-justification theory, prospect theory, attribution theory, and social identity theory are exacerbated with power distance. Third, escalation of commitment is more pronounced in countries with higher masculinity scores. Masculine cultures emphasize ambition, acquisition of wealth, and differentiated gender roles. There is a significant element of gender gaps in venture capital (Gompers et al., 2022), which arguably makes the case of masculine cultures particularly relevant for venture capital and escalation of commitment.

Hypothesis 2. *In countries with higher levels of individualism, power distance, and masculinity, the negative impact of follow-on style drift on venture capital performance will be more pronounced.*

3. Data, Summary Statistics, and Comparison Tests

We use data from VentureXpert, using data of venture capital and private equity investments by US firms over the years 1980-2020. Our dataset includes all financing rounds available for the portfolio companies. While the VC/PE firms are required to be in the US, portfolio companies can be located anywhere in the world. Given these selection criteria, about 92% of the investments are in the US; the rest are cross-border investments by US funds. The variables are defined in Table 1, and correlations across all the main variables are provided in Table 2. Style drift is positively associated with IPO and acquisition exits in the full sample in Table 2 as in Cumming et al. (2019) for a reduced sample of initial style drifts only, but these correlations do not account for initial versus follow-on style drift investments, or other subsamples of the data.

[Tables 1 and 2 About Here]

We provide comparison tests on the raw data, without controlling for other things being equal, in Table 3 to show some first order effects with respect to our success outcome (measured as IPO exit or M&A). Panel A shows that for initial style drift investments, the probability of an IPO exit is 13.73% and for non-style drift investments, the probability of an IPO exit is 10.32%; these differences are statistically significant at the 1% level, consistent with Hypothesis 1. Panel B shows that for follow-on style drift investments, the probability of an IPO exit is 13.60% and for non-style drift investments, the probability of an IPO exit is 14.08%; these differences are statistically significant at the 5% level, consistent with Hypothesis 1.

[Table 3 About Here]

Table 3 Panel A also shows that for initial style drift investments, the probability of an M&A exit is 37.80% and for non-style drift investments, the probability of an M&A exit is 34.65%; these differences are statistically significant at the 1% level, consistent with Hypothesis 1 if we consider M&A exit as alternative success measure. Panel B shows that for follow-on style drift investments, the probability of an M&A exit is 41.44% and for non-style drift investments, the probability of an M&A exit is 34.83%;. Table 3 Panels A and B also show that style drift investments are roughly 2% more likely to be liquidations (or write-offs or defunct exits), and these differences are significant at the 1% level, as we would expect since style drift investments are riskier.

4. Multivariate Analyses

a. Base Model Estimates

Table 4 presents the baseline multivariate results. We applied investee company industry fixed effects and clustered standard errors at the VC fund level. We present extra robustness checks in Appendix I Table 1, where investee company industry fixed effects, investee company nationality fixed effects, and investment round year fixed effects are applied; and standard errors are clustered at VC fund code level. The according results are very consistent with the baseline regressions in Table 4.

The regressions in Table 4 indicate that an initial style drift investment is associated with 2.22 percentage points (Model 1) to 2.43 percentage points (Model 2) increase in the probability

of an IPO exit. Given the average probability of an IPO exit is only 12.35% in the dataset, initial investment style drift is associated with a striking 17.98%--19.68% increase in the average value of IPO exit probability. These results are consistent with earlier work by Cumming et al. (2019). A follow-on style drift investment is associated with a 1.56 percentage points (Model 3) to 1.70 percentage points (Model 4) reduction in the probability of an IPO exit or a noticeable 12.63%-13.77% reduction in average value of IPO exit probability. Taking all initial and follow-on investments together as in prior work (Lahr & Trombley, 2020), the data show that style drifts are associated with a 0.783 percentage point (Model 5) to 0.688 percentage point (Model 6) increase in the probability of an IPO exit, or 5.57% --6.34% increase in the average value of IPO exit probability.

[Table 4 About Here]

Figures 1 and 2 show these main results in Table 4 graphically. Figure 1 illustrates the association between style drift in venture capital's initial investments and distribution of IPO exits in the dataset. Specially, we first calculate the percentage of VC funds committed style drift in their initial investments for each investee company across all financing rounds; next, we rank the percentage of VC funds committed style drift in their initial investments in the data-set and sort them into 100 levels: the 1st level represents the least (minimum) style drifts in VCs' initial investments while the 100th level represents the most (maximum) style drifts in VCs' initial investments; finally, at each level, we count the number of companies with IPO exits and plot the relationships on the chart. Figure 2 illustrates the association between style drift in venture capital's follow-on style drift investments and distribution of IPO exists in the dataset using the same methodology.

[Figures 1 and 2 About Here]

Table 4 further shows that follow-on style drifts are less likely to negatively impact IPO exits when the VC firm is less than 6 years old. Newer funds with greater reputational concerns are less likely to style drift unless they are more confident it will work out (Cumming et al., 2009). By contrast, VC funds with a stronger IPO record are more likely to reduce the chances of an IPO when they style drift in follow-on investments: one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round reduces the current investee company's probability of IPO exit by a further 2.74 percentage points, equivalent to a 22.19% further reduction in the average value of IPO exit probability. This finding is consistent with overconfidence and escalation of commitment discussed above in Section 2 alongside Hypothesis 1.

Many of the control variables in Table 4 are consistent with expectations and prior work. For example, good market conditions (proxied by aggregate IPO volume) positively affect the likelihood of IPOs, consistent with Ritter (Loughran & Ritter, 2014). Also, IPOs are more likely when market returns are higher, and when there are more syndicated investors (Ritter 1984; Brav & Gompers, 1997; Ljungqvist & Wilhelm 2003; Cumming & Johan, 2013). There is some evidence that VCs in California do better, but only for follow-on investments.

We further divided the sample based on stages of VC funds and presented analytical results in Table 10. Detailed analysis in Table 10 suggest that on average, style drift has positive impact on the probability of IPO exit as long as it is the first time a VC invests in a company (thus, initial

style drift investments), regardless of the stage of VC fund; however, style drift has negative impact on the probability of IPO exit only when an early stage fund made a follow-on investment in a late stage company; when late stage fund made a follow-on investment in an early stage company, style drift actually has a positive impact on the probability of IPO exit.

b. Up versus Down Drifts

Table 5 presents a detailed look at the distribution of different style drifts based on VC type. We divide style drifts into three categories: up drift, in which an early-stage fund invests in a later stage company; down drift, in which a later stage fund invests in an early-stage company; and other drift, in which the stated fund stage is different from the investee company stage but not belong to up/down drift. For instance, the fund stage is "Buyouts", whereas company stage is "Expansion".

Table 5 shows that up drift is the most popular style drift type for all types of VCs. But this popularity is even more eye-catching for follow-on VC investors: approximately 85% of style drifts took place when an early-stage fund with little experience handling an advanced stage company is compelled to make follow-on investment with a later stage company.

Table 5 further shows that compared with other types of VCs, down drift is more popular when a later stage VC fund, with experience coaching advanced stage companies, decides to invest in an early-stage company in its first round of external financing.

The distribution of other style drift types is also covered in Table 5.

Table 6 presents detailed regressions evaluating the impact of Venture Capital investment style drift on the probability of investee companies' IPO exit based on the types of VC investors and conditions of investee companies. We applied investee company industry fixed effect and clustered standard errors at VC Fund Code Level.

Table 6 shows that for original VC investors, when investee companies have no prior financing round, down drift has a strong positive impact on the probability of IPO exits for reputable VCs: when conducting down drift, one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round increases the current investee company's probability of IPO exit by 83.9%-84.3%.

Table 6 shows that for new VC investors, when investee companies have prior financing rounds with another VC, up drift reduces the probability of IPO exits by 1.18-1.21 percentage points, equivalent to an approximate 10% reduction in the average value of IPO exit probability. VC firms' IPO record further enhances this impact such that when conducting down drift, one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round reduces the current investee company's probability of IPO exit by an extra 3.54 percentage points, equivalent to an approximate 29% further reduction in the average value of IPO exit probability.

Table 6 shows that for follow-on VC Investors when investee companies were at early stage in prior financing round with the same VC, up drift reduces the probability of IPO exits by 2.63-2.68 percentage point, equivalent to an approximate 21% reduction in the average value of IPO exit probability. This impact is enhanced by the IPO record of the VC firm such that when conducting up drift, one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round reduces the current investee company's probability of IPO exit by an extra 4.37-4.50 percentage points, equivalent to an approximate 35% further reduction in the average value of IPO exit probability. On the other hand, down drift only increases the probability of IPO exit for reputable VC firms; this effect is not observable for VCs without IPO records in the last 3 years.

Table 6 further shows that for follow-on VC investors when investee companies were at late stage in prior financing round with the same VC, up drift reduces the probability of IPO exits by 2.67-2.68 percentage points, equivalent to an approximate 22% reduction in the average value of IPO exit probability. This impact is enhanced by the IPO record of the VC firm such that when conducting up drift, one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round reduces the current investee company's probability of IPO exit by an extra 2.95%, equivalent to an approximate 24% further reduction in the average value of IPO exit probability. Down drift only increases the probability of IPO exit for young VC firms: when conducting down drift, one extra IPO exit by a Venture Capital firm in 3 years prior to target company's financing round increases the current investee company's probability of IPO exit by 13.1-13.3 percentage points.

We present more rigorous robustness checks in Appendix I Table 2, where investee company industry fixed effects, investee company nationality fixed effects, and investment round year fixed effects are applied; and standard errors are clustered at VC fund code level. The according results are very consistent.

[Insert Tables 5 and 6 Here]

c. Matched Sample and 2SLS Analyses

Style drifts might be made in anticipation of exit outcomes. Further, omitted variables can confound our analyses. To address these endogeneity concerns, we provide two types of robustness checks.

First, in Table 7 we provide a matched sample analysis. The matching was carried out as follows: first, we use probit models to examine how actual style drift is related to investee company's location, industry classification, venture capital firm age, financing amount, venture capital fund size, and number of co-investors in a financing round; we then calculate the propensity scores of style drift for each investment deal; subsequently, investment deals in the target year are then matched with investment deals in the prior year based on estimated propensity of style drift. The match is restricted to the same country where the investee company is located; finally, we use the actual style drift in the matched sample in the prior year as the predicted style drift in the target deal.

We present the subsample analyses for initial investments of VC funds in Models 1 and 2, and for follow-on investments of VC funds in Models 3 and 4. We use Models 5 and 6 to cover all investments in the dataset. Investee company industry fixed effects are applied. The results show very consistent evidence, albeit with a lower economic significance: for initial investment, predicted style drift increases the probability of IPO exits by 0.49-0.53 percentage point, or an approximate 4% increase in the average value of IPO exit probability; for follow-on investments, predicted style drift reduces the probability of IPO exits by 0.52-0.55 percentage point, or an approximate 4% reduction in the average value of IPO exit probability.

Second, in Table 8 we provide 2SLS results. The 3-month Nasdaq index return prior to the financing round is used as the instrumental variable to predict style drift. The instrumental variable is valid because the market conditions prior to the financing round influence VCs' investment decision-making (i.e. Gompers, Lerner, Blair, & Hellmann 1998; Kaplan & Strömberg 2003; Sorensen 2007; Chemmanur, Krishnan, & Nandy 2011) and thus has a direct impact on the explanatory variable of interest; meanwhile, the market conditions prior to the financing round has no impact on the probability of investee company's IPO exit because the instrumental variable only captures short-term market conditions whereas an investee company's exit will take place several years later.

