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PRE-FORMATION LEARNING: THE IMPACT OF LEARNING BY U.S. HEDGE FUND MANAGEMENT COMPANY FOUNDERS (SUMMARY)

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Principal Topic

In professional services industries, founders often spend many years learning their trade before founding their own firms. This learning, for example, takes place in law school, medical school, or business school classrooms. The learning also takes place through on-the-job apprenticeships, clerkships, or internships. Through these formal and informal learning environments, future founders are exposed to, and indoctrinated to, the field’s current practices. This extensive professional training likely impacts the manner in which professionals structure their own organizations and activities.

Method

These educational experiences themselves are perhaps irreversible. For example, the decision to attend Yale Law likely places a future lawyer onto a very different path, and into a very different network, than would have a choice to attend Stanford Law. Even more, Yale Law School represents a completely different path from Harvard Business School. Path dependent theories strongly suggest these choices generate life-altering futures. In entrepreneurial terms, the implication is that an entrepreneur’s pre-formation choices may dramatically alter the organization’s they found, and consequently even survival prospects for their organizations. In emerging professional fields, where education is less formalized and knowledge structures are still being resolved, an entrepreneur’s pre-formation choices and experiences may place them onto better or worse paths. This is true for two reasons: their networks may be more or less effective, and the lessons they learned may provide more or less accurate representations of the environment they will encounter as practitioners. In emerging fields, where means-ends relations are inherently opaque, learning may be superstitious and incorrect, especially around hard-to understand issues, regardless of the quality of their preformation formal and on-the-job learning. Because what entrepreneurs learn (and implement by the time of founding) may be irreversible in professional services firms, the impact of pre-formation learning may be critical to firm survival.

Results and Implications

This study makes use of a proprietary dataset generated by merging the three largest commercial datasets recording information on hedge funds, and supplementing with media and regulatory searches for the time period prior to commercial database formation. This proprietary dataset includes the full population of U.S. hedge funds, from industry emergence in 1949 through 2007. Hedge funds were then aggregated to the firm (hedge fund management company) level, allowing analyses of complex organization-level phenomena, including organizational structure and mortality, with significant implications for entrepreneurs and the study of entrepreneurship in professional service contexts.

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