EARLY-STAGE INVESTORS’ CRITERIA AND NEW VENTURE FINANCIAL PERFORMANCE: ARE THEY RELATED? (SUMMARY)

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This research examines whether early-stage investors’ evaluative judgments during the initial assessment process, especially those regarding key espoused investment criteria, are related to subsequent new venture performance. Despite more than three decades of research in this topic, there is little evidence not only on whether there is a relationship between the initial overall assessment of investors and new ventures’ subsequent performance, but also on whether specific dimensions of these assessments, those that correspond with investors’ most often espoused investment criteria (i.e. the management team, the product and the market), are related to new venture performance. In this study, we set out to explore these relationships.

Method

We use a unique set of proprietary data from one of the largest Business Angel Networks (BAN) in Spain, and combine it with the historical financial information of the new ventures, including data such as revenues, gross margin or number of employees. The information from the BAN has been collected using the GUST software (Angelsoft), starting in 2010. Entrepreneurs input the information related to the venture, including financial forecasts and investors have immediate access to the information to assess the venture. If they are interested in the venture they evaluate the potential of the market, the team, the product and the terms. Bimonthly, twelve companies are selected to present to the investment committee and the best six, are invited to one of the investment forums. Investors are then requested to evaluate the venture after the presentation. For this research, our total sample of ventures is over 900, out of which 233 are still alive and have presented their annual accounts to the public registry.

Results and Implications

We predict that those ventures that were assessed more highly in terms of the quality of the management team, the product or service, and the market, will demonstrate a higher level of performance. If our predictions are supported, the implication is that investors’ evaluative judgments, and their specific espoused investment criteria, are related to subsequent new venture performance. Additionally, we examine whether investors’ evaluative judgments change after seeing the presentation in the investment forum.

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