Table 8 Panel A presents analyses based on the subsample of initial investments only. Table 8 Panel B presents analyses based on the subsample of follow-on investments only. The analytical results in Table 8 are strictly in line with the main regression analyses: style drifts have strong

positive (negative) impact on the probability of investee companies' IPO exits for VCs' initial investments (follow-on investments). The results are consistent across different model settings.

[Insert Tables 7 and 8 Here]

d. Institutional Environment

As elaborated in Section 2, differences in the institutional environment between countries may affect the costs and benefits of style drifting for US VC firms investing cross-border. As mentioned in Section 2, we expect that cross-border investments made in countries with higher levels of individualism, power distance, and masculinity, are more negatively impacted by a follow-on style drift on venture capital performance (as summarized in Hypothesis 2). This effect is due to the fact that escalation of commitment is more pronounced in countries with these particular cultural scores (consistent with work by Geiger, Robertson, & Irwin, 1998; Salter & Sharpe, 2001; and Greer & Stevens, 2001).

Table 9 evaluates the impact of country culture score on the probability of investee companies' IPO exits. Country culture scores are sourced from Geert Hofstede website⁵. The dataset is divided into two groups based on whether the culture score measurement is in the top half or bottom half in Hofstede's dataset. The culture measurements are Power Distance Index (PDI), Individualism vs. Collectivism Index (IDV), Masculinity versus Femininity Index (MAS),

⁵ <https://geerthofstede.com/research-and-vsm/dimension-data-matrix>

Uncertainty Avoidance Index (UAI), Long-term Orientation versus Short-term Normative Orientation Index (LTO), and Indulgence versus Restraint Index (IVR).

In Table 9, for initial VC investments, style drift has a more pronounced positive impact on the likelihood of IPO exits in cultures characterized by lower Power Distance Index (PDI), indicating a less rigid structure (average increase of 5.31 percentage points vs. 2.31 in higher PDI). Similarly, in more individualistic cultures, denoted by a higher Individualism vs. Collectivism Index (IDV), style drift significantly boosts the probability of IPO exits (average increase of 5.59 percentage points vs. 2.31 in lower IDV). Additionally, cultures with higher gender differentiation, as indicated by a higher Masculinity versus Femininity Index (MAS), show a stronger positive impact of style drift on IPO probability (average increase of 5.07 percentage points vs. 2.34 in lower MAS). In cultures with lower Uncertainty Avoidance Index (UAI), signifying openness to uncertainties, style drift has a more substantial positive effect on IPO exits (average increase of 4.03 percentage points vs. 2.36 in higher UAI). A shorter-term normative orientation, reflected in a lower Long-term Orientation versus Short-term Normative Orientation Index (LTO), is associated with a stronger positive impact of style drift on IPO probability (average increase of 5.15 percentage points vs. 2.25 in higher LTO). Lastly, cultures with a higher Indulgence versus Restraint Index (IVR), emphasizing the satisfaction of human needs, exhibit a more significant positive impact of style drift on IPO probability (average increase of 4.88 percentage points vs. 2.28 in lower IVR).

In Table 9, for follow-on VC investments, style drift has a more pronounced negative impact on the likelihood of IPO exits in cultures characterized by higher Power Distance Index (PDI), reflecting greater rigidity (average reduction of 0.82 percentage points vs. insignificant results in lower PDI). Similarly, in more collectivist cultures, denoted by a lower Individualism vs. Collectivism Index (IDV), style drift significantly diminishes the probability of IPO exits (average reduction of 0.90 percentage points vs. insignificant results in higher IDV). Additionally, cultures with higher gender differentiation, as indicated by a higher Masculinity versus Femininity Index (MAS), show a stronger negative impact of style drift on IPO probability (average reduction of 6.84 percentage points vs. 0.81 in lower MAS). In cultures less tolerant to uncertainties, denoted by a higher Uncertainty Avoidance Index (UAI), style drift has a more substantial negative effect on IPO exits (average reduction of 0.87 percentage points vs. insignificant results in lower UAI). A longer-term normative orientation, reflected in a higher Long-term Orientation versus Short-term Normative Orientation Index (LTO), is associated with a stronger negative impact of style drift on IPO probability (average reduction of 0.81 percentage points vs. insignificant results in lower LTO). Lastly, cultures where strict social norms are followed, as indicated by a lower Indulgence versus Restraint Index (IVR), exhibit a more significant negative impact of style drift on IPO probability (average reduction of 0.81 percentage points vs. insignificant results in higher IVR).

Empirical results in Table 9 offers support to Hypothesis 2. We also present regressions evaluating the impact of local legislative environment on the probability of investee companies' IPO exits in Appendix II. Appendix II shows that, for the subsample of initial VC investments, better legislative environment, measured by stronger strength of legal right, higher minority

shareholder score, and higher getting credit score, enhances the probability of investee companies' IPO exit. We also tested the impact of legislative environment on the probability of investee companies' IPO exits for VC follow-on investments, the results are not statistically significant and thus not reported for conciseness.

[Insert Table 9 About Here]

4.5 Subsample Analyses

Table 10 presents subsample analyses examining how style drift influences investee companies' IPO exit probability for early-stage VC funds and late-stage VC funds in their initial investments and follow-on investments.

Table 10 Panel A and Panel B show that for initial VC investments, style drift increases the probability of IPO exits for both early-stage and late-stage VC funds. The results are robust across different model settings. Initial style drift generates better outcomes likely because VC fund managers will not conduct style drift in the first place unless they foresee strong likelihood of success.

Table 10 Panel C shows that for early-stage VC funds, when they made follow-on investments in late-stage companies, the probability of IPO exit is significantly reduced. This is because early-stage VC funds lack the expertise supporting a late-stage company; they made the follow-on investment due to exacerbated escalation of commitment (EOC). The mismatch between early-stage VC and late-stage company results in lower chances of IPO exits.

Table 10 Panel D shows that for late-stage VC funds, when they made follow-on investments in early-stage companies, the probability of IPO exit is significantly increased. This is because late-stage VC funds can bring valuable resources and guidance to early-stage companies.

[Insert Table 10 About Here]

5. Limitations, Conclusions, and Future Research

We operationalize style drift as the disparity between a venture capitalist's self-claimed investment stage and the actual stage of the invested company. For instance, if a VC professes to exclusively invest in early-stage companies but ends up investing in a 'later stage' company, we classify it as style drift. Notably, our dataset does not account for cross-industry style drift, where a VC, for example, specializing in the pharmaceutical sector, invests in a mining company. Industry preferences or focuses of VCs are not considered due to data limitations. Our focus on drifts in stages of development is consistent with the way style drift has been studied so far.

In our exploration, we assessed three prevailing explanations for the occurrence of style drift, leveraging empirical evidence to lend support to the notion of exacerbated escalation of commitment (EOC) over alternative explanations. It is important to note that while we present compelling evidence, we lack a formal test specifically for the exacerbated escalation of commitment, which introduces the risk of conflicting interpretations. An alternative narrative, such as overconfidence, could be posited, suggesting that a VC's excessive confidence may drive them to engage in style drift in later investment rounds. However, this explanation could also be valid for initial investments, where we observe opposite effects on exit outcomes and thus performance.

In terms of implications for limited partners, our findings suggest that they should be particularly concerned by follow-on style drifts, but not initial style drifts from the perspective of investment performance. Whether it is also bad for entrepreneurs remains to be studied, since while the effect is overall negative, at least it provides further funding to them. Indeed, if the follow-on style drift is due to EOC, it means that if the VC fund does not secure further funding through a style drift, this may lead to a lack of funding for the next round and thus possibly liquidation.

Future research in this area could extend its focus to include cross-industry style drift, providing insights into how venture capitalists navigate diverse sectors. Additionally, formal tests and model development are recommended to enhance our comprehension of the mechanisms and conditions underpinning exacerbated escalation of commitment (EOC). Investigating behavioral factors, such as overconfidence, as influential drivers of venture capitalists' decisions to engage in style drift offers another angle to explore style drift. Moreover, an examination of contextual factors, including regulatory environments, cultural influences, and economic conditions, on a global scale, could shed light on the broader implications and determinants of style drift.

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Table 1 Variable Definition and Summary Statistics

Table 1 defines the variables in the data set extracted from VentureXpert and provides summary statistics for the investment characteristics of Venture Capital firms headquartered in the United States.

Variable Name	Variable Definition	Min	Mean	Median	Max	S.D.	Sample Period
VC Firm Age	Age of Venture Capital Firm (log transformed)	0.0000	2.4908	2.5649	5.3799	0.8641	1980-2020
VC Firm IPO Record	Number of IPO exits by the Venture Capital Firms in 3 years Prior to the Financing Round	0.0000	0.0251	0.0000	22.0000	0.4280	1980-2020
VC Fund Size	Venture Capital Fund Size (log transformed)	0.0000	4.8674	4.7974	9.9988	1.3125	1980-2020
Financing Amount	Amount financed in a Round (log transformed)	0.0953	8.7939	8.9934	17.4426	1.4791	1980-2020
Number of Co-investors	Number of Co-investors in a Financing Round	1.0000	4.1529	3.0000	33.0000	3.3503	1980-2020
Domestic Investment	Investee Company is in the United States (Yes=1; No=0)	0.0000	0.9231	1.0000	1.0000	0.2665	1980-2020
Number of Investee Companies	Number of Investee Companies receiving capital from the same Venture Capital Firm at a given time	1.0000	12.0942	7.0000	124.0000	14.9094	1980-2020
Age of Investee Company	Age of the Investee Company at the Financing Round (log transformed)	0.0000	2.4039	1.7918	7.6113	2.1103	1980-2020
VC Firm Under 6 Years Old	The age of Venture Capital firm is under 6 years old, following Gompers, JFE, 1996 (Yes=1; No=0)	0.0000	0.2289	0.0000	1.0000	0.4202	1980-2020
Style Drift	Is there Style Drift in the Investment? (Yes=1; No=0)	0.0000	0.3151	0.0000	1.0000	0.4645	1980-2020
IPO Exit	Is the Exit Channel IPO? (Yes=1; No=0)	0.0000	0.1235	0.0000	1.0000	0.3290	1980-2020
M&A, LBO Exit	Is the Exit Channel M&A or LBO? (Yes=1; No=0)	0.0000	0.3629	0.0000	1.0000	0.4808	1980-2020
Defunct Exit	Is the Exit Channel defunct? (Yes=1; No=0)	0.0000	0.0900	0.0000	1.0000	0.2862	1980-2020
California VC	Is Venture Capital firm headquartered in California? (Yes=1; No=0)	0.0000	0.4085	0.0000	1.0000	0.4916	1980-2020
Initial Investment	Is it the first time the Venture Capital firm has invested in the company? (Yes=1; No=0)	0.0000	0.5582	1.0000	1.0000	0.4966	1980-2020
Local MSCI Index Return	Investee Company Home Country MSCI Index Annual Return in the Investment Round Year	-0.8578	0.0839	0.1110	1.9938	0.1774	1980-2020
Total IPO Volume in the U.S.	Total number of IPOs in the U.S. in the Investment Round Year	21.0000	189.3231	157.0000	677.0000	144.0831	1980-2020

