SEX, SIGNALS AND ANGEL INVESTORS (SUMMARY)

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Summary

Sex, Signals and Angel Investors

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Principal Topics

Angel investors lack the fundamental information needed to make informed investment decisions, and, in the presence of asymmetric or hidden information, signals help to fill that gap. We are interested in exploring the effect of the lead entrepreneur’s sex on early stage angel investments. Drawing from role congruity and gender stereotype theory, we argue that signals sent by men and women entrepreneurs and received by angel investors may be influenced by the widely shared beliefs about characteristics attributed to men and women, and the appropriateness of their behavior in the investment setting (Fiske, 2000; Heilman, 2001).

Method

Data were hand collected and coded from the information sheets submitted by new ventures prior to their presentation to a prominent angel investment group in the greater Boston, MA area, and from the angel investors’ comments about the new venture recorded after the entrepreneur’s presentation, yielding 276 dyadic observations over the 2007-2014 period. We tracked five types of signals, human capital, milestones, intellectual property, legitimacy, and financial performance and their effect on the likelihood of the new venture progressing into due diligence, the number of angels interested in investing, and whether or not the venture was actually invested in.

Results and Implications

Preliminary findings indicate no significant differences in the types of signals men and women entrepreneurs sent. However, these signals were interpreted by the angel investors very differently depending on the sex of the signaler. More specifically, angel investors were significantly less likely to record a positive comment about the legitimacy or the milestones reached by the new venture when the lead entrepreneur was a woman. When women angels participated in the presentation sessions, that significantly increased the likelihood that positive comments about the new venture would translate into its progression into due diligence and that a higher number of angels would consider investing. Given that the gender gap at the venture capital level is so severe (Brush, et al, 2014), the extent to which we can better understand how women entrepreneurs move through the angel financing pipeline yields important information for entrepreneurs, angel groups, and public policy makers.

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