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VENTURE AFFILIATED ANGELS AND VENTURE CAPITALIST SCREENING DECISIONS (SUMMARY)

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≈ SUMMARY ≈

**VENTURE AFFILIATED ANGELS AND VENTURE
CAPITALIST SCREENING DECISIONS**

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Principal Topic

Drawing on signaling theory, this research explores the understudied symbiotic relationship between early stage seed funders and later stage venture capital (VC) investors. We build on research that shows ventures enjoy legitimizing benefits from third-party endorsements to reason that a venture's source of seed funding can play an important role that assists in resolving information asymmetries about the quality of a young venture. We argue that the investment of seed funding investors, such as angels and crowdfunders, and the affiliation endorsements that result, play an important role in signaling venture quality and potential to outsiders—thereby influencing investor screening decisions.

Method

We conduct three complementary experiments using 163 active VCs making 1,036 screening decisions. Study 1, a traditional between subjects scenario experiment, investigates whether or not the general source of seed funding (i.e., angels or crowdfunding) influences the decision to move a venture from initial screening to formal due diligence. Studies 2 and 3 are conjoint analysis studies and explore how knowledge of specific characteristics of angels (investor experience and angel group membership) or the crowd (volume of crowdfunders, platform structure and site reputation) influence VCs screening decisions. Our dependent variable for all three studies is a 3-item scale capturing the VCs' willingness to conduct formal due diligence.

Results and Implications

We find that VCs are not biased towards or away from specific seed funding sources, but specific characteristics of the funders do influence VC decisions. Specifically, we document that ventures funded by an experienced angel, or an angel belonging to a reputable group are viewed more favorably by VCs. With respect to crowdfunded ventures, we found that a high volume of investor support and the reputation of the crowdfunding site can positively influence VC perceptions—but the platform structure (equity, lending, reward) moderates these influences. We articulate our findings as preliminary evidence that the presence of seed funding by a specific profile of investor(s) can send an affiliation endorsement signal that positively influences potential key resource partners.

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