The Making of Kings: Venture Capital Allocation and Competitive Deterrence*

Yucheng Huang†

November 2026

Preliminary draft · Abstract only · Please do not circulate

Abstract

This paper studies the competitive effects of venture capital allocation through Kingmaking deals, abnormally large early VC stage deals made to young startups. Using investor-side capital supply shocks to isolate supply-induced variation in Kingmaking, we find that Kingmaking causally deters close rivals by reducing their subsequent financing. The decline spans a broad set of investors, and suggestive evidence indicates that the investors best matched to close rivals withdraw most strongly. These effects extend beyond financing. Kings subsequently perform better, while more exposed rivals experience worse lifecycle and innovation outcomes. Markets with more Kingmaking finance a narrower set of entrepreneurial ideas, and fewer firms participate in innovation. Taken together, our findings show that a specific form of VC allocation can reshape competition among startups and distort winner selection and broader market outcomes. More fundamentally, because capital can itself shape subsequent competition, our findings raise the possibility that VC allocation may reflect not only information about firm quality, but also the strategic value of shaping competition and increasing the probability that the backed startup becomes a winner. In this sense, VCs may seek not only to *identify winners*, but also to *make winners*.

*I am deeply grateful to my advisor, Erica Jiang, for her invaluable guidance and support. For helpful comments I thank Laurent Frésard (discussant), Mark Garmaise, Valentin Haddad, Bernard Herskovic, Shohini Kundu, Konstantin Milbradt, Stavros Panageas, Gregor Schubert, Terrance Shi, Olav Sorenson, Daisy Wang, Xiang Yin, and Jinyuan Zhang.

†UCLA Anderson School of Management, yucheng.huang.phd@anderson.ucla.edu.