

Investing with the Government: A Field Experiment in China

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Summary

- Demand for government participation in the VCPE market in China
 - For both GP and LP
- Novelty:
 - Creative research design: field experiment in a high-stake setting
 - Combination of administrative data and experimental data
 - Model with discussion on the equilibrium effects

Main Findings

- Field experiment with the leading VCPE organization in China (Zero2IPO)
 - Surveyed 688 GPs and 312 LPs to solicit preference
 - Randomized synthetic profiles that mimic real investors/managers on its platform
- GPs show little interest for LPs with government ties, especially for non-government-affiliated GPs
 - Additional survey evidence suggest interference in decision making as the main cost of government capital
- LPs value GPs with government ties
- Build a model that quantifies the distributional consequence of government participation in the VCPE market

Experiment Design: Selection

- Field experiment with “real” managers/investors: high stake setting
- Incentive to participate in the 45-minute survey
 - Well explained in the paper
- Aware of experiment nature; truthful reporting
- Experiments sent to 1600 GPs and 790 LPs
 - Total sample of >6300 active GPs and > 7900 LPs
- Response rate (>43%)
 - High!
 - Likely less well-funded and with less access to capital?
 - Would be nice to show comparison stats

GP: Demand for LP Characteristics

- Physical capital
- Intangible capital
 - Industry expertise
 - Managerial (or supervisory skill)
 - Access to capital market
 - Other resources: e.g., ability to secure customers/suppliers, get licensing/permit or other regulatory approval

Harder to quantify in the LP profile
- Government vs. Private LP: different comparative advantage
 - GP chooses LP that can best meet their needs (with complementary resources) mm

Information Issue in the Experiment: GP side

- How much soft information is reserved under the experiment?
 - Especially regarding the intangible capital of LP
- Particularly relevant for government-affiliated LP
 - Can GPs have sufficient ability to decipher the value of connections?
 - Likely specific to the identity of the government-affiliated LP
- With incomplete information, benefit of government connection can be underestimated
 - Cons are more salient than pros; easier to anticipate and evaluate

Back to the Selection Issue

- GPs that value more on the quantifiable components of LP profiles respond
 - More capital-constrained GPs
 - GPs with less demand for the implicit benefits of government connections
- Preference against government-affiliated LPs: only for non-Gov GPs
 - Gov-affiliated GPs focus less on the potential benefit of Gov-affiliated LPs
 - Non-Gov GPs more likely to value the potential benefit and choose not to respond if difficult to assess
- Check response rate by GP characteristics?

Information Issue in the Experiment: LP Side

- Determinants of LP preference
- Cash flow generating potential of GPs
- Government-affiliated GPs
 - Indication of stronger ability to generate cashflow
 - Assumption: GP must have the right resources through its government connection
 - Absence of detailed information on government ties is less of a problem

Other Comments

- Correlation structure of the independent variables
- Is *Government ties* highly correlated with
 - *Large investor*
 - *Headquarter in Beijing*
 - Possible to proxy for some of the benefits of government ties?
- How likely is the dislike for LP with government ties affected by GP's expectation of their funding probability?
 - Part of the survey incentive is for Zero2IPO to introduce matching LPs to GPs