Table 2 Correlation Matrix

Table 2 presents the correlations among variables of interest, covering the sample period 1980-2020. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 VC Firm Age														
2 VC Firm IPO Record	0.0145***													
3 VC Fund Size	0.301***	0.0181***												
4 Financing Amount	0.140***	-0.0184***	0.310***											
5 Number of Co-investors	-0.0595***	-0.0199***	-0.194***	0.246***										
6 Domestic Investment	-0.0964***	-0.00200	-0.124***	-0.0685***	0.0777***									
7 Number of Investee Companies	0.257***	0.0226***	0.0825***	0.0331***	0.0488***	-0.0916***								
8 Age of Investee Company	0.0344***	0.00223	0.0932***	0.0000223	-0.180***	-0.0485***	-0.0729***							
9 VC Firm Under 6 Years Old	-0.773***	-0.0122***	-0.223***	-0.0726***	0.0571***	0.0517***	-0.134***	-0.0370***						
10 California VC	0.0873***	0.00580**	-0.0393***	0.0303***	0.147***	0.0188***	0.219***	-0.111***	-0.0248***					
11 Style Drift	-0.0429***	0.0228***	-0.0567***	-0.0132***	0.0956***	0.0425***	-0.0904***	-0.0205***	-0.00322	0.0458***				
12 IPO Exit	0.0323***	0.0840***	-0.00342	0.0787***	0.139***	-0.0110***	0.0127***	-0.0717***	-0.0302***	0.0162***	0.0263***			
13 M&A, LBO Exit	-0.0230***	-0.00252	0.00300	-0.0224***	0.0217***	0.0754***	-0.0466***	-0.0157***	0.00203	-0.00850***	0.0492***	-0.284***		
14 Defunct Exit	-0.0748***	-0.0131***	-0.136***	-0.147***	0.0356***	0.0519***	0.0138***	0.00517**	0.0530***	-0.00310	0.0276***	-0.119***	-0.239***	

Table 3 Comparison Tests

Table 3 presents the comparison tests on the impact of style drift on fund exit channel. Panel A restricts the sample to new investments only; Panel B restricts the sample to follow-on investments only. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Initial Investments Only

	IPO Exit	M&A, LBO Exit	Defunct Exit
Style Drift (Yes)			
Mean	0.1373	0.3780	0.1030
S.E.	0.0017	0.0024	0.0015
Style Drift (No)			
Mean	0.1032	0.3465	0.0836
S.E.	0.0009	0.0014	0.0008
Z Score	-18.96***	-11.55***	-12.00***

Panel B: Follow-on Investments Only

	IPO Exit	M&A, LBO Exit	Defunct Exit
Style Drift (Yes)			
Mean	0.1360	0.4144	0.1021
S.E.	0.0015	0.0022	0.0013
Style Drift (No)			
Mean	0.1408	0.3483	0.0882
S.E.	0.0012	0.0017	0.0010
Z Score	2.42**	-23.99***	-8.34***

Table 4. Style Drift and Probability of IPO Exit—Baseline Regressions

Table 4 presents regressions evaluating the impact of Venture Capital investment style drift on the probability of IPO exit. Models 1 and 2 are restricted to the subsample of initial investments only. Models 3 and 4 are restricted to the subsample of follow-on investments only. Models 5 and 6 cover all investments in the dataset. T statistics are in parentheses. Investee company industry fixed effects are applied. Standard errors are clustered at Venture Capital fund code level. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Initial Investments Only		Follow-on Investments Only		All Investments	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Style Drift	0.0222*** (8.09)	0.0243*** (7.22)	-0.0156*** (-3.58)	-0.0170*** (-3.60)	0.00783*** (2.75)	0.00688*** (2.06)
Style Drift in Initial Round			0.0168*** (3.17)	0.0171*** (3.21)		
VC Firm Under 6 Years Old	-0.0135*** (-4.87)	-0.0122*** (-3.87)	-0.0161*** (-3.78)	-0.0213*** (-4.05)	-0.0143*** (-5.06)	-0.0164*** (-5.10)
VC Firm IPO Record	0.0576*** (7.15)	0.0645*** (4.21)	0.0612*** (9.55)	0.0752*** (9.42)	0.0594*** (9.90)	0.0692*** (6.23)
Financing Amount	0.0145*** (13.82)	0.0145*** (13.87)	0.00978*** (7.87)	0.00970*** (7.83)	0.0126*** (13.00)	0.0125*** (12.98)
VC Fund Size	-0.000946 (-0.77)	-0.000952 (-0.77)	0.00386* (1.85)	0.00383* (1.84)	0.00144 (0.98)	0.00144 (0.98)
Number of Co-investors	0.00845*** (21.45)	0.00844*** (21.43)	0.0114*** (21.89)	0.0114*** (21.87)	0.00980*** (26.40)	0.00979*** (26.40)
Domestic Investment	-0.0323*** (-6.40)	-0.0323*** (-6.39)	-0.0264*** (-2.85)	-0.0262*** (-2.84)	-0.0307*** (-5.38)	-0.0306*** (-5.36)
California VC	0.00359 (1.21)	0.00365 (1.23)	0.00972** (2.18)	0.0100** (2.25)	0.00535 (1.64)	0.00551* (1.70)
Local MSCI Index Return	0.0430*** (7.75)	0.0432*** (7.77)	0.0567*** (9.25)	0.0570*** (9.28)	0.0482*** (11.60)	0.0484*** (11.62)
Total IPO Volume in the U.S.	0.000156*** (19.41)	0.000156*** (19.50)	0.000143*** (11.29)	0.000144*** (11.41)	0.000152*** (18.65)	0.000152*** (18.79)
VC Firm Under 6 Years Old * Style Drift		-0.00525 (-0.98)		0.0130* (1.66)		0.00678 (1.32)
VC Firm IPO Record * Style Drift		-0.0152 (-0.89)		-0.0274** (-2.38)		-0.0204 (-1.60)
Initial Investment					-0.0162*** (-9.22)	-0.0161*** (-9.19)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0842*** (2.62)	0.0838*** (2.61)	0.0395 (0.87)	0.0411 (0.90)	0.0831** (2.50)	0.0841** (2.53)
Observations	161712	161712	128013	128013	289725	289725
Adjusted R-squared	0.077	0.077	0.079	0.079	0.079	0.079
F	147.3	137.4	80.83	81.26	143.7	136.8

Table 5. Venture Capital Style Drift—A Close Look

Table 5 presents probability distribution for different types of venture capital style drifts. Up Drift means an early-stage fund invests in a later stage company. Down Drift means a later stage fund invests in an early-stage company. Other Drift means the stated fund stage is different from the investee company stage but not belong to up/down drift. For instance, the fund stage is "Buyouts", whereas company stage is "Expansion".

VC Type	Up Drift (in All Drifts for the VC Type)	Down Drift (in All Drifts for the VC Type)	Other Drift (in All Drifts for the VC Type)	All Style Drift (in All Deals for the VC Type)	VC Type in the Sample Dataset
Original VC Investor (Investee Company has no Prior Financing Round)	41.25%	17.70%	41.05%	16.47%	28.41%
New VC Investor (Investee Company has Prior Financing Round with Another VC)	68.65%	5.19%	26.16%	34.42%	27.40%
Follow-on VC Investor (Investee Company was at an early stage in Prior Financing Round with the same VC)	85.78%	6.53%	7.69%	32.85%	10.77%
Follow-on VC Investor (Investee Company was at a late stage in Prior Financing Round with the same VC)	84.69%	0.86%	14.45%	42.74%	28.15%
Other VC Investor (Investee Company Stage Unclear)	71.46%	2.94%	25.60%	34.46%	5.27%

Table 6. Detailed Style Drift Analysis

Table 6 presents detailed regressions evaluating the impact of Venture Capital investment style drift on the probability of IPO exit based on the types of VC investors and conditions of investee companies. Investee company industry fixed effects are applied. Standard errors are clustered at Venture Capital fund code level. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Original VC Investor Investee Company has no Prior Financing Round			New VC Investor Investee Company has Prior Financing Round with Another VC		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Up Drift	0.00420 (0.71)		0.00429 (0.73)	-0.0121*** (-2.86)	
VC Firm IPO Record * Up Drift	-0.0157 (-0.46)		-0.0153 (-0.45)	-0.0354** (-2.47)		-0.0354** (-2.47)
VC Firm Under 6 Years Old * Up Drift	-0.00549 (-0.65)		-0.00516 (-0.61)	-0.00591 (-0.79)		-0.00625 (-0.84)
Down Drift		0.00263 (0.33)	0.00291 (0.37)		0.0176 (1.42)	0.0149 (1.20)
VC Firm IPO Record * Down Drift		0.843*** (31.36)	0.839*** (24.17)		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		0.0101 (0.71)	0.00972 (0.68)		-0.0129 (-0.57)	-0.0149 (-0.66)
VC Firm Under 6 Years Old	-0.0110*** (-3.30)	-0.0116*** (-3.61)	-0.0113*** (-3.34)	-0.00960** (-2.21)	-0.0110*** (-2.94)	-0.00925** (-2.12)
VC Firm IPO Record	0.0733** (2.26)	0.0694*** (2.94)	0.0730** (2.26)	0.0657*** (5.70)	0.0544*** (7.60)	0.0657*** (5.70)
Financing Amount	0.00723*** (7.16)	0.00723*** (7.17)	0.00723*** (7.18)	0.0201*** (12.73)	0.0202*** (12.71)	0.0201*** (12.72)
VC Fund Size	-0.000422 (-0.30)	-0.000437 (-0.31)	-0.000401 (-0.28)	-0.00247 (-1.62)	-0.00213 (-1.38)	-0.00246 (-1.61)
Number of Co-investors	0.00699*** (12.38)	0.00699*** (12.38)	0.00699*** (12.38)	0.00642*** (12.93)	0.00636*** (12.79)	0.00641*** (12.92)
Domestic Investment	-0.0407*** (-5.51)	-0.0407*** (-5.53)	-0.0406*** (-5.51)	-0.0201*** (-3.91)	-0.0207*** (-3.99)	-0.0200*** (-3.89)
California VC	-0.00553* (-1.82)	-0.00543* (-1.79)	-0.00546* (-1.80)	0.0114*** (3.01)	0.0103*** (2.68)	0.0114*** (3.01)
Local MSCI Index Return	0.00688 (0.91)	0.00701 (0.93)	0.00707 (0.93)	0.0747*** (9.82)	0.0758*** (9.96)	0.0747*** (9.82)
Total IPO Volume in the U.S.	0.000165*** (16.88)	0.000164*** (16.83)	0.000164*** (16.84)	0.000154*** (13.81)	0.000154*** (13.53)	0.000154*** (13.79)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.154*** (4.30)	0.155*** (4.32)	0.154*** (4.30)	0.0614 (1.41)	0.0567 (1.30)	0.0609 (1.40)
Observations	82342	82342	82342	79370	79370	79370
Adjusted R-squared	0.048	0.048	0.048	0.088	0.087	0.088

Table 6. Detailed Style Drift Analysis (Continued)

