HOW ENTREPRENEURS SEDUCE BUSINESS ANGELS: FINDING A BALANCE BETWEEN OVERSTATED EXPECTATIONS AND UNDERSTATED ASPIRATIONS (SUMMARY)

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Principal Topic

Entrepreneurship in general and technology-based entrepreneurship in particular is a process of experimentation and learning. Entrepreneurs start their venturing process by exploring a newly “theorized” opportunity in a highly uncertain situation with only limited knowledge on the technical and market aspects of their business. Given this high degree of uncertainty faced by new ventures, an entrepreneur faces a major dilemma when communicating his or her expectations on the future performance of the company to potential investors.

This paper develops and tests a set of hypotheses on how entrepreneurs’ projections of the future performance of their firm affect their attempts to raise external funding. First, building on the met expectations theory and the disconfirmed expectations theory of (customer) satisfaction, we expect those firms who avoid falling into the traps of inflated expectations and understated aspirations be best positioned to secure business angel funding. Second, recent research in communications and the models of persuasion has demonstrated that it is not only the content of the message that influences investors and financial analysts. It also matters how the message is conveyed. In this paper, we analyze the impact of cautiousness, innovativeness, communality and complexity of entrepreneurs’ written disclosures of information on their success in securing external funding.

Methods

We test our data on a unique dataset of 575 young firms having sought business angel funding in the New York area during the years 2005-2007. We have the access to their business plans, presentations, company profiles and financial information of these companies.

Results and Implications

This paper adds to our knowledge on how entrepreneurs promote their ventures when seeking external funding and how business angels make their investment decisions under great market and technical uncertainty. In particular, this study stresses the importance of managing expectations in the business angel entrepreneur relationship, a factor largely ignored in the prior literature. From the practical point of view, our study is likely to guide entrepreneurs relative to their language use in their voluntary disclosures of information to potential investors.

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