

Are Creators Better Investors than Managers? Evidence from First-time Venture Funds

David Brophy, Shane Miller, Emmanuel Yimfor
Ross School of Business
University of Michigan

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What drives cross-sectional variation in individual partner performance?

- We focus on first-time funds to isolate individual partner characteristics from the group
- Are (Why are) first-time founders with prior VC or operating experience more likely to be successful?

Where do first-time VC firm founders come from?

Founders with VC background come from connected groups

Dependent Variable:	I(Spawnd new VC)		
Eigen Centrality	0.071*** (0.004)	0.056*** (0.004)	
Degree Centrality	0.331*** (0.023)	0.257*** (0.022)	
HHI		0.005*** (0.001)	0.004*** (0.001)
Ln(Fund Size)		0.006*** (0.001)	0.006*** (0.001)
Ln(Fund Age)		-0.016*** (0.004)	-0.024*** (0.003)
Ln>Last three years mergers)		0.024*** (0.004)	0.031*** (0.004)
Ln>Last three years ipos)		0.013*** (0.003)	0.013*** (0.003)

Startup founders were also funded by connected VCs

Dependent Variable:	I(Spawned new VC)	
Eigen Centrality	0.099*** (0.011)	0.075*** (0.011)
Degree Centrality	0.057*** (0.008)	0.041*** (0.008)
Ln(Funding Raised)		0.095*** (0.012)
		0.106*** (0.013)
Ln(Firm Age)		0.009 (0.006)
		0.002 (0.006)
I(Acquired)		0.086*** (0.017)
		0.082*** (0.017)
I(IPO)		0.037 (0.037)
		0.039 (0.037)

What type of VC would we expect to perform better?

VC founders have networks, startup founders walked the walk

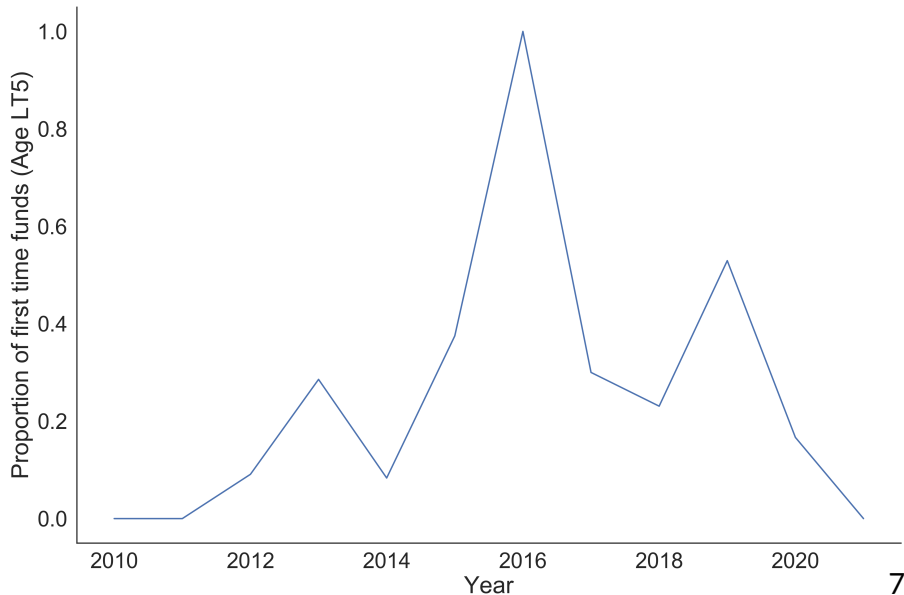
- Gompers, Gornall, Kaplan, Strebulaev (2020): **Deal sourcing, Deal Selection, Post-investment monitoring**
 - Founders with past VC experience could have better networks to source deals
 - Founders with past operating experience could have better intuition for selecting deals and adding value post-investment (better rapport with founders)

