STUDYING THE IMPACT OF MULTIPLE EXPERT EVALUATIONS ON START-UP STRATEGIC PROGRESS (INTERACTIVE PAPER)

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Research on entrepreneurial venture evaluation is very limited. Researchers typically study venture evaluation from the perspective of the entrepreneur’s decision policies and the factors that explain such policies (Haynie, Shepherd & McMullen, 2009; Keh, Foo & Lim, 2002; Chwolka & Raith, 2011). Most studies in this space, certainly not all, look at the effect of one-time evaluations on the stop or go decision to either commit or not commit to the venture. However, it’s common knowledge that entrepreneurs do receive multiple evaluations when determining their strategies and respond in various ways, ensuring the ability of multiple evaluations to better explain entrepreneurs’ strategic decision making. We study the potential effects of multiple evaluations within a venture competition cycle by assessing the impact of such evaluations on the ‘survival’ of the ventures as they progress through multiple stages of an incubator program.

Method

We use data from a large incubator in Northeastern US. The first set of data contains 441 applications to the incubator, eliciting 1340 evaluations from over 100 ‘experts’: angel investors, venture capitalists, private equity lawyers and serial entrepreneurs. These evaluations resulted in a list of 309 semifinalists who participated in in-person pitches and were further evaluated. The finalists from the second evaluation process numbered 111 and they were taken through the incubator program. After 3 months all the teams were evaluated again, 26 were selected out of whom 10 shared a prize of $1m.

Results and Implications

Historical data shows that the entrepreneurial activity increases in a recession (Kauffman Foundation, 2009). Thus, the number of incubator programs in the US has increased dramatically over the last couple of years, in the face of a sagging economy and employee layoffs (National Business Incubation Association, NBIA, 2010). Therefore, unlike the typical stereotypes of the stubborn entrepreneurs, today’s budding entrepreneurs seeking and willing to take evaluator or mentor advice are also increasing. Preliminary results from this study reveal the processes and the policies entrepreneurs adopt in response to venture evaluation. While the broader issues around venture survival has improved our understanding of the area, there are beneficial insights to be gained from understanding the role of multiple evaluations and response to them.

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