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Passion for entrepreneurship or passion for the product? A conjoint analysis of angel and VC decision-making

Benjamin J. Warnick^{a,*}, Charles Y. Murnieks^b, Jeffery S. McMullen^c, Wade T. Brooks^d

^a Washington State University, Carson College of Business, United States

^b Oregon State University, College of Business, United States

^c Indiana University, Kelley School of Business, United States

^d Willamette University, Atkinson Graduate School of Management, United States

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ABSTRACT

Passion is important to venture investors, but what specifically do they want entrepreneurs to be passionate about? This study theorizes that angel investors and venture capitalists consider both entrepreneurs' passion for activities related to the product or service the venture provides (i.e., product passion) and passion for founding and developing new ventures (i.e., entrepreneurial passion). We demonstrate that both types of passion become more appealing when the investor perceives that the entrepreneur is highly open and receptive to feedback, suggesting that openness to feedback mitigates potential concerns associated with passion in its extremes. We further find that venture investors differ in their consideration of passion; angel investors and venture capitalists with more investing experience place greater emphasis on the combination of product passion and openness to feedback, whereas those with more entrepreneurial experience emphasize the combination of entrepreneurial passion and openness to feedback.

Executive summary

Passion is important to the funding decisions of angel investors (Hsu et al., 2014; Mitteness et al., 2012b; Sudek, 2006) and venture capitalists (VCs) (Hsu et al., 2014; MacMillan et al., 1985), but scholarly understanding of this relationship is still relatively nascent. For instance, the literature on angel and VC decision-making has viewed passion broadly as expressed enthusiasm (Chen et al., 2009; Mitteness et al., 2012b)—thereby failing to articulate the specific target of entrepreneurs' passion—or as passion for being an entrepreneur and engaging in the entrepreneurial process (Murnieks et al., 2016). However, many entrepreneurs are passionate about the domain of their venture and activities related to the product or service it provides, as opposed to the entrepreneurial process itself. That is, many entrepreneurs possess “product passion” rather than “entrepreneurial passion” (Cardon et al., 2017a).

Entrepreneurship scholars have only just begun to acknowledge the importance of passions that do not involve entrepreneurial activities (e.g., Cardon et al., 2017a; Huyghe et al., 2016; Warnick, 2014). Building off their work and passion-related theory more generally (Cardon et al., 2009; Vallerand et al., 2003), we develop and test a model that examines two specific types of passion commonly perceived among entrepreneurs and considered important by angel investors and venture capitalists: (1) passion for activities related to the product or service a venture provides (or product passion), and (2) passion for founding and developing new ventures (or entrepreneurial passion).

* Corresponding author at: Todd Hall 437E, Pullman, WA 99164, United States.

E-mail address: b.warnick@wsu.edu (B.J. Warnick).

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Through a conjoint experiment of 31 angel investors and 31 venture capitalists, we find that investors discriminate between these two different types of passion and that their assessments are contingent on their perceptions of the entrepreneur and the investor's own characteristics. We demonstrate that perceptions of both entrepreneurial passion and product passion become more appealing when the investor perceives that the entrepreneur is highly open and receptive to feedback, suggesting that openness to feedback mitigates potential concerns associated with passion in its extremes. We further find that venture investors differ in their consideration of passion. Angel investors and venture investors with more investing experience place greater emphasis on the combination of product passion and openness to feedback, whereas those with more entrepreneurial experience emphasize the combination of entrepreneurial passion and openness to feedback.

Our findings contribute to theory on passion in the field of entrepreneurship and the discipline of psychology by developing the concept of product passion more deeply and expanding understanding of how passions that do not involve starting businesses are still relevant in the entrepreneurial context. We find that investors perceive entrepreneurs' openness to feedback as an important moderator of the passion-investment link because it assuages concerns about potential rigidities that may characterize entrepreneurs high in passion, as observed among a number of highly visible entrepreneurs (e.g., Isaacson, 2011; Knight, 2016; Vance, 2015). Finally, we find that these relationships are contingent upon the investing and entrepreneurial experience of investors, revealing important dyadic interactions between characteristics of entrepreneurs and investors. Thus, we empirically demonstrate that greater theoretical precision in both the entrepreneurial passion and venture investor literatures is needed to understand the relationship between entrepreneurs' passion and investors' probability of investment in their ventures.

1. Introduction

“I am not passionate about being an entrepreneur...I am passionate about the work that I am doing with robotics, and a startup company appears to be the best way for me to pursue that work. I am not interested in the process of starting a company, other than as a vehicle to enable us to build robots.”

- Entrepreneur interviewed as part of this study

“I am wary of investing in someone who is passionate about being an entrepreneur...I want someone who is passionate about solving a problem.”

- Angel investor interviewed as part of this study

Passion—encapsulating intense positive feelings for, and identification with, a given activity (Cardon et al., 2009)—is important to the funding decisions of both angel investors (Hsu et al., 2014; Mitteness et al., 2012b; Sudek, 2006) and venture capitalists (Hsu et al., 2014; MacMillan et al., 1985), but scholarly understanding of this relationship is still relatively nascent. For example, research has yet to establish what it is that investors want entrepreneurs to be passionate about or whether all investors evaluate passion similarly.

This study seeks to bring nuance to this important topic by offering a more precise model of the relationship between entrepreneurs' passion and investors' probability of investment. Building on recent research showing that there are different sources of passion (Curran et al., 2015; Huyghe et al., 2016; Cardon et al., 2017a), we first determine whether investors discriminate between perceptions of entrepreneurs' passion for their product or service (or product passion) and passion for entrepreneurial activities (or entrepreneurial passion). We then draw on recent research about the effects that passion may have on persistence (Cardon et al., 2009; Vallerand et al., 2003; Mason and Harrison, 1996; Mitteness et al., 2012b; Murnieks et al., 2016) to examine whether investors discriminate between passionate entrepreneurs who are open to feedback from those who are not. Finally, we build on research showing that experience can influence perceptions (Franke et al., 2006; Murnieks et al., 2011) to examine whether investors evaluate different types of passion differently depending on their own entrepreneurial experience and investing experience.

Through a conjoint experiment of 31 angel investors and 31 venture capitalists, we find that investors separately consider entrepreneurs' product passion and entrepreneurial passion, contingent on their perceptions of the entrepreneur and the investor's own characteristics. In doing so, our study begins to disentangle the aggregated, general conception of ‘entrepreneurial passion’ and the relationships that these more specific types of passion have with investors' probability of investment. We offer three contributions to the psychology and entrepreneurship literatures. First, we develop the concept of product passion more deeply and provide evidence for its relevance to the entrepreneurial context. Given product passion's demonstrated value to entrepreneurship, our study opens the door to examination of other types of non-business-activity-related passions that may also be relevant to entrepreneurship. Second, we demonstrate the importance investors place on their perceptions of entrepreneurs' openness to feedback when assessing passion. This suggests that other characteristics of the entrepreneur might also influence the attractiveness of perceived passion of entrepreneurs to investors. Finally, by analyzing whether individual differences among investors, such as entrepreneurial experience and investing experience, affect their consideration of the entrepreneur's product passion and entrepreneurial passion, we show that one individual's characteristics can indeed influence their assessment of others' passion. This raises the question of whether other investor characteristics might affect the passion-investment link. Thus, our study offers answers to a number of pertinent research questions about the link between entrepreneurs' passion and venture investment and, in the process, poses promising avenues for future research.

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