First-time funds have written the first check for
well-known firms

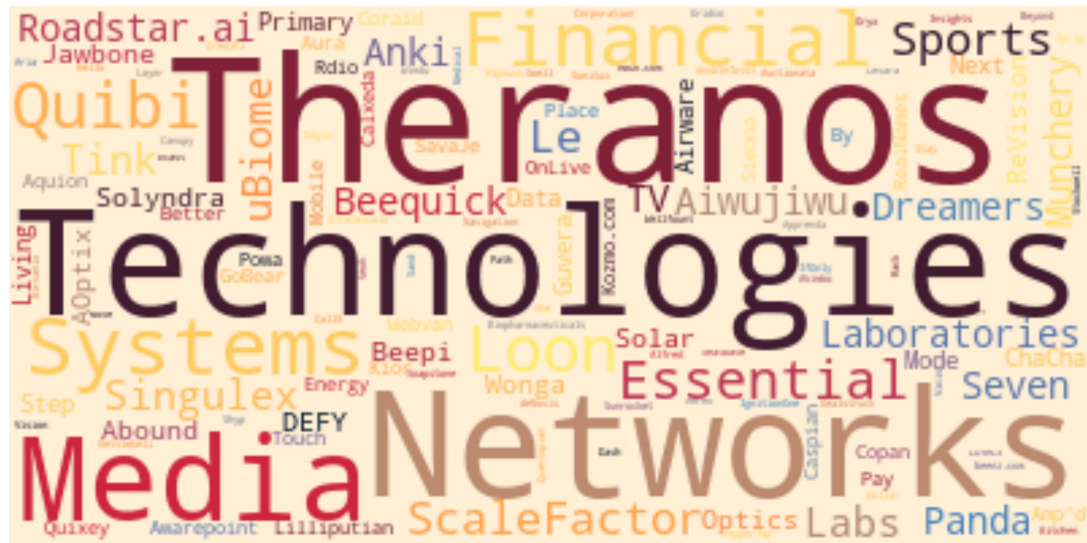
Here are the most recent 100 largest VC-backed IPOs



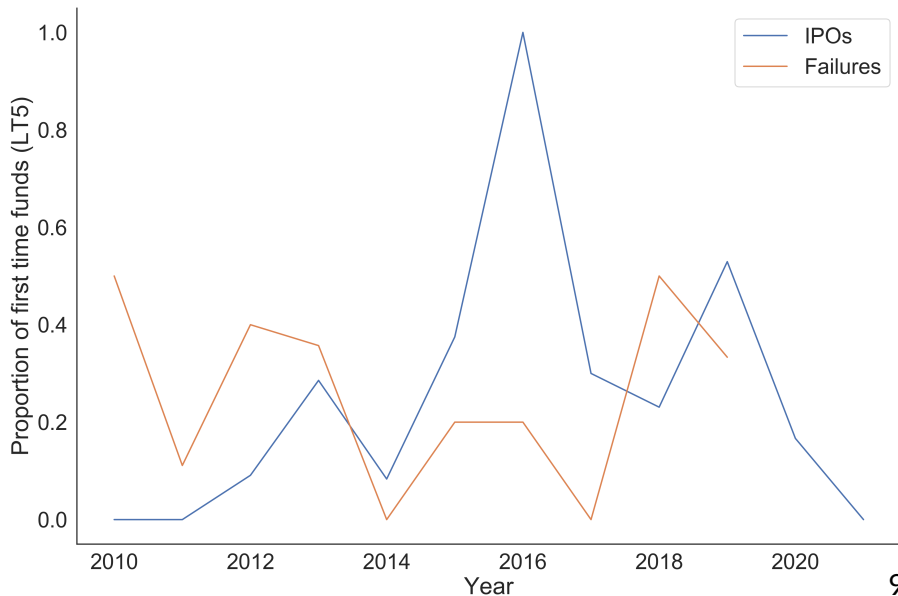
First-time funds wrote 1 in 4 first checks, 800 billion market cap



Here are the most recent 100 largest VC-backed flops



First-time funds wrote 1 in 6 first checks



Empirical Strategy

Is venture fund founder background related to performance?

