WHO CAN I RELY ON? RELIANCE ON DIFFERENT SOURCES OF TRUST IN BUSINESS ANGEL INVESTING (SUMMARY)

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SUMMARY

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Principal Topic

Most research on trust in business angel investing has focused on the relationship between the business angel and the entrepreneur. However, the relationship between the business angel and the informants in the investment process has received less attention. In this paper we will contribute to theoretical understanding of the business angels’ investment decision-making by applying trust theory, and analyze how the context of the investment decision-making (e.g. the venture’s stage of development and the industry in which the venture is working) and the characteristics of the investor (e.g. the investor's financial sophistication and his/her level of activity on the market) affect the investor's choice of reliance on their network connections in identifying investment opportunities. We adopt the framework suggested by McAllister (1995) who distinguish between cognitive and affective foundations of trust, and argue that reliance on different types of network connections varies depending on investor-related and investment context. Further, we argue that investors’ choice of the reliance on their network connections in turn affects the outcomes of the investment process.

Method

Our data set comprises 297 business angels that have reported data on their investment history and activity. Each respondent were also asked to identify one or several different individuals that had been of importance in identifying their latest investment and describe the nature of their relation with this individual. Through this procedure a total number of 311 different network ties were identified. Cognition-based trust was operationalized as a belief about the individual’s competences and capabilities while affect-based trust was operationalized as interpersonal care and concern and non-rewarded assistance behaviour in the relationship.

Results and Implications

The results partially support the general hypotheses that the reliance on different types of network connections varies depending on investor-related and investment context and that this choice in turn affects the outcomes of the investment process. We further find that an additional type of informant-investor relationship can have an important role for deal sourcing, while not being directly associated with trust; a tie that we argue is based on control mechanisms.

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