	Follow-on VC Investor Investee Company was at an early stage in Prior Financing Round with the same VC			Follow-on VC Investor Investee Company was at a late stage in Prior Financing Round with the same VC		
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
	Up Drift	-0.0268*** (-4.81)		-0.0263*** (-4.72)	-0.0267*** (-5.00)	
VC Firm IPO Record * Up Drift	-0.0450*** (-3.01)		-0.0437*** (-2.95)	-0.0295** (-2.07)		-0.0295** (-2.07)
VC Firm Under 6 Years Old * Up Drift	0.0240* (1.91)		0.0247** (1.97)	0.00469 (0.47)		0.00591 (0.59)
Down Drift		0.0212 (0.97)	0.0142 (0.64)		-0.0101 (-0.35)	-0.0194 (-0.68)
VC Firm IPO Record * Down Drift		0.853*** (32.72)	0.824*** (31.22)		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		0.0141 (0.31)	0.0212 (0.47)		0.131** (2.24)	0.133** (2.28)
VC Firm Under 6 Years Old	-0.0301*** (-4.04)	-0.0239*** (-3.60)	-0.0309*** (-4.10)	-0.0154** (-2.46)	-0.0139*** (-2.73)	-0.0166*** (-2.64)
VC Firm IPO Record	0.0742*** (6.47)	0.0455*** (5.13)	0.0729*** (6.46)	0.0757*** (10.65)	0.0673*** (10.00)	0.0757*** (10.65)
Financing Amount	0.0164*** (9.11)	0.0162*** (9.03)	0.0164*** (9.09)	0.00770*** (5.08)	0.00807*** (5.25)	0.00770*** (5.08)
VC Fund Size	0.00545* (1.81)	0.00532* (1.77)	0.00539* (1.79)	0.000528 (0.22)	0.00158 (0.66)	0.000536 (0.22)
Number of Co-investors	0.0128*** (14.32)	0.0130*** (14.35)	0.0129*** (14.35)	0.0105*** (17.92)	0.0103*** (17.51)	0.0105*** (17.93)
Domestic Investment	0.00370 (0.28)	0.00240 (0.18)	0.00390 (0.30)	-0.0373*** (-3.25)	-0.0395*** (-3.41)	-0.0373*** (-3.25)
California VC	0.00320 (0.50)	0.00244 (0.38)	0.00325 (0.50)	0.0174*** (3.34)	0.0135*** (2.58)	0.0174*** (3.34)
Local MSCI Index Return	0.0564*** (4.83)	0.0581*** (4.97)	0.0561*** (4.80)	0.0664*** (9.12)	0.0689*** (9.45)	0.0664*** (9.12)
Total IPO Volume in the U.S.	0.000154*** (8.34)	0.000150*** (8.04)	0.000153*** (8.22)	0.000125*** (8.14)	0.000129*** (8.34)	0.000125*** (8.14)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.121** (-2.15)	-0.123** (-2.20)	-0.121** (-2.15)	0.0812 (1.62)	0.0714 (1.43)	0.0814 (1.62)
Observations	31055	31055	31055	81632	81632	81632
Adjusted R-squared	0.126	0.125	0.126	0.066	0.065	0.066

Table 6. Detailed Style Drift Analysis (Continued)

	Other VC Investor Investee Company Stage Unclear		
	Model 13	Model 14	Model 15
Up Drift	-0.0177*** (-2.71)		-0.0182*** (-2.77)
VC Firm IPO Record * Up Drift	-0.0367 (-1.45)		-0.0366 (-1.44)
VC Firm Under 6 Years Old * Up Drift	0.0207 (1.41)		0.0200 (1.36)
Down Drift		-0.0284 (-1.08)	-0.0324 (-1.23)
VC Firm IPO Record * Down Drift		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		-0.0229 (-0.53)	-0.0178 (-0.41)
VC Firm Under 6 Years Old	-0.0136* (-1.76)	-0.00737 (-1.09)	-0.0131* (-1.66)
VC Firm IPO Record	0.0624*** (3.38)	0.0477*** (3.71)	0.0623*** (3.38)
Financing Amount	0.00307 (1.52)	0.00304 (1.50)	0.00295 (1.45)
VC Fund Size	0.00824*** (3.10)	0.00888*** (3.38)	0.00826*** (3.11)
Number of Co-investors	0.0131*** (10.16)	0.0129*** (10.04)	0.0132*** (10.18)
Domestic Investment	-0.0317*** (-2.88)	-0.0327*** (-2.96)	-0.0318*** (-2.89)
California VC	0.00108 (0.18)	-0.00124 (-0.21)	0.000883 (0.15)
Local MSCI Index Return	0.00431 (0.32)	0.00514 (0.38)	0.00399 (0.29)
Total IPO Volume in the U.S.	0.000182*** (8.44)	0.000185*** (8.58)	0.000183*** (8.50)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes
Constant	0.191* (1.93)	0.187* (1.88)	0.192* (1.94)
Observations	15326	15326	15326
Adjusted R-squared	0.062	0.061	0.063

Table 7. Predicted Style Drift and Probability of IPO Exit based on Matched Sample

Table 7 presents regressions evaluating the impact of predicted Venture Capital investment style drift on the probability of IPO exit. Probit models are first used to examine how actual style drift is related to investee company's location, industry classification, Venture Capital firm age, financing amount, Venture Capital fund size, and number of co-investors in a financing round. Propensity scores of style drift are calculated. Investment deals in the target year are then matched with investment deals in the prior year based on estimated propensity of style drift. The match is restricted to the same country where the investee company is located. We then use the actual style drift in the matched sample in the prior year as the predicted style drift in the target deal. Models 1 and 2 are restricted to the subsample of initial investments only. Models 3 and 4 are restricted to the subsample of follow-on investments only. Models 5 and 6 cover all investments in the dataset. Investee company industry fixed effects are applied. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Initial Investments Only		Follow-on Investments Only		All Investments	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Predicted Style Drift	0.00531*** (2.60)	0.00485* (1.93)	-0.00552** (-2.29)	-0.00524* (-1.94)	0.000729 (0.43)	0.000620 (0.31)
VC Firm Under 6 Years Old	-0.0131*** (-4.68)	-0.0141*** (-4.26)	-0.0143*** (-3.33)	-0.0153*** (-3.12)	-0.0137*** (-4.81)	-0.0149*** (-4.61)
VC Firm IPO Record	0.0582*** (7.11)	0.0676*** (4.46)	0.0614*** (9.57)	0.0742*** (11.13)	0.0596*** (9.92)	0.0713*** (8.15)
Financing Amount	0.0160*** (15.41)	0.0160*** (15.42)	0.00999*** (7.95)	0.00969*** (7.75)	0.0135*** (13.93)	0.0135*** (13.98)
VC Fund Size	-0.00185 (-1.50)	-0.00186 (-1.52)	0.00380* (1.79)	0.00406* (1.94)	0.000780 (0.52)	0.000753 (0.51)
Number of Co-investors	0.00979*** (19.03)	0.00980*** (19.02)	0.0149*** (19.55)	0.0114*** (21.95)	0.0119*** (22.91)	0.0119*** (22.93)
Domestic Investment	-0.0312*** (-6.20)	-0.0312*** (-6.19)	-0.0256*** (-2.74)	-0.0260*** (-2.81)	-0.0296*** (-5.18)	-0.0294*** (-5.16)
California VC	0.00358 (1.20)	0.00356 (1.19)	0.00766* (1.70)	0.00844* (1.90)	0.00537 (1.63)	0.00537 (1.63)
Local MSCI Index Return	0.0413*** (7.33)	0.0414*** (7.36)	0.0552*** (9.08)	0.0560*** (9.14)	0.0459*** (11.08)	0.0462*** (11.04)
Total IPO Volume in the U.S.	0.000161*** (20.00)	0.000161*** (19.90)	0.000149*** (11.68)	0.000145*** (11.32)	0.000158*** (19.26)	0.000157*** (19.23)
VC Firm Under 6 Years Old * Predicted Style Drift		0.00307 (0.72)		-0.000614 (-0.11)		0.00330 (0.88)
VC Firm IPO Record * Predicted Style Drift		-0.0178 (-1.32)		-0.0317*** (-3.66)		-0.0245*** (-3.07)
Initial Investment					-0.0179*** (-10.49)	-0.0178*** (-10.42)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0757** (2.33)	0.0756** (2.32)	0.0303 (0.67)	0.0390 (0.86)	0.0762** (2.27)	0.0758** (2.26)
Observations	161712	161712	128013	128013	289725	289725
Adjusted R-squared	0.074	0.074	0.077	0.079	0.076	0.077

Table 8. Predicted Style Drift and Probability of IPO Exit based on 2SLS

Table 8 presents regressions evaluating the impact of predicted Venture Capital investment style drift on the probability of IPO exit. 2SLS regressions are used in analyses. The 3-month Nasdaq index return prior to the financing round is used as the instrumental variable to predict style drift. Panel A presents analyses based on the subsample of initial investments only. Panel B presents analyses based on the subsample of follow-on investments only. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Initial Investments Only

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Style Drift (2SLS estimation)	1.057*** (6.65)	0.379*** (3.96)	0.378*** (3.95)	0.387*** (4.04)	0.302*** (3.42)	0.290*** (3.55)
VC Firm Under 6 Years Old	-0.0411*** (-4.04)	-0.0262*** (-5.76)	-0.0263*** (-5.79)	-0.0258*** (-5.63)	-0.0177*** (-4.58)	-0.0175*** (-4.62)
VC Firm IPO Record	0.0318*** (3.84)	0.0517*** (6.99)	0.0518*** (6.99)	0.0516*** (7.00)	0.0491*** (6.91)	0.0492*** (6.98)
Number of Co-investors	-0.000468 (-0.22)	0.00682*** (5.68)	0.00689*** (5.66)	0.00705*** (5.89)	0.00572*** (5.89)	0.00591*** (6.55)
Total IPO Volume in the U.S.	-0.0000686 (-1.55)	0.0000836*** (3.65)	0.0000837*** (3.66)	0.0000856*** (3.80)	0.000111*** (5.59)	0.000114*** (6.16)
Financing Amount		0.0115*** (5.57)	0.0115*** (5.57)	0.0110*** (5.31)	0.0101*** (5.18)	0.0105*** (5.72)
VC Fund Size		0.00136 (0.64)	0.00134 (0.63)	0.000934 (0.44)	0.00125 (0.68)	0.00128 (0.71)
California VC			-0.00274 (-0.49)	-0.00327 (-0.58)	0.00765 (1.60)	0.00635 (1.36)
Domestic Investment				-0.0312*** (-4.40)	-0.0329*** (-5.24)	
Investee Company Home Country Fixed Effect?	No	No	No	No	No	Yes
Investee Company Industry Fixed Effect?	No	No	No	No	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.129*** (-5.45)	-0.130*** (-8.62)	-0.129*** (-8.35)	-0.0974*** (-6.11)	0.0527* (1.68)	0.0756 (0.76)
Observations	161712	161712	161712	161712	161712	161712