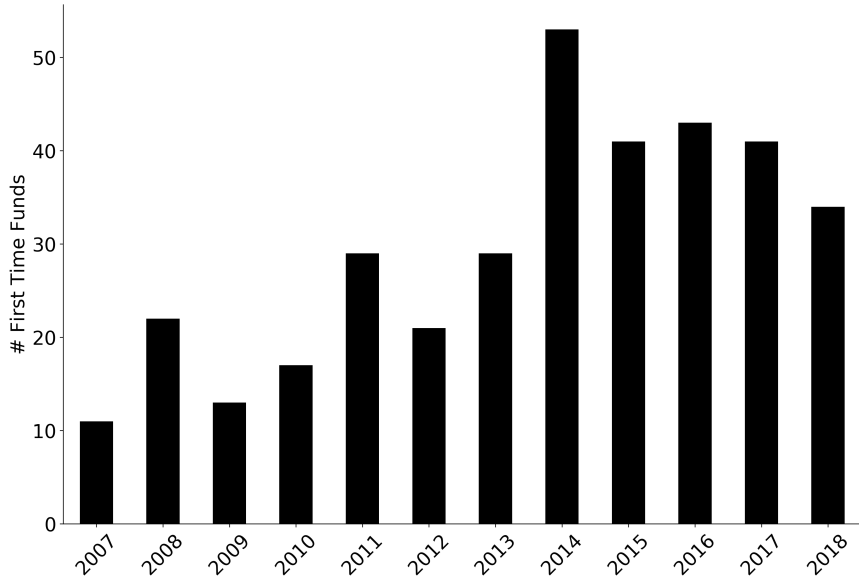
$$\begin{aligned} \text{Performance}_f = & \alpha + \beta_1 \text{VC exp}_f \\ & + \beta_2 \text{Operating exp}_f \\ & + \beta_3 \text{VC exp}_f \times \text{Operating exp}_f \\ & + \text{Controls}_f \\ & + \gamma_t + \varepsilon_{stj} \end{aligned}$$

Controls: Female, Black/Hispanic, MBA, Ph.D., Arts Degree, Foreign University, Top 20 University, Ln(Fund size), Vintage Year F.E. (N = 354)

Our list of first-time VC funds is from PitchBook (2006 to 2017)

- 1 Founding year is within three years of vintage year
- 2 Keep founders of the firm
- 3 RAs verify group website to ensure we have all founders
- 4 Collect work experience, education history, and other characteristics of founders
- 5 For each company in work history, classify as VC, startup, or Other
- 6 Check for operating status of each portfolio company by:
 - 1 Does company's website still work?
 - 2 Did company exit?
 - 3 Can we find article confirming bankruptcy or closure?
- 7 Our final sample comprises 354 first-time funds with background information on all founders

Our sample comprises 354 first-time funds (2007 to 2018 vintages)



The median fund raises \$25 million and invests in 15 deals

	N	Mean	Std Dev.	25%	50%	75%
VC exp (%)	354	66.38				
Operating exp (%)	354	38.70				
VC & Operating exp (%)	354	22.03				
Neither VC nor Operating exp	354	16.95				
Follow-on Fund (%)	354	79.10				
Fraction IPO/MA (%)	354	27.48	26.21	0.00	25.00	45.45
Fund size (\$ Millions)	354	64.70	98.49	10.00	25.00	68.00
Deal Count	354	20.59	21.75	8.00	15.00	27.00

What type of experience predicts fund performance?

Fraction of exits is a reasonable proxy for performance

Dependent Variable:	Distributions to Paid In Capital		
% IPO or MA	0.066*** (0.016)		
% IPO	0.042*** (0.014)		0.043*** (0.014)
% MA		0.046*** (0.017)	0.043*** (0.016)
% Failures		-0.061*** (0.016)	-0.058*** (0.016)

Unconditional exit rate: One in four deals

Dependent Variable:	$(\frac{\text{IPO or M\&A}}{\text{All Deals}}) * 100$			
VC exp	12.049*** (3.200)	8.537** (3.484)	9.643** (4.316)	
Operating exp	-5.950* (3.462)	-4.581 (3.399)	-3.009 (4.593)	
VC exp \times Operating exp			-2.470 (6.308)	
Vintage Year FE?	X	X	X	X

Experienced first-time founders are more likely to start follow-on funds

Dependent Variable:	I(Start follow-on fund)		
VC exp	16.914*** (4.978)	16.593*** (5.222)	20.270*** (7.095)
Operating exp	-1.278 (4.556)	0.701 (4.604)	5.926 (8.557)
VC exp \times Operating exp			-8.213 (10.098)

What explains the association between VC experience
and performance?

Potential mechanisms for VC experience-performance relationship

Mechanism One: Risk

Founders with venture capital experience make riskier investments

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Mechanism Three: Leveraging Connections

Founders with VC experience leverage their connections to access better deals

Mechanism One: Risk – Are failures also more likely for founders with VC experience?

