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LOST IN TRANSMISSION: THE EFFECT OF RECEIVED SIGNALS ON ANGEL SUPPORT FOR ENTREPRENEURIAL VENTURES (SUMMARY)

Candida G. Brush
Babson College

Linda F. Edelman
Bentley University, ledelman@bentley.edu

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Principal Topics

We use signaling theory to understand the ways in which angel investors interpret the information which new ventures present in order to communicate their suitability for funding. Signaling theory addresses problems of information asymmetry in markets (Spence, 1973; Certo, 2003). The signaler’s role is to intentionally convey (positive) information in an effort to suggest underlying (positive) organizational attributes. The receiver, in turn, must be in a position to receive and interpret the information sent by the signaler. We specify and test three hypotheses about the dyadic exchanges between the entrepreneurial venture (signaler) and the angel investor (receiver), as follows: (H1): The greater the number of positive signals that entrepreneurs send; (H2a): The higher the number of positive signals received by the angel investors; and (H2b): The lower the number of negative signals received by the angel investors; the greater the likelihood that the angel investors will continue their support for the new venture. In addition, (H3): The higher the consistency between the signals sent by the entrepreneur and received by the angel investor, the stronger the effect of positive received signals on the continued support by the angel investors.

Research Methodology

Our data were extracted and coded from the investment proposals submitted to a large angel financing group located in the Northeast between 2007 and 2011 and the angel investors’ summary sheets following the presentation to the group (n = 147). We tested several regression specifications, controlling for industry, firm, and year effects.

Results and Implications

Results from the regression tests suggest that the signals received by the angel investors are significant predictors of their continued support for the entrepreneurial venture (H2a and H2b supported), whereas the intended signals sent by the entrepreneur are not associated with angels’ continued support for the venture (H1 and H3 not supported). These findings suggest that angel investors are active participants in the information exchange and entrepreneurs need to carefully craft and calibrate the signals they send to potential investors and generally to the critical resource providers in the early stages of new venture development.

CONTACT: Linda F. Edelman; ledelman@bentley.edu; (T): +1-781-8912530; (F): +1-781-8912896; Bentley University, 175 Forest St., Waltham, MA 02452, USA.