Panel B: Follow-on Investments Only

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Style Drift (2SLS estimation)	-0.443*** (-5.65)	-0.251*** (-3.76)	-0.251*** (-3.77)	-0.251*** (-3.73)	-0.243*** (-3.60)	-0.248*** (-3.66)
VC Firm Under 6 Years Old	-0.0273*** (-3.52)	-0.0295*** (-5.02)	-0.0281*** (-4.81)	-0.0281*** (-4.81)	-0.0184*** (-3.32)	-0.0185*** (-3.32)
VC Firm IPO Record	0.0754*** (11.43)	0.0723*** (10.87)	0.0722*** (10.82)	0.0722*** (10.80)	0.0659*** (10.35)	0.0655*** (10.30)
Number of Co-investors	0.0195*** (16.94)	0.0164*** (15.90)	0.0161*** (16.90)	0.0161*** (17.07)	0.0131*** (16.03)	0.0132*** (16.11)
Total IPO Volume in the U.S.	0.000166*** (8.07)	0.000154*** (9.96)	0.000152*** (9.82)	0.000152*** (9.81)	0.000167*** (11.46)	0.000167*** (11.39)
Financing Amount		0.00588*** (3.31)	0.00562*** (3.11)	0.00563*** (3.14)	0.00630*** (3.59)	0.00632*** (3.58)
VC Fund Size		-0.00224 (-0.73)	-0.00211 (-0.69)	-0.00207 (-0.68)	-0.000718 (-0.26)	-0.000745 (-0.27)
California VC			0.0173* (1.92)	0.0174* (1.92)	0.0239*** (3.01)	0.0232*** (2.89)
Domestic Investment				0.00245 (0.23)	-0.00590 (-0.56)	
Investee Company Home Country Fixed Effect?	No	No	No	No	No	Yes
Investee Company Industry Fixed Effect?	No	No	No	No	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.200*** (6.99)	0.101** (2.44)	0.0964** (2.41)	0.0940** (2.54)	0.145** (2.32)	0.237* (1.75)
Observations	128013	128013	128013	128013	128013	128013

Table 9. Culture Environment and Probability of IPO Exit

Table 9 presents subsample regression analyses evaluating how country culture scores influence the marginal impact of Venture Capital style drift on the probability of IPO exit. Country culture scores are sourced from Geert Hofstede website (<https://geerthofstede.com/research-and-vsm/dimension-data-matrix/>). The dataset is divided into 2 groups based on whether the culture score measurement is in the top half (Model 1 and Model 2) or bottom half (Model 3 and Model 4) in Hofstede's dataset. Culture scores are measured in the following dimensions: Power Distance Index (PDI), Individualism vs. Collectivism Index (IDV), Masculinity versus Femininity Index (MAS), Uncertainty Avoidance Index (UAI), Long-term Orientation versus Short-term Normative Orientation Index (LTO), and Indulgence versus Restraint Index (IVR). Model 1 and Model 3 show regressions for initial investments only; Model 2 and Model 4 show regressions for follow-on investments only. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Power Distance Index (PDI) and Probability of IPO Exit

	Model 1: Top Half of PDI Subsample, Initial Investment Only	Model 2: Top Half of PDI Subsample, Follow-on Investment Only	Model 3: Bottom Half of PDI Subsample, Initial Investment Only	Model 4: Bottom Half of PDI Subsample, Follow-on Investment Only
Style Drift	0.0231*** (6.89)	-0.00821* (-1.88)	0.0531*** (3.26)	-0.0126 (-0.44)
VC Firm Under 6 Years Old	-0.0122*** (-3.88)	-0.0213*** (-4.04)	-0.0115 (-0.74)	-0.0533 (-1.09)
VC Firm IPO Record	0.0626*** (4.01)	0.0721*** (8.87)	0.0803*** (4.97)	0.0843*** (4.24)
Financing Amount	0.0140*** (13.14)	0.0101*** (8.03)	0.0290*** (7.46)	0.00249 (0.40)
VC Fund Size	-0.00165 (-1.34)	0.00229 (1.12)	0.00987* (1.69)	0.0200 (1.19)
Number of Co-investors	0.00849*** (21.42)	0.0114*** (21.80)	0.00104 (0.42)	0.00295 (0.53)
Domestic Investment	-0.0221*** (-3.47)	-0.00698 (-0.71)	0 (.)	0 (.)
California VC	0.00513* (1.74)	0.0112** (2.52)	-0.0320** (-2.42)	-0.0809** (-2.52)
Local MSCI Index Return	0.0371*** (6.63)	0.0608*** (9.68)	0.0892*** (3.86)	-0.0344 (-1.04)
Total IPO Volume in the U.S.	0.000155*** (19.37)	0.000141*** (11.17)	0.000219*** (3.24)	0.0000740 (0.40)
VC Firm Under 6 Years Old * Style Drift	-0.00371 (-0.68)	0.0125 (1.59)	-0.0662** (-2.28)	-0.0454 (-0.76)
VC Firm IPO Record * Style Drift	-0.0139 (-0.81)	-0.0254** (-2.20)	0.0247 (0.53)	0.0255 (1.01)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	0.0818** (2.39)	0.0302 (0.64)	-0.00462 (-0.04)	0.0903 (0.39)
Observations	156203	125580	5334	2392
Adjusted R-squared	0.078	0.080	0.097	0.127

Panel B. Individualism vs. Collectivism Index (IDV) and Probability of IPO Exit

	Model 1: Top Half of IDV Subsample, Initial Investment Only	Model 2: Top Half of IDV Subsample, Follow-on Investment Only	Model 3: Bottom Half of IDV Subsample, Initial Investment Only	Model 4: Bottom Half of IDV Subsample, Follow-on Investment Only
Style Drift	0.0559** (2.52)	0.0264 (0.70)	0.0231*** (6.92)	-0.00897** (-2.07)
VC Firm Under 6 Years Old	-0.0183 (-1.03)	-0.0586 (-0.84)	-0.0121*** (-3.83)	-0.0214*** (-4.05)
VC Firm IPO Record	0.0777*** (4.04)	0.0908*** (5.01)	0.0636*** (4.07)	0.0720*** (8.84)
Financing Amount	0.0361*** (6.72)	0.000616 (0.07)	0.0140*** (13.50)	0.00978*** (7.87)
VC Fund Size	0.0000232 (0.00)	0.00281 (0.20)	-0.00113 (-0.92)	0.00336 (1.63)
Number of Co-investors	0.00102 (0.30)	0.00693 (1.01)	0.00848*** (21.48)	0.0114*** (21.83)
Domestic Investment	0 (.)	0 (.)	-0.0243*** (-4.24)	-0.0206** (-2.20)
California VC	-0.0264 (-1.57)	-0.0939** (-2.21)	0.00428 (1.46)	0.0103** (2.32)
Local MSCI Index Return	0.0893** (2.48)	-0.0899* (-1.66)	0.0381*** (7.00)	0.0600*** (9.65)
Total IPO Volume in the U.S.	0.000236*** (3.02)	0.0000930 (0.41)	0.000155*** (19.46)	0.000141*** (11.30)
VC Firm Under 6 Years Old * Style Drift	-0.0133 (-0.31)	0.0264 (0.23)	-0.00461 (-0.85)	0.0129* (1.65)
VC Firm IPO Record * Style Drift	-0.171*** (-4.95)	0.0136 (0.63)	-0.0139 (-0.81)	-0.0250** (-2.16)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	0.0603 (0.42)	-0.0302 (-0.21)	0.0795** (2.38)	0.0420 (0.90)
Observations	3311	1277	158226	126695
Adjusted R-squared	0.101	0.127	0.078	0.079

Panel C. Masculinity versus Femininity Index (MAS) and Probability of IPO Exit

	Model 1: Top Half of MAS Subsample, Initial Investment Only	Model 2: Top Half of MAS Subsample, Follow-on Investment Only	Model 3: Bottom Half of MAS Subsample, Initial Investment Only	Model 4: Bottom Half of MAS Subsample, Follow- on Investment Only
Style Drift	0.0507*** (2.82)	-0.0684*** (-2.69)	0.0234*** (6.93)	-0.00812* (-1.86)
VC Firm Under 6 Years Old	-0.0204 (-1.51)	-0.0177 (-0.45)	-0.0121*** (-3.84)	-0.0214*** (-4.05)
VC Firm IPO Record	0.137*** (7.31)	0.105*** (9.11)	0.0636*** (4.19)	0.0737*** (9.09)
Financing Amount	0.0142*** (3.07)	-0.00591 (-0.77)	0.0146*** (13.89)	0.00990*** (7.90)
VC Fund Size	-0.000887 (-0.17)	0.0232** (2.04)	-0.00114 (-0.92)	0.00339 (1.62)
Number of Co-investors	-0.00249 (-0.87)	0.00239 (0.45)	0.00858*** (21.69)	0.0115*** (21.84)
Domestic Investment	0 (.)	0 (.)	-0.0376*** (-6.41)	-0.0324*** (-3.34)
California VC	0.00432 (0.32)	0.0386 (1.18)	0.00377 (1.27)	0.00950** (2.14)
Local MSCI Index Return	0.0125 (0.48)	-0.0625 (-1.39)	0.0454*** (8.16)	0.0611*** (9.70)
Total IPO Volume in the U.S.	0.000370*** (6.36)	0.000298** (2.02)	0.000152*** (19.02)	0.000141*** (11.09)
VC Firm Under 6 Years Old * Style Drift	-0.0477 (-1.48)	0.152* (1.77)	-0.00420 (-0.78)	0.0120 (1.52)
VC Firm IPO Record * Style Drift	-0.0236 (-0.60)	0.0539* (1.95)	-0.0147 (-0.87)	-0.0273** (-2.37)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	-0.0882 (-0.97)	0.890*** (8.08)	0.0932*** (2.83)	0.0438 (0.96)
Observations	3419	1533	158118	126439
Adjusted R-squared	0.091	0.167	0.078	0.079

Panel D. Uncertainty Avoidance Index (UAI) and Probability of IPO Exit

	Model 1: Top Half of UAI Subsample, Initial Investment Only	Model 2: Top Half of UAI Subsample, Follow-on Investment Only	Model 3: Bottom Half of UAI Subsample, Initial Investment Only	Model 4: Bottom Half of UAI Subsample, Follow-on Investment Only
Style Drift	0.0236*** (6.98)	-0.00870** (-1.99)	0.0403** (2.22)	-0.0270 (-0.87)
VC Firm Under 6 Years Old	-0.0135*** (-4.64)	-0.0220*** (-4.18)	0.0479 (1.15)	0.0360 (0.70)
VC Firm IPO Record	0.0637*** (4.19)	0.0750*** (9.35)	0.119*** (6.22)	0.0916*** (6.05)
Financing Amount	0.0150*** (14.28)	0.00971*** (7.74)	-0.00131 (-0.22)	0.00175 (0.19)
VC Fund Size	-0.00116 (-0.94)	0.00413** (1.97)	-0.00149 (-0.16)	-0.0262* (-1.70)
Number of Co-investors	0.00855*** (21.66)	0.0116*** (22.13)	-0.00209 (-0.67)	-0.00674 (-1.05)
Domestic Investment	-0.0334*** (-7.46)	-0.0257*** (-2.63)	0 (.)	0 (.)
California VC	0.00431 (1.45)	0.00939** (2.11)	-0.0293 (-1.56)	0.00739 (0.19)
Local MSCI Index Return	0.0417*** (8.18)	0.0603*** (9.80)	0.0706* (1.94)	-0.0682 (-1.58)
Total IPO Volume in the U.S.	0.000154*** (19.48)	0.000141*** (11.13)	0.000216*** (2.49)	0.000370*** (2.54)
VC Firm Under 6 Years Old * Style Drift	-0.00362 (-0.69)	0.0137* (1.75)	-0.0747 (-1.39)	-0.0133 (-0.18)
VC Firm IPO Record * Style Drift	-0.0151 (-0.89)	-0.0272** (-2.36)	0.0721** (2.17)	0.174*** (4.06)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	0.0873*** (2.65)	0.0411 (0.88)	0.107 (0.96)	0.286 (1.52)
Observations	158058	126543	3479	1429
Adjusted R-squared	0.078	0.080	0.066	0.073

Panel E. Long-term Orientation versus Short-term Normative Orientation Index (LTO) and Probability of IPO Exit

