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COGNITIVE RESPONSES OF VENTURE CAPITALISTS TO ENTREPRENEUR CREDIBILITY (INTERACTIVE PAPER)

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Principal Topic

Previous research on investors’ decision making has focused on the decision criteria used by investors to select projects for investment. By and large, however, these studies have largely ignored the larger information context in which investors first learn about a project. In practice, however, investors’ interest in a project is often generated following some sort of presentation. To address this limitation of extant research, we drew on cognitive research that looks at how jurors process information from witnesses’ presentations, and how this processing affects the conclusions they reach, based on the Story Model (Hastie et al., 1983; Pennington & Hastie, 1998). In practice, however, we found we had to take a much more exploratory approach when we were given an opportunity to collect data at a major Venture Forum sponsored by AeA.

Method

To study how venture capitalists responded to entrepreneurs presentations, we used direct response technology. Participating investors (30 in all) were asked to rate presentations (“Do you think this presentation will attract investors’ interest?”) on a wireless dial throughout the 6 minutes presentations by 20 different entrepreneurs. The presentations were filmed, and concurrently the ratings registered in 1 second increments; thus for each active dial we have 360 observations per presentation. The analysis process focuses on significant changes in the ratings, to identify exactly what information or context variables affected the changes in ratings.

Results and Implications

At this time in our analysis, we can draw some conclusions. First, we discovered that our initial theoretical framework is somewhat inappropriate. Investors used conference time to network, discuss ongoing deals, and use their computers and Blackberries. Thus, any theoretical framework must take into account the multi-tasking of the investors. Second, our results show that this methodology is promising as a method of identifying critical decision factors of investors in ‘live’ situations. For example, in many presentations the ratings of the investors jumped after the mention of major customers. Future studies in this area of enquiry and using the dynamic response technology are warranted. We planning studies in both lab experiments and other Venture Forums, using our experiences and findings to improve both the research design and theoretical framework.

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