NOT ALL SIGNALS ARE CREATED EQUAL: THE IMPACT OF VARIOUS VENTURE INFORMATION ON THE LIKELIHOOD OF SECURING FINANCING (SUMMARY)

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Principal Topic

Many studies have been conducted to tease out the criteria VCs take into consideration when choosing which companies to invest in and when. However, few of the existing studies, which rely primarily on VC self-report, have meaningfully convergent results on what that criteria is. Thus, the question remains as to what information entrepreneurs should signal about their firm and how forcefully in order to increase their chances of securing venture financing. The main purpose of the paper is to provide a more objective view of the factors and milestones that prove most critical in VCs' decisions to invest. Given that media attention is often reflective of ventures' achieved milestones and/or new ventures can actively use media to communicate these milestone to their potential investors, this article explores whether the presence and concentration of certain signals affect the likelihood of securing financing more than others. This research aims to provide an alternative method of measurement of VC funding criteria and provide new ventures with a practical framework of what to concentrate their signaling activities on.

Method

The study traces one hundred new ventures over a period of 12 years through a cross sectional data set with repeated measures. A script was created and used to step through each of media articles and determine the presence of mentions of the company's products, competitors, customers or patent filings – some of the most commonly referred to factors of VCs' investment decisions. Given the fact that the VCs' due diligence lasts 3-6 months, the likelihood of securing funding was assessed based on patterns of media 6 months in arrears of potential funding date.

Results and Implications

Results suggest that not all signals are created equal and that high levels of some, such as announcements of release and positive evaluations of new ventures' products, are more frequently present for firms that end up being successful at raising venture funding than for those that are not. The potential implication is that despite VC claims of a variety of inputs to their financing decisions, only a select few actually carry great weight.

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