	Model 1: Top Half of LTO Subsample, Initial Investment Only	Model 2: Top Half of LTO Subsample, Follow- on Investment Only	Model 3: Bottom Half of LTO Subsample, Initial Investment Only	Model 4: Bottom Half of LTO Subsample, Follow- on Investment Only
Style Drift	0.0225*** (6.73)	-0.00806* (-1.85)	0.0515*** (4.05)	-0.0161 (-0.74)
VC Firm Under 6 Years Old	-0.0136*** (-4.66)	-0.0213*** (-4.03)	0.0155 (0.62)	-0.0154 (-0.50)
VC Firm IPO Record	0.0613*** (3.98)	0.0705*** (8.74)	0.0936*** (5.73)	0.102*** (6.09)
Financing Amount	0.0143*** (13.48)	0.0103*** (8.09)	0.0173*** (4.99)	0.00235 (0.45)
VC Fund Size	-0.00179 (-1.46)	0.00255 (1.28)	0.00600 (1.23)	0.00884 (0.84)
Number of Co-investors	0.00845*** (21.51)	0.0115*** (21.95)	0.00600*** (2.89)	0.00325 (0.82)
Domestic Investment	-0.0259*** (-4.29)	-0.00558 (-0.48)	0 (.)	0 (.)
California VC	0.00591** (2.01)	0.0114** (2.56)	-0.0256** (-2.06)	-0.0324 (-1.37)
Local MSCI Index Return	0.0329*** (6.03)	0.0625*** (10.04)	0.0934*** (5.05)	0.0209 (0.74)
Total IPO Volume in the U.S.	0.000159*** (19.97)	0.000140*** (11.10)	0.000108** (2.40)	0.000124 (1.62)
VC Firm Under 6 Years Old * Style Drift	-0.00302 (-0.57)	0.0119 (1.51)	-0.0465 (-1.42)	0.0151 (0.29)
VC Firm IPO Record * Style Drift	-0.0131 (-0.77)	-0.0238** (-2.04)	0.0193 (0.65)	-0.0234 (-0.60)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	0.0917*** (2.62)	0.0328 (0.66)	-0.0420 (-0.58)	0.0228 (0.19)
Observations	151560	123236	10029	4748
Adjusted R-squared	0.079	0.081	0.069	0.077

Panel F. Indulgence versus Restraint Index (IVR) and Probability of IPO Exit

	Model 1: Top Half of IVR Subsample, Initial Investment Only	Model 2: Top Half of IVR Subsample, Follow-on Investment Only	Model 3: Bottom Half of IVR Subsample, Initial Investment Only	Model 4: Bottom Half of IVR Subsample, Follow- on Investment Only
Style Drift	0.0488*** (2.98)	-0.00782 (-0.30)	0.0228*** (6.77)	-0.00813* (-1.86)
VC Firm Under 6 Years Old	0.0437 (1.22)	0.0134 (0.27)	-0.0136*** (-4.70)	-0.0215*** (-4.08)
VC Firm IPO Record	0.0803*** (5.61)	0.0862*** (5.07)	0.0621*** (3.99)	0.0719*** (8.80)
Financing Amount	0.0231*** (4.74)	0.00179 (0.26)	0.0143*** (13.62)	0.0102*** (8.16)
VC Fund Size	0.0124* (1.82)	0.0117 (0.82)	-0.00174 (-1.42)	0.00251 (1.25)
Number of Co-investors	0.00101 (0.38)	-0.00319 (-0.59)	0.00857*** (21.68)	0.0115*** (22.08)
Domestic Investment	0 (.)	0 (.)	-0.0141*** (-3.21)	-0.0112 (-1.19)
California VC	-0.0530*** (-2.87)	-0.0895** (-2.42)	0.00539* (1.83)	0.0112** (2.52)
Local MSCI Index Return	0.0733*** (3.10)	-0.00948 (-0.28)	0.0359*** (6.69)	0.0614*** (9.89)
Total IPO Volume in the U.S.	0.000106 (1.41)	0.000272 (1.28)	0.000156*** (19.54)	0.000139*** (10.99)
VC Firm Under 6 Years Old * Style Drift	-0.0642 (-1.41)	-0.00185 (-0.02)	-0.00277 (-0.53)	0.0120 (1.52)
VC Firm IPO Record * Style Drift	0.0639** (2.10)	0.0132 (0.58)	-0.0135 (-0.79)	-0.0253** (-2.19)
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	-0.0338 (-0.32)	-0.0580 (-0.53)	0.0761** (2.23)	0.0387 (0.81)
Observations	5295	2304	155408	125237
Adjusted R-squared	0.083	0.134	0.079	0.081

Table 10. Subsample Analyses

Panel A. Early-Stage Fund Initial Investment Only

Table 10 Panel A. presents regressions evaluating the impact of Venture Capital investment style drift on the probability of investee company's IPO exit when early-stage Venture Capital funds made the first-ever investments to the investee company. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Style Drift	0.00928** (2.35)	0.0200*** (5.60)	0.00872** (2.21)	0.0194*** (5.42)
Final Round of Investment for the VC Fund	-0.0188*** (-6.46)	-0.0147*** (-5.26)	-0.0197*** (-6.77)	-0.0156*** (-5.59)
VC Firm Under 6 Years Old	-0.0145*** (-3.43)	-0.00659* (-1.82)	-0.0141*** (-3.33)	-0.00615* (-1.69)
VC Firm IPO Record	0.310*** (7.74)	0.298*** (9.01)	0.310*** (7.75)	0.298*** (9.05)
VC Firm Under 6 Years Old * Style Drift	0.00210 (0.36)	-0.00151 (-0.27)	0.00226 (0.39)	-0.00124 (-0.22)
VC Firm IPO Record * Style Drift	-0.273*** (-6.74)	-0.266*** (-7.86)	-0.273*** (-6.75)	-0.267*** (-7.89)
Financing Amount	0.0283*** (12.74)	0.0231*** (12.59)	0.0284*** (12.64)	0.0233*** (12.45)
VC Fund Size	0.00636*** (3.74)	0.00586*** (4.14)	0.00614*** (3.61)	0.00562*** (3.99)
California VC	-0.00663 (-1.46)	0.00283 (0.82)	-0.00779* (-1.72)	0.00152 (0.44)
Number of Co-investors	0.00591*** (6.28)	0.00425*** (5.18)	0.00587*** (6.25)	0.00423*** (5.17)
Number of Co-investors are Early-Stage Funds	-0.00197 (-1.06)	-0.000471 (-0.30)	-0.00132 (-0.71)	0.000212 (0.13)
Number of Co-investors are Late-Stage Funds	0.0210*** (5.18)	0.0229*** (5.76)	0.0215*** (5.31)	0.0234*** (5.90)
Investee Company Home Country Fixed Effect?	No	No	Yes	Yes
Investee Company Industry Fixed Effect?	No	Yes	No	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	0.0893*** (3.21)	0.180*** (4.45)	0.275 (1.38)	0.381* (1.90)
Observations	59020	59020	59020	59020
Adjusted R-squared	0.087	0.124	0.088	0.125

Panel B. Subsample Analyses: Late-Stage Fund Initial Investment Only

Table 10 Panel B presents regressions evaluating the impact of Venture Capital investment style drift on the probability of investee company's IPO exit when late-stage Venture Capital funds made the first-ever investments to the investee company. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Style Drift	0.0744*** (11.99)	0.0674*** (11.63)	0.0689*** (11.29)	0.0618*** (10.88)
Final Round of Investment for the VC Fund	0.00120 (0.31)	0.00219 (0.58)	-0.00172 (-0.45)	-0.000454 (-0.12)
VC Firm Under 6 Years Old	-0.00456 (-0.96)	-0.00455 (-0.97)	-0.00354 (-0.76)	-0.00360 (-0.78)
VC Firm IPO Record	0.0796*** (3.63)	0.0808*** (3.71)	0.0762*** (3.34)	0.0773*** (3.40)
VC Firm Under 6 Years Old * Style Drift	-0.00898 (-0.98)	-0.00713 (-0.81)	-0.00682 (-0.75)	-0.00480 (-0.55)
VC Firm IPO Record * Style Drift	-0.00454 (-0.19)	-0.00991 (-0.42)	-0.000439 (-0.02)	-0.00576 (-0.23)
Financing Amount	0.0275*** (12.62)	0.0276*** (13.18)	0.0273*** (12.85)	0.0274*** (13.37)
VC Fund Size	0.0162*** (8.02)	0.0161*** (8.43)	0.0154*** (7.81)	0.0154*** (8.17)
California VC	0.0260*** (3.92)	0.0279*** (4.60)	0.0248*** (3.71)	0.0265*** (4.35)
Number of Co-investors	0.0100*** (6.87)	0.00716*** (5.93)	0.00967*** (6.59)	0.00682*** (5.65)
Number of Co-investors are Early-Stage Funds	-0.00162 (-0.45)	-0.00196 (-0.56)	0.00119 (0.33)	0.000737 (0.21)
Number of Co-investors are Late-Stage Funds	0.00164 (0.45)	0.00625* (1.90)	0.00454 (1.24)	0.00896*** (2.72)
Investee Company Home Country Fixed Effect?	No	No	Yes	Yes
Investee Company Industry Fixed Effect?	No	Yes	No	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	-0.109** (-2.24)	0.117* (1.65)	0.0143 (0.09)	0.217 (1.25)
Observations	38283	38283	38283	38283
Adjusted R-squared	0.083	0.102	0.091	0.109

Panel C. Subsample Analyses: Early-Stage Fund Follow-on Investment Only

Table 10 Panel C presents regressions evaluating the impact of Venture Capital investment style drift on the probability of investee company's IPO exit when early-stage Venture Capital funds made follow-on investments to the investee company. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Style Drift	-0.0366*** (-4.98)	-0.0126** (-2.13)	-0.0359*** (-4.90)	-0.0119** (-2.02)
Final Round of Investment for the VC Fund	-0.0188*** (-5.36)	-0.0106*** (-3.31)	-0.0192*** (-5.52)	-0.0112*** (-3.50)
VC Firm Under 6 Years Old	-0.0395*** (-3.60)	-0.0207** (-2.18)	-0.0394*** (-3.63)	-0.0205** (-2.19)
VC Firm IPO Record	0.418*** (12.86)	0.375*** (6.06)	0.419*** (12.83)	0.376*** (6.04)
VC Firm Under 6 Years Old * Style Drift	0.0388*** (3.35)	0.0248** (2.40)	0.0391*** (3.42)	0.0250** (2.45)
VC Firm IPO Record * Style Drift	-0.374*** (-10.98)	-0.339*** (-5.41)	-0.375*** (-10.96)	-0.340*** (-5.39)
Financing Amount	0.0330*** (16.44)	0.0279*** (15.12)	0.0330*** (16.46)	0.0278*** (15.09)
VC Fund Size	0.0103*** (2.90)	0.00902*** (3.18)	0.0104*** (2.93)	0.00913*** (3.22)
California VC	-0.00277 (-0.37)	0.0100 (1.58)	-0.00338 (-0.45)	0.00910 (1.42)
Number of Co-investors	0.0102*** (10.60)	0.00857*** (9.40)	0.0103*** (10.64)	0.00863*** (9.42)
Number of Co-investors are Early-Stage Funds	0.00208 (0.80)	0.00177 (0.72)	0.00225 (0.85)	0.00211 (0.84)
Number of Co-investors are Late-Stage Funds	0.00795* (1.72)	0.0111** (2.46)	0.00775* (1.67)	0.0111** (2.45)
Investee Company Home Country Fixed Effect?	No	No	Yes	Yes
Investee Company Industry Fixed Effect?	No	Yes	No	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	-0.0670 (-1.24)	0.0210 (0.29)	-0.286*** (-5.08)	-0.139* (-1.87)
Observations	56190	56190	56190	56190
Adjusted R-squared	0.065	0.107	0.067	0.109

