WHAT MATTERS, MATTERS DIFFERENTLY: CONTRASTING THE DECISION POLICIES OF FORMAL AND INFORMAL INVESTORS (SUMMARY)

Dan K. Hsu  
*Syracuse University, USA, hsudk@appstate.edu*

James M. Haynie  
*Syracuse University, USA*

Alexander McKelvie  
*Syracuse University, USA*

---

**Recommended Citation**  
Hsu, Dan K.; Haynie, James M.; and McKelvie, Alexander (2008) "WHAT MATTERS, MATTERS DIFFERENTLY: CONTRASTING THE DECISION POLICIES OF FORMAL AND INFORMAL INVESTORS (SUMMARY)," *Frontiers of Entrepreneurship Research: Vol. 28: Iss. 1, Article 5.* Available at: [http://digitalknowledge.babson.edu/fer/vol28/iss1/5](http://digitalknowledge.babson.edu/fer/vol28/iss1/5)

This Summary is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
SUMMARY

WHAT MATTERS, MATTERS DIFFERENTLY: CONTRASTING THE DECISION POLICIES OF FORMAL AND INFORMAL INVESTORS

Dan K. Hsu, Syracuse University, USA
James M. Haynie, Syracuse University, USA
Alexander McKelvie, Syracuse University, USA

Principal Topic

Investment is crucial to a new venture’s survival and success (Bishop & Nixon, 2006). Research has focused on the typical source of new venture capital - the investor - continues to proliferate (Shepherd, 1999; Baum & Silverman, 2003). Scholars have considered the criteria by which formal investors (venture capitalists) make investment decisions (MacMillan et al., 1985; Hall & Hofer, 1993; Muzyka et al., 1996), however far fewer have focused on the criteria by which informal investors (angel investors) evaluate the potential of a new venture as an investment (Mason & Harrison, 2002). This is noteworthy given that the context (e.g. private investment firm v. individual wealth), potential goals, and post-investment intervention mechanisms of these investors differs significantly. Drawing on social identity theory, we suggest that when engaged in evaluating opportunity ‘deals,’ the decision policies of formal and informal investors will differ. These distinctions are driven, in part, by the disparate behavioral expectations associated with the identity standard socially ascribed to ‘venture capitalist’ or ‘angel investor’ (Burke, 1991; Turner, 1984; Tajfel & Turner, 1985).

Method

Our research employs conjoint analysis and hierarchical linear modeling to decompose more than 3,800 opportunity evaluation decisions nested within a mixed sample of formal and informal investors. Conjoint analysis requires respondents to make a repeated series of judgments or evaluations based on profiles. Those decision policies can then be captured and decomposed into their underlying structure (Shepherd & Zacharakis, 1997). Because we hypothesize that investors will use a contingent decision policy, conjoint analysis is an appropriate method to investigate the evaluation policies of the sample without relying on the respondents’ introspection.

Results and Implications

We report our results as a comparative analysis, and find that the decision policies of formal and informal investors do in fact differ across several important attributes that both the extant literature and conventional wisdom suggest are central to opportunity evaluation decisions. Specifically, we report on substantive differences in the decision policies of formal and informal investors based on the economics and risk characteristics of the deal, along with the entrepreneur’s prior experience, social capital, and passion for the venture.

CONTACT: Dan K. Hsu; dahsu@syr.edu; (T): 315-443-3468; Whitman School of Management, Syracuse University, 721 University Avenue, Syracuse, NY 13244.