



Will VCs Invest at a Distance During and After a Crisis?

Evidence from the 2008 Financial Crisis

Samuel Wilson, Christopher Willis, Dr. Jing Zhang

Introduction

- Modern business is shaped by significant exogenous shocks [1]
- Contemporary research on Venture Capitalists (VCs) has looked at sector changes in investment strategies, but not geographical area [2]
- **AIM:** Understand how major shocks and crises impact the geographical areas where VCs invest

Hypotheses

- [H1]** The distance between VCs and their investment targets decreases from pre-shock levels during and after a crisis.
- [H2]** The distance between VCs and their investment targets increases from pre-shock levels during and after a crisis.

Sample & Method

- 11,564 Crunchbase VC funding rounds from 2005Q1 to 2012Q4
- DV: Geographical Distance between Lead VC and Fundee
- IV: VC Funding Period
- Method: Ordinary Least Squares Regression (OLS)

Findings

Driving Distance KM												
Dependent variable:												
Distance_KM												
	CA VC			MA VC			NY VC			OTH VC		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
Pre_Shock	-128.138** (61.841)		-256.250* (138.650)			-111.780 (137.962)			141.080** (64.298)			
During_Shock	-137.790 (90.693)			-60.381 (187.069)			-47.419 (202.944)			18.184 (86.536)		
Post_Shock		204.110*** (63.667)			312.817** (143.988)			135.130 (138.659)			-156.106** (65.329)	
Raised_USD	0.004** (0.002)	0.004** (0.002)	0.004** (0.002)	0.017*** (0.005)	0.017*** (0.005)	0.017*** (0.005)	-0.001 (0.003)	-0.001 (0.003)	-0.001 (0.003)	0.006*** (0.001)	0.006*** (0.001)	0.006*** (0.001)
Investor_Count	-7.341 (15.744)	-3.934 (15.626)	-11.026 (15.792)	82.762** (39.324)	85.438** (39.393)	80.004** (39.347)	37.081 (28.456)	39.299 (28.325)	36.024 (28.516)	95.125*** (17.469)	96.960*** (17.511)	96.979*** (17.450)
KM10	1,411.912*** (94.522)	1,409.022*** (94.528)	1,418.339*** (94.477)	1,939.640*** (190.271)	1,910.047*** (190.114)	1,938.758*** (189.915)	2,832.275*** (167.745)	2,819.417*** (167.022)	2,840.413*** (168.361)	1,497.922*** (82.176)	1,512.046*** (82.045)	1,498.684*** (82.097)
Constant	29.524 (103.676)	-20.510 (98.918)	-103.392 (99.868)	-342.400 (213.255)	-437.021** (209.149)	-568.556*** (212.333)	-78.971 (180.566)	-119.444 (173.008)	-190.922 (184.784)	-264.727*** (83.017)	-222.102*** (82.371)	-146.051* (85.768)
Observations	3,469	3,469	3,469	772	772	772	643	643	643	1,919	1,919	1,919
R ²	0.063	0.063	0.065	0.138	0.135	0.140	0.316	0.315	0.316	0.192	0.190	0.193
Adjusted R ²	0.062	0.062	0.064	0.134	0.130	0.135	0.312	0.311	0.312	0.190	0.188	0.191
Residual Std. Error	1,798.951 (df = 3464)	1,799.466 (df = 3464)	1,797.401 (df = 3464)	1,915.101 (df = 767)	1,919.230 (df = 767)	1,913.482 (df = 767)	1,711.606 (df = 638)	1,712.413 (df = 638)	1,711.213 (df = 638)	1,391.298 (df = 1914)	1,393.031 (df = 1914)	1,390.973 (df = 1914)
F Statistic	58.391*** (df = 4; 3464)	57.862*** (df = 4; 3464)	59.986*** (df = 4; 3464)	30.779*** (df = 4; 767)	29.823*** (df = 4; 767)	31.156*** (df = 4; 767)	73.664*** (df = 4; 638)	73.444*** (df = 4; 638)	73.771*** (df = 4; 638)	113.799*** (df = 4; 1914)	112.326*** (df = 4; 1914)	114.075*** (df = 4; 1914)
Note:											*p<0.1; **p<0.05; ***p<0.01	

Findings for CA VCs show a significantly shorter distance or distance decrease before and during the shock, followed by a distance increase after. MA and NY VCs saw similar patterns, though with weaker effects. VCs in other states witnessed significantly greater distance before the crisis, but this distance decreased during and after the crisis.

Discussion

- Findings show that VC geographic investment strategies vary for VC in hubs (NY, CA, MA) and elsewhere
- VCs in NY, MA and CA did reduce geographical scope of investment during the crisis, but pattern was short-term
- VC geographic investment scope increased after crisis
- Network theory suggests that VCs operating in established hubs may have superior networks in comparison to others, allowing them to recover from and expand after shocks

References

[1] Argyres, N., Mahoney, J. T., & Nickerson, J. (2019). Strategic responses to shocks: Comparative adjustment costs, transaction costs, and opportunity costs. *Strategic Management Journal*. 40(3): 357-376.

[2] Conti, A., Dess, N., Di Lorenzo, F., & Graham, S. J. (2019). Venture capital investment strategies under financing constraints: Evidence from the 2008 financial crisis. *Research Policy*. 48(3): 799-812.