Discussion of "Group Decision Making Under Real World Uncertainty: Internal Evidence from a Venture Capital Accelerator"

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Overview of the Paper

- Uses a rich, unique dataset to study how VC investors make decisions, and document three results:

    1. VCs exhibit in-group biases when evaluating pre-revenue firms.
        $\rightarrow$ VC judges who share an affinity-based trait with a startup's founder (e.g., gender, ethnicity, and/or prior schooling) consistently assign higher scores to those startups.

    2. These in-group biases are prevalent in solo-judge settings but largely disappear in collaborative ("group") settings.

    3. "Consensus" decision rules, on average, better detect higher-quality startups, whereas a "champion" rule may be superior at identifying outlier, high-potential startups.

My overall assessment

- Important research agenda and incredible **rich data**. There's a lot to like about the paper.
- This paper (and their future work) can really shed light on the decision making of VCs, and valuation of private companies, especially pre-revenue ones.
- Thoughtful work.

My comments and suggestions:

- Hypothesis and contribution (Comment 1).
- Empirical issues (Comment 2).
- Additional tests (Comment 3).
- Future work (Comment 4).

Comment 1: Hypothesis & Contribution

- Paper seems to be in the middle of a transition (documenting facts about VC decision making $\rightarrow$ testing a specific hypothesis)
- Current draft leads with data and then hypothesis. It makes me appreciate less the hypothesis, since I start thinking what's best use of this data.
- I suggest you flipping this ordering. But I also think that you can sharpen your hypothesis, connecting it better with the theoretical and empirical literature.

Comment 1: Hypothesis & Contribution

- There is a large literature (theoretical and empirical) documenting that collective decisions are more efficient and solo decisions. (Charness & Sutter 2012; Blinder & Morgan 2005; Blinder & Morgan 2007; Wolfers & Zitzewitz 2004; Wolfers & Zitzewitz 2006, Austen-Smith & Banks 1996; McLennan 1998; Sah & Stiglitz 1986; Sah & Stiglitz 1984; Cowgill Zitzewitz 2015)

  $\rightarrow$ **Benefits of collective decisions**: Error-canceling and de-biasing.

- The paper is trying to make a big point about collective versus solo decisions in a corporate setting, but, in my view, runs the risk of offering a small contribution to this literature.

Comment 1: Hypothesis & Contribution

- In a VC setting there is a trade-off that is unique and not present in other settings.

  → **Cost of collective decisions**: Convergence to the median might prevent identification of unicorns.

- You already offer some evidence of this trade-off: Collective decisions lead to better average returns, but solo decisions are better at identifying really high variance start-ups.

- More evidence on this trade-off would help the paper, especially the conditions that lead solo VCs to identify unicorns (e.g., whether experience, or other characteristics, allow solo decisions to be more successful at picking unicorns). More on comment 3.

- Evidence consistence with Chen, Hong, Huang & Kubik (2004).

Comment 2: Empirical Issues P1

- The current draft makes an important point on the importance of collective decisions in de-biasing solo decisions.
- However, it is unclear whether the selection to the first round of interviews drives the results.

Scoring outcome variable	Overall pre-interview score	Overall pre-interview score	Overall pre-interview score	Overall pre-interview score
Application subsample	Pre-revenue firms	Not pre-revenue firms	No prior founding experience	Does have prior founding experience
	(1)	(2)	(3)	(4)
Shared gender	0.07**	0.00	0.06*	-0.01
	(0.03)	(0.02)	(0.03)	(0.02)
Shared ethnicity	0.08***	0.01	0.09***	0.00
	(0.02)	(0.02)	(0.03)	(0.03)
Shared education	0.06**	-0.01	0.07**	-0.01
	(0.03)	(0.03)	(0.03)	(0.04)
Shared employer	0.01	-0.01	0.00	-0.01
	(0.03)	(0.02)	(0.04)	(0.04)
Startup firm controls	Yes	Yes	Yes	Yes
Startup founding team controls	Yes	Yes	Yes	Yes
Judge controls	Yes	Yes	Yes	Yes
Controls for other judge–founder overlapping characteristics	Yes	Yes	Yes	Yes
Judge FEs	Yes	Yes	Yes	Yes
Startup firm FEs	Yes	Yes	Yes	Yes
Cohort FEs	Yes	Yes	Yes	Yes
Number of observations	5,399	8,119	9,147	4,471
Adjusted R^2	0.51	0.52	0.46	0.48

Comment 2: Empirical Issues P1

- The summary stats suggests a large tendency to pick firms that have revenues. This is a problem, since this sample did not have a biases in the pre-interview.