Assumption: ↑ risk implies quicker realizations of successes and failures

			Std			
	N	Mean	Dev.	25%	50%	75%
Fraction Failures (%)	354	9.82	14.60	0.00	0.00	16.67
Fraction Operating (%)	354	62.68	29.69	40.00	66.66	88.88
Fraction IPO/MA (%)	354	27.48	26.21	0.00	25.00	45.45

Unconditional failure rate: One in ten deals

Dependent Variable:	$(\frac{\text{Closed}}{\text{All Deals}})*100$		
VC exp	-2.282 (2.189)	-1.817 (2.287)	-1.042 (2.875)
Operating exp	-1.195 (2.137)	-1.361 (2.100)	-0.260 (3.805)
VC exp \times Operating exp			-1.731 (4.633)

Mechanism Two: Superior skill – Are deals led by founders with VC experience also more successful?

Leading deals that are successful wins you awards

Founding Partner, Geodesic Capital



Previously a partner at Andreessen Horowitz, where he focused on late-stage investing, Bachireddy launched Geodesic Capital in 2015 with the goal of supporting the expansion of technology companies into global markets, particularly those in Asia. Since the launch, Bachireddy has put together a string of hit software investments including Confluent, Databricks, HashiCorp, Marqeta, Netskope, Pendo, Snyk Thoughtspot and UiPath. Exits of note have included Airbnb and JFrog.

Founders with VC background lead fewer deals

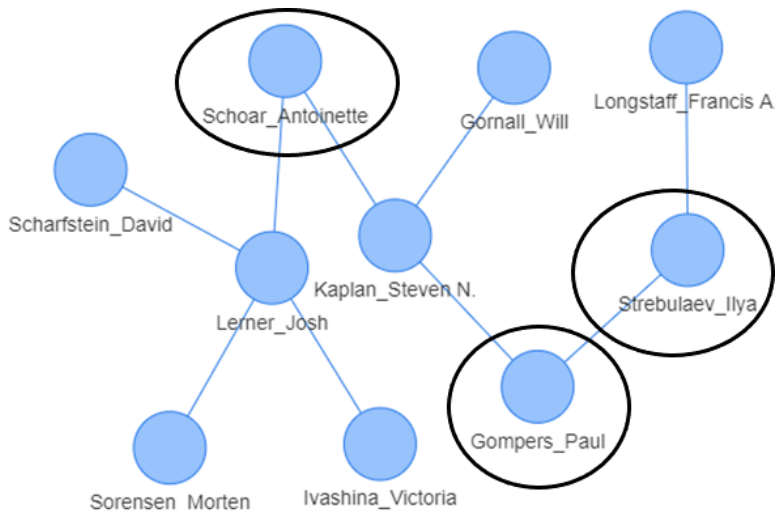
Dependent Variable:	$(\frac{\text{Deals Led}}{\text{All Deals}})*100$		
VC exp	-6.058** (2.619)	-7.562*** (2.741)	-8.883** (3.855)
Operating exp		3.545 (2.358)	2.916 (2.395)
VC exp × Operating exp			1.045 (4.521)
			2.944 (5.280)

Founders with VC background are not more successful on deals led

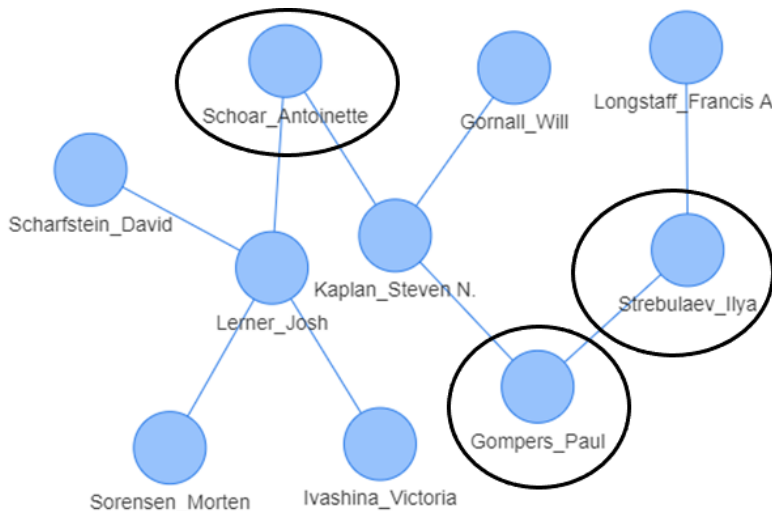
Dependent Variable:	$(\frac{\text{IPO or M\&A (Led)}}{\text{All Deals Led}})*100$		
VC exp	4.816 (3.843)	2.648 (4.160)	2.704 (5.510)
Operating exp	-5.866 (3.895)	-5.133 (4.074)	-5.053 (6.141)
VC exp \times Operating exp			-0.126 (7.783)

Mechanism Three: Leveraging Connections – Do founders with VC experience join successful syndicates?

