BETTING ON THE HORSE OR THE JOCKEY: THE IMPACT OF STAGE OF THE RACE AND EXPERIENCE (SUMMARY)

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SUMMARY

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Principal Topic
Numerous researchers have tackled the question of whether private equity investors, such as angel investors and venture capitalists, place more weight on investment criteria relating to the entrepreneur or the opportunity when evaluating the funding potential of new ventures (e.g., Fiet, 1995; Hall & Hofer, 1993; Kaplan, et al., 2007; MacMillan et al., 1985; MacMillan et al., 1987; Muzyka, et al., 1996; VanOsnabrugge, 1998; Zacharakis & Meyer, 1995). Conflicting results require further exploration into the factors underlying contingencies in the funding decision process. Conflicting results may be a function of the stage of the funding decision process and characteristics of the individuals making the evaluation, aspects that have not been fully considered in prior research. We develop a theoretical framework to explain why investors place weight on certain investment criteria at different stages.

Method
The setting for this study was a chapter of one of the largest angel organizations in the United States. Data were collected from 57 different angels who attended and provided screening evaluations on 159 entrepreneurs and their new ventures from September 2007 to July 2010, providing a total of 2234 screening evaluations. Data were gathered using self-administered questionnaires collected throughout the application screening process over this time period. Fifteen items were used to assess attributes of new ventures and entrepreneur. Angels provided their level of industry, startup, and investing experience when they applied to the angel organization. The dependent variables involved angels’ rating their interest and whether or not the angel invested in the venture at the funding stage. We use a multilevel (i.e. mixed-model) approach to account for the nested nature of data – multiple evaluations nested within each angel, nested within each screening.

Results and Implications
This study provides a much needed theoretical framework to explain the investment criteria used by angels and why these criteria change through the funding decision process. This framework and our empirical results help account for conflicting results in prior studies: investment criteria change based on the stage of the funding decision process. In addition, the expertise of the angel evaluating the new venture also impacts the investment criteria used.

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