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Media Attention Helps Private Equity Firms Attract Resources

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New firms can attract resources by sending out signals about their quality. They do this because a new firm's quality is often uncertain and hard to observe. But we don't know much about what happens in situations when firms convey multiple signals of different strengths. This is important, because signals can vary in strength, which is to say they can be more- or less-correlated with the firm's unobservable quality.

In a recent study, we proposed that investors respond differently to signals of different strengths and that the effectiveness of signals – especially weak signals – will be contingent on the media attention new firms receive. To test this, we followed a sample of new private equity firms over time and analyzed each firm's ability to raise a follow-on fund. We found that it mattered whether firms were reporting their "realized" or "unrealized" performance.

Realized performance, which represents the actual performance a private equity fund has achieved, is a strong signal of a firm's underlying quality. But unrealized performance, which represents only a firm's estimates of its own performance, is a relatively weak signal. Unrealized performance positively influences a private equity firm's fundraising, but that effect was stronger when that firm had higher levels of media attention. Media attention did not exert such an effect on realized performance. Taken together, our findings deepen our understanding of how new firms can mobilize resources with signals of different strengths and of how the media – as a key information intermediary – differently impacts their effectiveness.

This video summarizes our findings. To see the full article, email tomr.vanacker@ugent.be (mailto:tomr.vanacker@ugent.be) , or you can visit the publishers' site at https://journals.aom.org/doi/abs/10.5465/amj.2018.0356.

Link to video

Private Equity Firms and Media Attention (https://vimeo.com/490901613) from Kindea Labs (https://vimeo.com/kindealabs) on Vimeo (https://vimeo.com) .

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