HOW MISSED OPPORTUNITIES INFLUENCE INVESTOR DECISION MAKING (INTERACTIVE PAPER)

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Recommended Citation  
Drover, Will; Wood, Matthew S.; Sohl, Jeffrey; and Williams, David W. (2016) "HOW MISSED OPPORTUNITIES INFLUENCE INVESTOR DECISION MAKING (INTERACTIVE PAPER)," Frontiers of Entrepreneurship Research: Vol. 36 : Iss. 1 , Article 20. Available at: https://digitalknowledge.babson.edu/fer/vol36/iss1/20

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Principal Topic

Despite the fact that venture investors often miss opportunities, prior research has yet to account for the possibility that such misses may exert powerful influences on future decisions. This is a salient omission from the literature, particularly in light of a growing body of work in psychology documenting that forgone opportunities can strongly alter decisions that follow (cf. Arkes et al., 2002; Tykocinski and Pittman, 1998; Zeelenberg et al. 2006). Accordingly, we address this gap in the entrepreneurship literature by focusing on the effect of investors’ missed opportunities, thereby taking an early step toward understanding how missed opportunities influence subsequent investment decisions.

Methods

We conducted a multi-stage opportunity decision making experiment with 121 accredited angel investors who assessed an entrepreneur pitch video. Later, they learn that the deal became unavailable for investment. Participants were then provided with an update on the success level of the missed opportunity that was manipulated (high or low) and were also assigned to varying levels of environmental dynamism (high or low). Finally, investors viewed another pitch video in a similar domain and were asked to indicate their willingness to invest. These responses were compared against a control group of investors who did not experience the missed opportunity but assessed the second pitch video.

Results and Implications

Our analysis revealed that after missing a successful opportunity, investors become less willing to invest in similar opportunities that followed—significantly less so than the control group who did not experience the miss ($b = 1.27, p \leq .001$). We also found that investors would be less willing to invest in related opportunities when environmental dynamism was high, rather than low ($b = -.60, p \leq .05$). Finally, we found that more experienced investors are less influenced by past missed opportunities than their less-experienced counterparts ($b = .59, p \leq .05$).

Our work extends investor decision making research beyond the current focus on investor and entrepreneur criteria on the initial investment to consider how missed opportunities influence subsequent investment decisions. We also highlight effects that exacerbate or mitigate the influence of prior decisions on current investment decisions (experience, dynamism). Our study opens fertile ground for research accounting for the interconnected nature of investment decisions.

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