Degree and EigenVector centrality capture related, but different things

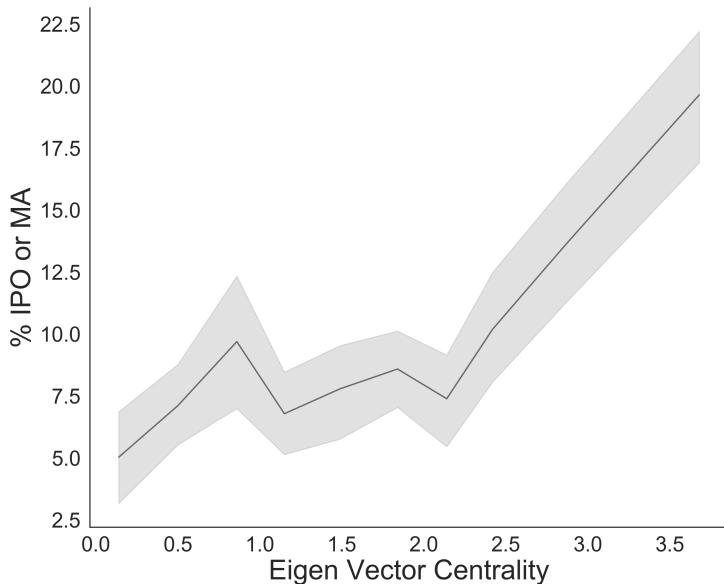


Degree and EigenVector centrality capture related, but different things



	Degree	EigenVector
Lerner Josh	44	56
Kaplan Steve	41	33
Strebulaev Ilya	22	15
Schoar Antoinette	22	44
Gompers Paul	22	26

Centrality of coinvestors is positively associated with success



Founders from VC join connected syndicates

Dependent Variable:	EigenVector Centrality		
VC exp	0.257** (0.116)	0.201* (0.111)	0.312** (0.155)
Operating exp	-0.148 (0.108)	-0.111 (0.104)	0.046 (0.182)
VC exp \times Operating exp			-0.248 (0.225)

Is founder background related to fundraising?

New managers from the VC world raise larger funds

Dependent Variable:	Ln(Fund Size)		
VC exp	0.231*** (0.085)	0.228** (0.093)	0.231** (0.093)
Operating exp	-0.102 (0.082)	-0.022 (0.088)	-0.006 (0.092)
VC exp \times Operating exp			0.036 (0.075)

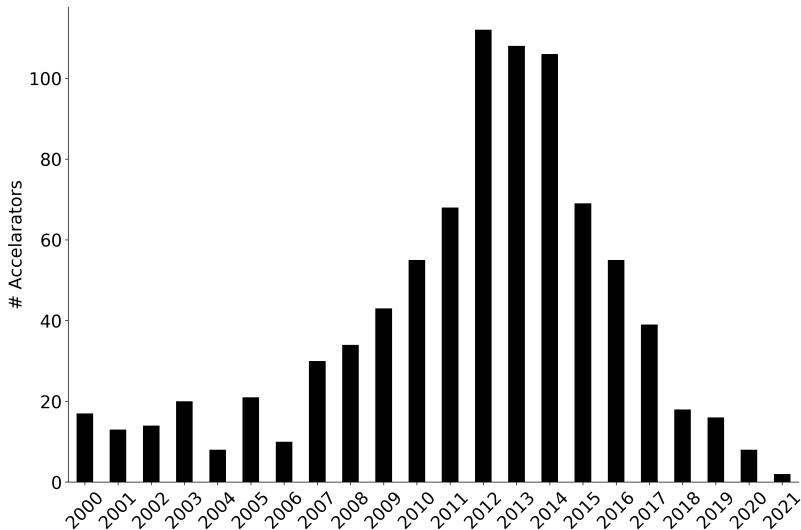
Founders with VC experience leverage networks to outperform