Scoring outcome variable	First round interview score (1)	First round interview score (2)	Second round interview score (3)	Second round interview score (4)
Shared gender	0.01	0.01	0.02	0.01
	(0.03)	(0.03)	(0.04)	(0.06)
Shared ethnicity	0.02	0.02	0.02	0.01
	(0.04)	(0.04)	(0.05)	(0.04)
Shared education	0.00	0.00	0.00	0.01
	(0.05)	(0.05)	(0.04)	(0.05)
Shared employer	-0.01	-0.01	-0.01	-0.02
	(0.04)	(0.04)	(0.04)	(0.05)
Require employee to have judged startup in a previous interview round?	*No*	*Yes*	*No*	*Yes*
Startup firm controls	Yes	Yes	Yes	Yes
Startup founding team controls	Yes	Yes	Yes	Yes
Judge controls	Yes	Yes	Yes	Yes
Controls for other judge–founder overlapping characteristics	Yes	Yes	Yes	Yes
Judge FEs	Yes	Yes	Yes	Yes
Startup firm FEs	Yes	Yes	Yes	Yes
Cohort FEs	Yes	Yes	Yes	Yes
Number of observations	3,401	2,203	1,663	1,152
Adjusted R^2	0.51	0.47	0.49	0.46

- **Simple solution**: Re-do table 3 focusing on the selected sample in Table 4.

Comment 2: Empirical Issues P2

- Small sample issues in main regressions. Using rare events as outcome variables, suggests that the estimated effects could be driven by very small number of observations.

Panel A: Consensus 2nd round interview score 'portfolios' vs. Consensus pre-interview score 'portfolios'

Scoring outcome variable	Out of business	Number of funding rounds post-application	Amount of funding raised post-application	Post-money startup valuation post-application
	(1)	(2)	(3)	(4)
Portfolio selection based on 2nd round interview consensus scores	-0.14***	0.22**	0.02**	0.29*
	(0.06)	(0.10)	(0.01)	(0.16)
Cohort FEs	Yes	Yes	Yes	Yes
Number of observations	182	182	161	119
Adjusted R^2	0.07	0.06	0.08	0.12

Panel B: Consensus 'portfolios' vs. Champion (maximum) score 'portfolios' using 2nd round interview scores

Scoring outcome variable	Out of business	Number of funding rounds post-application	Amount of funding raised post-application	Post-money startup valuation post-application
	(1)	(2)	(3)	(4)
Portfolio selection based on 2nd round interview consensus scores	-0.11**	0.20*	0.01	-0.38*
	(0.05)	(0.12)	(0.01)	(0.20)
Cohort FEs	Yes	Yes	Yes	Yes
Number of observations	111	111	97	79
Adjusted R^2	0.10	0.12	0.09	0.10

- **Solution**: Use the full sample of startups. To test the hypothesis above, you want to compare different final scores (collective vs champion) controlling for VC funding.

Comment 3: Additional tests

- You need to link better all the pieces of evidence to offer convincing evidence to the paper's hypothesis.
  - $\rightarrow$ For example, in the current version there is no link between in-group biases and lower returns.
- If you want to test the hypothesis of collective versus solo decisions, you need to link better the evidence of bias, and possibly another friction.
- For example:
  - $\rightarrow$ In-group biases can distort average returns, but it can allow identification of unicorns through familiarity.

Comment 4: Future research

- The text, interviews transcripts looks like gold to me. Can you obtain systematic information from this text?
- It's challenging (costly) but I think there is a large return if you do it right.
- How VCs make the decision to pick a company pre-revenue? Can you establish a few key facts? Similarly for post-revenue.
- Can you shed light on which valuation model should we be teaching in classrooms?

Conclusions

- Great research agenda and data!
- I think the paper could gain by:
  - sharpening the hypothesis;
  - providing clear contribution to literature;
  - address some of the empirical issues and offer a few additional tests.