Alma mater matters: The value of school ties in the venture capital industry. This paper examines the role and estimates the economic value of social networks tied to academic institutions in the venture capital industry. I show that having a shared academic background increases the likelihood of matching between entrepreneurs and venture capitalists by 57%. Similarly, a shared academic background increases the likelihood of matching between different venture capitalists by 42% when they syndicate portfolio company investments. Finally, a shared academic background improves portfolio company performance. For example, when an entrepreneur and a venture capitalist attended the same Top 3 academic institution, the likelihood that the investment will result in an initial public offering or acquisition increases by 42%. This is the incremental effect of having attended the same Top 3 academic institution. Taken together, these results provide strong evidence that shared academic backgrounds help reduce information gaps in the venture capital industry.

Unveiling the secrets of the academy: Alumni networks and university endowment success. This paper shows that when university endowments become limited partners with venture capital firms, the performance of their connected portfolio companies improve relative to non-connected ones. Portfolio companies are connected when any of their entrepreneurs attended the corresponding universities for undergraduate- or graduate studies. In a differences-in-differences design I compare initial public offering rates between connected- and non-connected venture capital investments in a treated- and an untreated cohort and estimate this effect to be 6%. Since the unconditional sample mean of initial public offerings is 10%, this is commensurate to a 60% increase in the unconditional initial public offering probability. This effect consists of two separate and potentially different effects, however. First, the effect of obtain a new university endowment as a limited partner, second, the effect of losing an already existing university endowment as a limited partner. Further analysis shows that the main effect is mostly driven by the latter. These results continue to hold in a rich set of robustness checks.

Goldrush Dynamics of Private Equity. We present a simple dynamic model of entry and exit in a private equity market with heterogeneous fund managers, a depletable stock of target companies, and learning about investment profitability. Its predictions match a number of stylized facts: Aggregate fund activity follows waves with endogenous transitions from booms to busts. Supply and demand in the private equity market are inelastic, and the supply comoves with investment valuations. High industry performance precedes high entry, which in turn precedes low industry performance. Differences in fund performance are persistent, first-time funds underperform the industry, and the first-time funds that are raised in boom periods are unlikely to be succeeded by follow-on funds. Fund performance and fund size are positively correlated across private equity firms, but negatively correlated across consecutive funds by the same firm. Finally, boom periods can make "too much capital chase too few deals".

Ownership Matters: A Clinical Study of Investor Activism. This paper studies the involvement and engagement objectives of an activist investor in an institutional environment characterized by concentrated ownership. It highlights the heterogeneity of the investor's activism and its focus on operational improvements. It emphasizes the ownership structure of the portfolio companies as important determinants of investor activism. Using a carefully selected set of peer companies, it is possible to show that the investor targets undervalued companies with operational slack that maintain open ownership structures. In particular, by avoiding to invest in companies with other active owners, e.g. families and industrial owners, and seeking to invest in companies with more institutional holdings, the investor ensures that there is not only scope for improvements. There is also a reasonable chance of exercising control.

STOCKHOLM SCHOOL OF ECONOMICS

ISBN 978-91-7258-827-1

School networks and active investors

T. Daniel Sunesson

School networks and active investors

T. Daniel Sunesson

STOCKHOLM SCHOOL OF ECONOMICS