Panel D. Subsample Analyses: Late-Stage Fund Follow-on Investment Only

Table 10 Panel D presents regressions evaluating the impact of Venture Capital investment style drift on the probability of investee company's IPO exit when late-stage Venture Capital funds made follow-on investments to the investee company. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Style Drift	0.0668*** (6.43)	0.0633*** (6.68)	0.0646*** (6.33)	0.0611*** (6.51)
Final Round of Investment for the VC Fund	0.00251 (0.54)	0.00488 (1.07)	0.000815 (0.18)	0.00312 (0.69)
VC Firm Under 6 Years Old	0.00135 (0.12)	0.00354 (0.34)	0.00160 (0.15)	0.00365 (0.35)
VC Firm IPO Record	0.117*** (3.01)	0.119*** (3.14)	0.118*** (3.04)	0.120*** (3.16)
VC Firm Under 6 Years Old * Style Drift	-0.0217 (-1.21)	-0.0227 (-1.32)	-0.0221 (-1.24)	-0.0230 (-1.34)
VC Firm IPO Record * Style Drift	-0.0497 (-1.27)	-0.0554 (-1.45)	-0.0535 (-1.37)	-0.0590 (-1.55)
Financing Amount	0.0217*** (7.16)	0.0219*** (7.24)	0.0213*** (6.97)	0.0214*** (7.03)
VC Fund Size	0.0177*** (4.10)	0.0183*** (4.39)	0.0171*** (3.95)	0.0179*** (4.25)
California VC	0.0433*** (3.25)	0.0440*** (3.62)	0.0441*** (3.33)	0.0447*** (3.67)
Number of Co-investors	0.0156*** (6.14)	0.0121*** (5.67)	0.0153*** (5.94)	0.0118*** (5.49)
Number of Co-investors are Early-Stage Funds	-0.0166*** (-2.76)	-0.0151*** (-2.59)	-0.0152** (-2.49)	-0.0137** (-2.34)
Number of Co-investors are Late-Stage Funds	-0.0112* (-1.75)	-0.00409 (-0.68)	-0.00943 (-1.48)	-0.00252 (-0.42)
Investee Company Home Country Fixed Effect?	No	No	Yes	Yes
Investee Company Industry Fixed Effect?	No	Yes	No	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes
Constant	-0.0679 (-0.41)	0.213 (1.16)	-0.00236 (-0.01)	0.256 (1.32)
Observations	21775	21775	21775	21775
Adjusted R-squared	0.083	0.108	0.091	0.115

Figure 1. IPO Exits and Style Drifts in Venture Capitals' Initial Investment

In Figure 1, the horizontal axis shows the percentage of VC funds committed style drifts in initial investments; the vertical axis shows the number of IPO exits for each level of VC fund style drift in initial investment. Specifically, first, we calculate the percentage of VC funds committed style drift in their initial investments for each investee company; next, we rank the percentage of VC funds committed style drift in their initial investments and sort them into 100 levels: the 1st level represents the least (minimum) style drifts in VCs' initial investment while the 100th level represents the most (maximum) style drifts in VCs' initial investment; finally, at each level, we count the number of companies with IPO exits and plot the relationships on the chart.

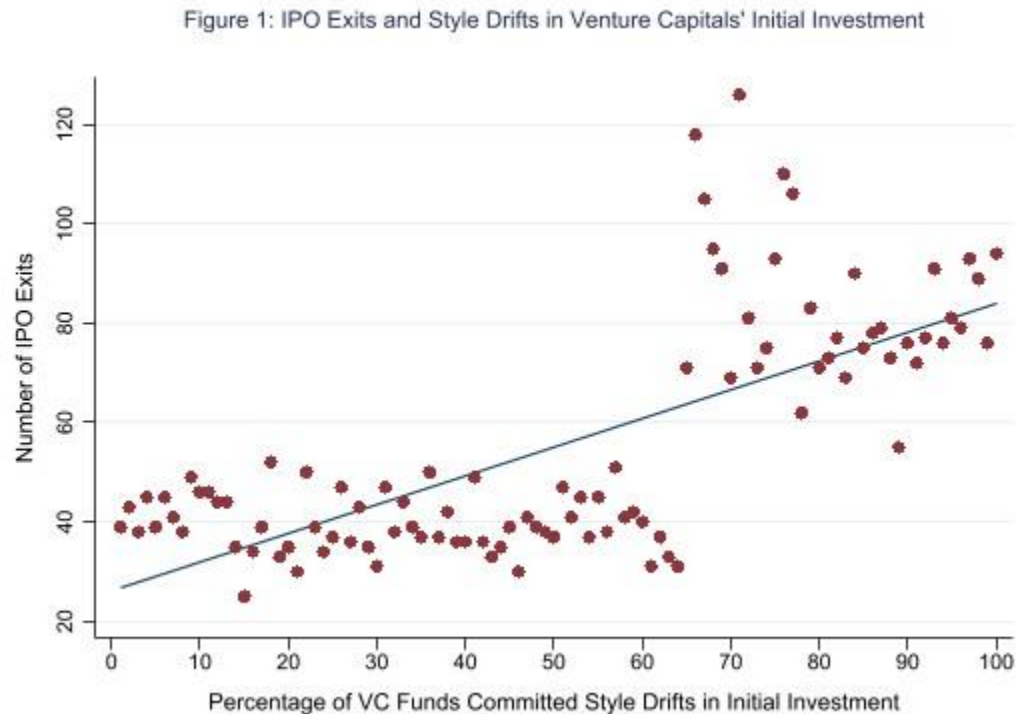
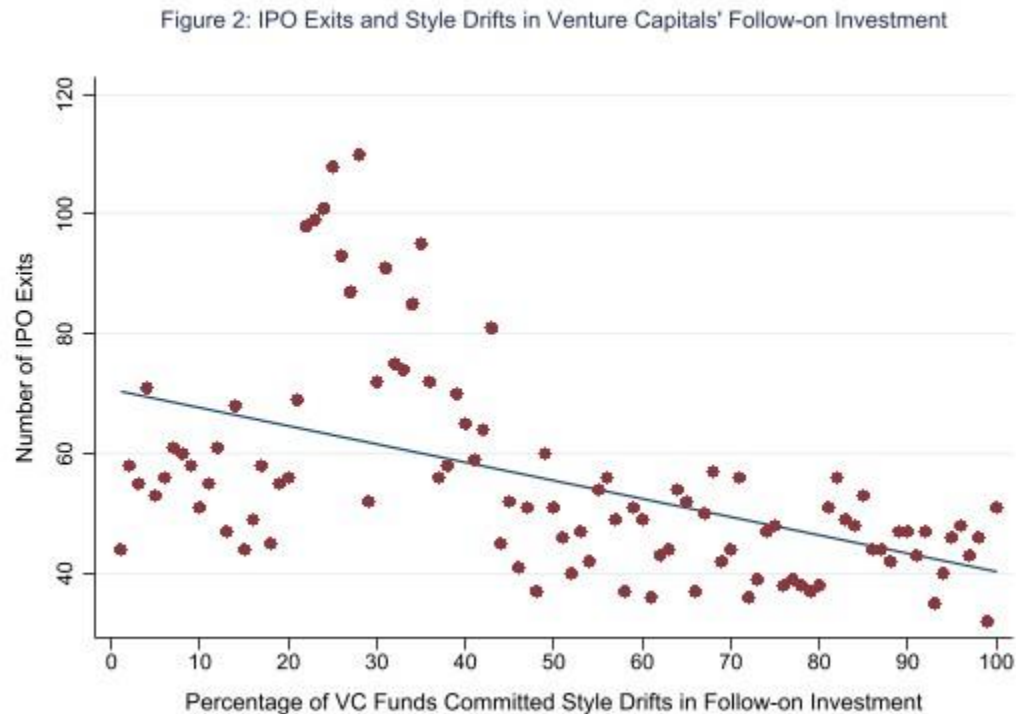


Figure 2. IPO Exits and Style Drifts in Venture Capitals' Follow-on Investment

In Figure 2, the horizontal axis shows the percentage of VC funds committed style drifts in follow-on investments; the vertical axis shows the number of IPO exits for each level of VC fund style drift in follow-on investment. Specifically, first, we calculate the percentage of VC funds committed style drift in their follow-on investments for each investee company; next, we rank the percentage of VC funds committed style drift in their follow-on investments and sort them into 100 levels: the 1st level represents the least (minimum) style drifts in VCs' initial investment while the 100th level represents the most (maximum) style drifts in VCs' follow-on investment; finally, at each level, we count the number of companies with IPO exits and plot the relationships on the chart.



Appendix I Robustness Checks

Appendix I Table 1 Style Drift and Probability of IPO Exit—Robustness Checks

Appendix I Table 1 presents regressions evaluating the impact of Venture Capital investment style drift on the probability of IPO exit. Models 1 and 2 are restricted to the subsample of initial investments only. Models 3 and 4 are restricted to the subsample of follow-on investments only. Models 5 and 6 cover all investments in the dataset. T statistics are in parentheses. Investee company industry fixed effects, investee company nationality fixed effects, and investment round year fixed effects are applied. Standard errors are clustered at Venture Capital fund code level. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Initial Investments Only		Follow-on Investments Only		All Investments	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Style Drift	0.0192*** (7.59)	0.0205*** (6.62)	-0.0121*** (-2.85)	-0.0146*** (-3.17)	0.00802*** (3.08)	0.00660** (2.17)
Style Drift in Initial Round			0.0183*** (3.57)	0.0186*** (3.62)		
VC Firm Under 6 Years Old	-0.00731*** (-3.22)	-0.00665*** (-2.60)	-0.0108*** (-2.60)	-0.0185*** (-3.61)	-0.00852*** (-3.48)	-0.0113*** (-4.07)
VC Firm IPO Record	0.0523*** (7.10)	0.0592*** (4.24)	0.0576*** (9.09)	0.0718*** (9.27)	0.0550*** (9.70)	0.0650*** (6.26)
Financing Amount	0.0277*** (23.79)	0.0277*** (23.82)	0.0252*** (19.88)	0.0251*** (19.83)	0.0270*** (27.38)	0.0270*** (27.43)
VC Fund Size	0.00819*** (8.44)	0.00819*** (8.45)	0.0135*** (7.28)	0.0135*** (7.30)	0.0108*** (8.81)	0.0108*** (8.84)
Number of Co-investors	0.00658*** (17.13)	0.00657*** (17.10)	0.00866*** (16.77)	0.00865*** (16.76)	0.00739*** (20.46)	0.00738*** (20.47)
California VC	0.00161 (0.63)	0.00168 (0.66)	0.00206 (0.48)	0.00238 (0.56)	0.00108 (0.36)	0.00125 (0.43)
VC Firm Under 6 Years Old * Style Drift		-0.00265 (-0.55)		0.0194*** (2.66)		0.00894* (1.95)
VC Firm IPO Record * Style Drift		-0.0154 (-0.98)		-0.0277** (-2.45)		-0.0207* (-1.72)
Initial Investment					-0.00960*** (-5.83)	-0.00952*** (-5.79)
Investee Company Home Country Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.256** (2.56)	0.256** (2.56)	0.167* (1.76)	0.171* (1.80)	0.228*** (2.80)	0.229*** (2.81)
Observations	161712	161712	128013	128013	289725	289725
Adjusted R-squared	0.114	0.114	0.105	0.105	0.109	0.109

