

Discussion on: Impact Investing and the Venture Capital Industry: Experimental Evidence

Discussant:

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Thank You for Invitation to Discuss

- Enjoying the Conference
- Excited to read and review paper
 - We cite your experimental work in our research
 - Hypothetical Choice Experiments rare in finance
 - Impact Investing an emerging topic: Environment and Social
- Caveats to my Discussion
 - Work at intersection accounting and finance
 - Blinds spots in my knowledge of investment finance
- Career in archival research
 - Recent work with field experiments in startup ecosystem
 - Still learning about experimental methods
 - Some of my questions may reflect my inexperience rather than real concerns about the study

Comments and Thoughts

– Well-Written Paper: Easy to understand what is done

– Role of Discussant

- Hold Hands and praise the paper or
- Critical Analysis: Overview of main idea and identify threats to evaluating the contribution – suggestions for improving
- High Quality Paper: Discussion on secondary points!



– Background: Non-Archival Evidence

- *Standard Survey* - Provides information on stated preferences
- *Hypothetical Choice Experiment (HCE)*
 - Adds experimental component to survey in the field
 - Make a hypothetical choice (Carlsson and Martinsson, 2001)
 - Hypothetical Bias: Influence of virtuous expectations on choices
 - More refined version of stated preferences (Moser et al., 2014)
 - Can add incentives to reveal preferences
- *Randomized Field Experiment (RFE)*
 - Make a real choice
 - Provides Information on revealed preferences
- Stated-to-Revealed Preferences: Survey → Class Exp → HCE → RFE

Study Setting and Results

- A Field-Based Choice Experiment
 - Incentivized Resume Rating (IRR)
 - VCs given fictitious startup profiles
 - Startups vary by their characteristics
- 69 people evaluating 1,200 synthetic startups
- Real world question – What is the effect of startups’ ESG characteristics on an investors’ expectations of startups’ financial performance and investment decisions?
- Results
 - VCs have lower profit expectations of startups with impact
 - VCs spend more time evaluating startups with impact
 - VCs exhibit more willingness to contact startups with impact



- Word Smithing: A small issue that I fixated on
- Synthetic Securities
 - Securities developed to simulate other instruments (Hu, 2020)
 - Synthetic credit ratings (Damadoran, 2010) - Estimate ratings for unrated firms using rated firms and financial ratios.
 - Synthetic bond prices – prices interpolated based on traded bonds
- “Synthetic” makes me think of estimates replicating real data
- Fictitious information
 - Field experiments often rely on fictitious or fictional characters
 - Don’t have to parallel real distribution of data
- This study
 - Synthetic mission statements – created from real statements
 - Fictional Startups
 - 25% white female; 25% Asian female
 - More fictional than synthetic: **recommend relabeling**
 - Manage the readers expectations

Comment 2: Why HCE?

- Current framing
 - Observational data difficult: Only completed deals; no startup ESG ratings
 - Use experimental method to evaluate
 - But why this experimental method from Kessler et al. (2019: AER)
- Why HCE and not field experiment?
 - Easier IRB approval than deception-based field based due to ethics
 - Easier to undertake or construct than standard field experiment
- Costs of HCE vs field experiment
 - Inferences more limited
 - Concerns about hypothetical bias
 - Gender representation ques VC about social issues (you recognize and highlight this concern in footnote 12 – gives reader greater confidence but still a concern)
 - Improvement over survey – give incentive to reveal true preferences
 - Is incentivized HCE the best tool?
 - **Suggestion:**
 - Important question with a nice research design
 - *Brief discussion on why HCE and not field experiment*

Comment 3: VC Observable

- VC identity is observable
 - How does observability effect hypothetical choice bias?
 - Distance between survey – Class Exp - HCE – field experiment
- VCs as Participants
 - VCs: Care enormously about reputation
 - Is hypo bias larger, smaller, same?
 - Assume for thought experiment
 - VCs focus on ESG for raising money
 - If true, do VCs suffer from more hypothetical bias?
 - Experimental results seem consistent with this concern
- **Suggestion:** Repeat experiment and make the VC identities unobservable. Pre experiment separate the VCs into two groups
 - High ESG
 - Low ESG
- If get same result: Helps mitigate concerns about hypothetical bias



Comment 4: Incentivized HCE

- Experimental Design
 - Survey & Lab: People tilt to pro-social for sensitive preferences
 - Survey & Lab: Overemphasize pro-social (noted in section 2)
 - High-Powered incentives motivate VCs to reveal true preferences
 - *“they are willing to reveal their true investment preferences to match their preferred real startups in these incubators and maximize their potential financial reward.”*
- How should reader gauge the strength or power of the incentives
 - “Matching Incentive” – once understand their taste – VCs given profiles of matched startups
 - How big or good is the pool of potential matches?; How new are these potential matched startups?
 - What would a low power incentive look like in this setting?
 - Stated in the text that it is high powered
 - How calculate the power of the incentive?
 - How do participants know the power of the incentive?
 - “Monetary Incentive”: Lottery where 2 participants receive \$500
 - How assess whether this is high-powered incentive for VCs?
 - Would this expectation of potentially winning 500 give VCs incentive to reveal anti-social preferences?
- **Suggestion:** *Discussion on evaluate the power of incentives*

Comment 5: Picky Design Details

- Experimental Power
 - Experimental power calculations?
 - What are minimum detectable effects?
 - **Suggestion:** *Provide power calculations*
- Experimental Analysis (Same pattern as firm-year observations)
 - 6 people evaluated 32 fictional startups (192)
 - 63 evaluated 16 fictional startups (1,008)
 - Table 3: Average Treatment effects from Kessler et al (2019):
 - Computed as 1,216 evaluations or observations
 - Errors clustered at the investor level (69)
 - **Suggestion:** Discuss how results differ if compute each person's preferences and then evaluate sample of 69?
- 15,000 US Based VCs
 - 69 respond - Response rate: 0.0046
 - How evaluate: Study notes these might not represent full 15K sample
 - This is always true in experiment
 - Currently, paper just says similar to Kessler et al (2019)
 - What is the benchmark for evaluating sample size?
 - **Suggestion:** *Provide some simple statistics about probability that sample represents the population. Can be coupled with power calculations*

- Noteworthy and Novel Paper
- Interesting Idea - Incentivized hypothetical choice experiment on role of impact investing on VC investment decisions
- Informative description on Incentivized Rating Experiments
- I learned a lot reading the paper
- Well written on important topic