- What drives cross-sectional variation in individual partner performance?
- Experience preceding fund formation is related to performance: Partners with VC experience outperform partners with startup experience:
 - ① Not by taking more risk
 - ② OR selecting better deals
 - ③ By joining successful syndicates
- Founders with VC experience come from:
 - Connected funds
 - Concentrated investments
 - Recent exits

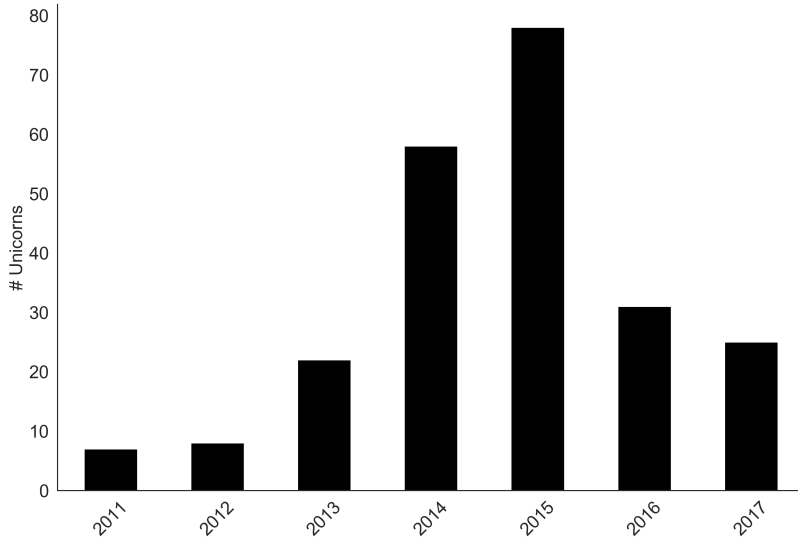
Past experience of founding GPs is related to performance

- Founder Attributes \Rightarrow Performance (Zarutskie (2010), Dimov et al. (2007), Cai et al. (2012), Ewens and Rhodes-Kropf (2015))
 - By focusing on first-time funds, we can separate firm from founder attributes
 - We also discuss mechanisms, focusing on connections
- Networks \Rightarrow Performance (Hsu (2004), Hochberg et al. (2007))
 - Networks are driven by past employment in VC
 - Networks are related to VC spawning
- Venture Spawning (Gompers et al. (2005), Hochberg et al. (2010))
 - Which operating and venture firms spawn VCs?
 - Networks can positively affect success of new entrants
- What factors drive cross-sectional variation in performance? (Kaplan and Schoar (2005); Kaplan et al. (2012); Cohen et al. (2008); Chevalier and Ellison (2003))
 - Founder background

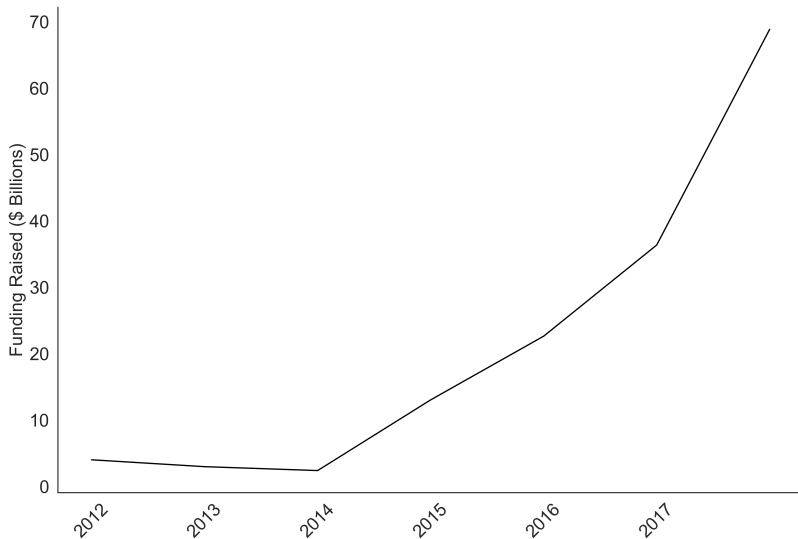
Which VCs benefit/hurt by the number of accelerators/incubators?



Which VCs benefit/hurt by increasing number of unicorns?



Especially when funding each unicorn requires a lot of capital



Thanks for your comments!

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