Appendix I Table 2 Detailed Style Drift Analysis—Robustness Checks (Part 1)

Appendix I Table 2 presents detailed regressions evaluating the impact of Venture Capital investment style drift on the probability of IPO exit based on the types of VC investors and conditions of investee companies. Investee company industry fixed effects, investee company nationality fixed effects, and investment round year fixed effects are applied. Standard errors are clustered at Venture Capital fund code level. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Original VC Investor			New VC Investor		
	Investee Company has no Prior Financing Round			Investee Company has Prior Financing Round with Another VC		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Up Drift	0.00275 (0.52)		0.00264 (0.50)	-0.00376 (-0.95)		-0.00349 (-0.88)
VC Firm IPO Record * Up Drift	-0.00797 (-0.27)		-0.00757 (-0.25)	-0.0353*** (-2.59)		-0.0353*** (-2.59)
VC Firm Under 6 Years Old * Up Drift	0.00548 (0.71)		0.00547 (0.71)	-0.000311 (-0.05)		-0.000968 (-0.14)
Down Drift		-0.00358 (-0.48)	-0.00340 (-0.46)		0.0128 (1.02)	0.0120 (0.95)
VC Firm IPO Record * Down Drift		0.785*** (29.58)	0.783*** (24.65)		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		-0.00165 (-0.12)	-0.00113 (-0.08)		-0.0273 (-1.21)	-0.0274 (-1.21)
VC Firm Under 6 Years Old	-0.00846*** (-3.34)	-0.00797*** (-3.22)	-0.00847*** (-3.29)	-0.00327 (-0.83)	-0.00267 (-0.80)	-0.00260 (-0.66)
VC Firm IPO Record	0.0632** (2.28)	0.0610*** (2.97)	0.0628** (2.28)	0.0599*** (5.60)	0.0487*** (7.26)	0.0599*** (5.60)
Financing Amount	0.0167*** (14.06)	0.0167*** (14.07)	0.0167*** (14.06)	0.0394*** (26.86)	0.0396*** (26.72)	0.0394*** (26.85)
VC Fund Size	0.00862*** (7.68)	0.00854*** (7.64)	0.00862*** (7.68)	0.00724*** (5.42)	0.00739*** (5.51)	0.00724*** (5.43)
Number of Co-investors	0.00651*** (13.20)	0.00651*** (13.20)	0.00652*** (13.23)	0.00344*** (6.95)	0.00341*** (6.88)	0.00343*** (6.93)
California VC	-0.00436* (-1.72)	-0.00445* (-1.74)	-0.00446* (-1.75)	0.00460 (1.34)	0.00412 (1.20)	0.00460 (1.34)
Investee Company Home Country Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.228*** (2.75)	0.229*** (2.75)	0.229*** (2.75)	0.524** (2.42)	0.519** (2.42)	0.521** (2.42)
Observations	82342	82342	82342	79370	79370	79370
Adjusted R-squared	0.094	0.094	0.094	0.123	0.123	0.123

Appendix I Table 2 Detailed Style Drift Analysis—Robustness Checks (Part 2)

	Follow-on VC Investor Investee Company was at an early stage in Prior Financing Round with the same VC			Follow-on VC Investor Investee Company was at a late stage in Prior Financing Round with the same VC		
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
	Up Drift	-0.0212*** (-3.96)		-0.0213*** (-3.96)	-0.0210*** (-3.93)	
VC Firm IPO Record * Up Drift	-0.0462*** (-3.22)		-0.0448*** (-3.15)	-0.0305** (-2.21)		-0.0305** (-2.21)
VC Firm Under 6 Years Old * Up Drift	0.0275** (2.26)		0.0285** (2.34)	0.0170* (1.79)		0.0180* (1.89)
Down Drift		0.00116 (0.05)	-0.00411 (-0.19)		-0.0195 (-0.70)	-0.0265 (-0.95)
VC Firm IPO Record * Down Drift		0.851*** (30.60)	0.823*** (29.74)		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		0.0208 (0.47)	0.0286 (0.65)		0.111** (1.98)	0.119** (2.11)
VC Firm Under 6 Years Old	-0.0189** (-2.55)	-0.0121* (-1.84)	-0.0199*** (-2.67)	-0.0158** (-2.57)	-0.0101** (-2.03)	-0.0168*** (-2.72)
VC Firm IPO Record	0.0722*** (6.72)	0.0428*** (4.88)	0.0708*** (6.70)	0.0721*** (10.23)	0.0632*** (9.61)	0.0721*** (10.23)
Financing Amount	0.0319*** (16.78)	0.0316*** (16.74)	0.0318*** (16.74)	0.0236*** (15.33)	0.0240*** (15.43)	0.0236*** (15.31)
VC Fund Size	0.0152*** (5.01)	0.0153*** (5.05)	0.0152*** (5.00)	0.0106*** (4.94)	0.0115*** (5.35)	0.0106*** (4.93)
Number of Co-investors	0.0105*** (11.83)	0.0106*** (11.84)	0.0106*** (11.88)	0.00733*** (12.32)	0.00711*** (11.97)	0.00734*** (12.34)
California VC	-0.00489 (-0.80)	-0.00591 (-0.95)	-0.00511 (-0.83)	0.00818 (1.62)	0.00523 (1.03)	0.00818 (1.61)
Investee Company Home Country Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.159 (0.62)	0.154 (0.59)	0.151 (0.58)	0.207* (1.68)	0.204* (1.65)	0.207* (1.68)
Observations	31055	31055	31055	81632	81632	81632
Adjusted R-squared	0.152	0.152	0.153	0.091	0.090	0.091

Appendix I Table 2 Detailed Style Drift Analysis—Robustness Checks (Part 3)

	Other VC Investor Investee Company Stage Unclear		
	Model 13	Model 14	Model 15
Up Drift	-0.0137** (-2.11)		-0.0144** (-2.22)
VC Firm IPO Record * Up Drift	-0.0345 (-1.38)		-0.0344 (-1.37)
VC Firm Under 6 Years Old * Up Drift	0.0233* (1.66)		0.0227 (1.60)
Down Drift		-0.0540** (-2.10)	-0.0572** (-2.23)
VC Firm IPO Record * Down Drift		0 (.)	0 (.)
VC Firm Under 6 Years Old * Down Drift		-0.0126 (-0.28)	-0.00631 (-0.14)
VC Firm Under 6 Years Old	-0.0155** (-2.04)	-0.00865 (-1.32)	-0.0149* (-1.95)
VC Firm IPO Record	0.0575*** (3.18)	0.0436*** (3.41)	0.0573*** (3.17)
Financing Amount	0.0160*** (7.31)	0.0159*** (7.29)	0.0158*** (7.26)
VC Fund Size	0.0169*** (7.14)	0.0175*** (7.47)	0.0170*** (7.16)
Number of Co-investors	0.0107*** (8.24)	0.0106*** (8.15)	0.0108*** (8.26)
California VC	-0.00360 (-0.63)	-0.00557 (-0.96)	-0.00392 (-0.68)
Investee Company Home Country Fixed Effect?	Yes	Yes	Yes
Investment Round Year Fixed Effect?	Yes	Yes	Yes
Investee Company Industry Fixed Effect?	Yes	Yes	Yes
Standard Errors Clustered at VC Fund Code Level?	Yes	Yes	Yes
Constant	0.207 (1.64)	0.202 (1.60)	0.206 (1.63)
Observations	15326	15326	15326
Adjusted R-squared	0.093	0.093	0.094

Appendix II. Legal Environment and IPO Exit

Appendix II presents regressions evaluating the impact of local legislative environment on the probability of investee companies' IPO exits. Appendix II shows that, for the subsample of initial VC investments, better legislative environment, measured by stronger strength of legal right, higher minority shareholder score, and higher getting credit score, enhances the probability of investee companies' IPO exit. We also tested the impact of legislative environment on the probability of investee companies' IPO exits for VC follow-on investments, the results are not statistically significant and thus not reported for conciseness.

Variable Name	Variable Definition	Min	Mean	Median	Max	S.D.	Sample Period
Strength of Legal Right	The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The index ranges from 0 to 12 based on the methodology in the DB15-20 studies. (Data source: World Bank)	0	10.3548	11	12	1.8129	2014-2020
Minority Shareholder Score	The score for protecting minority investors benchmarks economies with respect to the regulatory best practice on the indicator set. The score is indicated on a scale from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance and is computed based on the methodology in the DB15-20 studies. (Data source: World Bank)	0	71.6035	71.6	92	5.3452	2014-2020
Getting Credit Score	The total score for getting credit is the sum of the strength of legal rights index and the depth of credit information index, based on the methodology in the DB15-20 studies. (Data source: World Bank)	0	18.2263	19	20	2.2411	2014-2020

Appendix II. Legal Environment and IPO Exit

Appendix III presents regressions evaluating the impact of local legislative environment on the probability of IPO exit. Data sourced from the World Bank are based on the methodology in the DB15-20 studies (<https://databank.worldbank.org/source/doing-business#>). For the data sourced from the World Bank, data are collected by the World Bank Group with a standardized questionnaire that uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and nature of its operation. Questionnaires are administered to more than 13,800 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements. Only initial investments are included in analyses. T statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Style Drift	0.0152*** (5.40)	0.0152*** (5.41)	0.0152*** (5.40)	0.0153*** (5.42)
VC Firm Under 6 Years Old	-0.0153*** (-6.09)	-0.0155*** (-6.18)	-0.0156*** (-6.18)	-0.0155*** (-6.18)
VC Firm IPO Record	0.140*** (18.21)	0.141*** (18.25)	0.141*** (18.25)	0.141*** (18.25)
Financing Amount	0.0308*** (34.04)	0.0309*** (34.13)	0.0308*** (34.10)	0.0309*** (34.12)
VC Fund Size	0.00883*** (8.14)	0.00879*** (8.11)	0.00886*** (8.17)	0.00879*** (8.11)
Number of Co-investors	0.0106*** (24.94)	0.0105*** (24.86)	0.0105*** (24.83)	0.0105*** (24.84)
Total IPO Volume in the U.S.	0.000176*** (6.03)	0.000174*** (5.95)	0.000176*** (6.03)	0.000173*** (5.91)
Domestic Investment	0.00188 (0.19)	-0.0174 (-1.49)	-0.00652 (-0.63)	-0.0153 (-1.35)
Strength of Legal Right		0.00424*** (3.15)		
Minority Shareholder Score			0.00106*** (3.46)	
Getting Credit Score				0.00372*** (3.17)
Control for Stock Market Cap to GDP	Yes	Yes	Yes	Yes
Control for GDP (in 2015 dollar)?	Yes	Yes	Yes	Yes
Control for GDP per Capita?	Yes	Yes	Yes	Yes
Investee Company Industry Fixed Effect?	Yes	Yes	Yes	Yes
Constant	-0.139 (-1.61)	-0.214** (-2.38)	-0.337*** (-3.25)	-0.216** (-2.41)
Observations	40691	40691	40691	40691
Adjusted R-squared	0.192	0.192	0.192	0.192

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