

Accepted Manuscript

Venture capital and career concerns

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PII: S0929-1199(17)30675-2

DOI: <https://doi.org/10.1016/j.jcorpfin.2017.12.004>

Reference: CORFIN 1312

To appear in: *Journal of Corporate Finance*

Received date: 14 November 2017

Accepted date: 8 December 2017

Please cite this article as: Nicholas G. Crain , Venture capital and career concerns. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Corfin(2017), <https://doi.org/10.1016/j.jcorpfin.2017.12.004>

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## Venture Capital and Career Concerns

09 November, 2017

## Abstract

This paper finds evidence that the market for follow-on capital discourages risk taking by venture capital fund managers. The amount of follow-on capital raised by venture capitalists is concave with respect to current fund performance. In addition, managers with less consistent performance are slower, and less likely, to raise a follow-on fund. Venture capitalists adjust their investment strategy to balance fundraising incentives against the incentive to pursue risk provided by carried interest. The findings are consistent with models of career concerns, where an agent's compensation is designed to (partially) offset the implicit incentives created by future employment opportunities.

Keywords: Venture Capital, Career Concerns, Agency Problems, Risk Shifting

JEL Classification: G24

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\* This project benefited from the support of the Hicks, Muse, Tate & Furst Center for Private Equity Finance at the McCombs School of Business. The data for this project was generously provided by Neuberger Berman, with special thanks due to Brien Smith and Joshua Miller. The views expressed in this paper are my own and cannot be taken to represent the views of Neuberger Berman, its management or staff. I thank Burgiss and the Private Equity Research Consortium (PERC) for providing venture capital fund performance benchmark data. This research was supported by the Financial Markets Research Center at Vanderbilt University. Portions of this paper are taken from my dissertation and have benefited greatly from my committee: Robert Parrino, Sheridan Titman, Andres Almazan, Jonathan Cohn and Carlos Carvalho. In addition, I would like to thank Nicholas Bollen, Nicholas Hirschey, Oğuzhan Karakaş and Kelvin Law for their helpful comments.

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