Business Angels’ Early Stage Decision Making: What Lies Beyond?  
The Role of Alertness, Regulatory Focus, and Cognitive Style

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Extended Abstract

Cognitions of business angels when making investments is an important area of research in entrepreneurship. Entrepreneurship implies action (McMullen and Shepherd, 2006), that is, by definition, intentional behavior (Greve, 2001), and entrepreneurial decision making is a significant driver of entrepreneurial action. In prior literature, researchers have discussed the need to further investigate the relationships between the outcomes of angel investors’ decision making and the ways in which they process information (Shepherd et al., 2003), the conditions under which angel investors make their decisions (Mitteness et al., 2012), and the impact of prediction (Wiltbank et al., 2009) or perceived control (Drover et al., 2013) on decisions about how investments are pursued. At the same time, researchers have not fully comprehended how differences in entrepreneurial alertness, regulatory focus, self-efficacy, or cognitive style might impact an angel investor’s early-stage decision making. This paper applies the Theory of Planned Behavior (TPB) to further investigate business angels’ decision making processes. The TPB posits intention as the direct antecedent of behavior (Ajzen, 1985), but entrepreneurship implies action, not only intention. Prior literature has supported the usefulness of TPB in explaining the emergence of entrepreneurial intentions and actions with some valid empirical results (Kautonen, 2013).

Several individual-level cognitive constructs may play a significant role in predicting entrepreneurial intention. Ajzen (1991) emphasized three cognitive antecedents of intention: attitude, subjective norms, and perceived behavioral control (PBC). Recently, regulatory focus theory (Higgins, 1997, 1998) has also received a great deal of attention in behavioral literature. Alertness, a concept built by Kirzner (1973, 1999), extends our understanding of how new ideas are initiated and pursued (Tang et al., 2012). In this study, we develop a conceptual model that posits that personal attitudes affecting an angel investor’s early-stage evaluation of target behavior (i.e. the investment-related goal) are the result of his or her regulatory focus and entrepreneurial alertness, regardless of whether unfavorable (risk, conditions of the environment, uncertainty) or favorable (profit maximization). Hayes and Allinson (1994) saw cognitive style, i.e. the differences in how individuals perceive, think, solve problems, learn, take decisions, and relate to others (Witkin et al. 1977), as a critical variable influencing business and
management practice (Armstrong et al., 2012). Cognitive style affects the self-efficacy of angel investors by mediating the impact of perceived behavioral control (self-efficacy in our study). A study conducted by Kautonen et al. (2013) found that attitude, subjective norms, and PBC jointly explained 59% of the variation in intention, exceeding the 30-45% found in past studies of entrepreneurial intentions (Kolvereid, 1996; Linan & Chen, 2009, Van Gelderen et al., 2008). Intention and PBC combined to explain 31% of the variation in subsequent behavior.

Entrepreneurial alertness is composed of three distinct elements: scanning and searching, association and connection, and evaluation and judgment (Tang et al., 2012, Valliere, 2013). This trait allows angel investors to identify opportunities. Entrepreneurial alertness is related to regulatory focus as an important trait that activates an angel investor’s greater promotion focus (i.e. generating ideas to be successful) or greater prevention focus (i.e. conducting “due diligence” when screening ideas) (Brockner et al., 2003). Prior studies have found that individuals’ cognitive preferences for analysis or intuition influence their perception and appraisal of their own entrepreneurial self-efficacy in their intention to create a new venture (Kickul et al., 2009). Our conceptual model suggests that an angel investor’s goals related to investment (i.e. the intention to invest) depend upon the relationship between these constructs.

This model presents a theoretical argument toward the identification of the specific antecedents of a business angel’s decision making. The model has been used to develop propositions for the relationships between these antecedents and the angel investor’s intention to invest. There is a need for further research in order to develop these propositions into a testable and operationalized hypotheses that can be empirically verified.

The main contribution of the paper is in theoretically proposing relationship between cognitive style, regulatory focus, and entrepreneurial alertness (Baron 2008; McMullen and Shepherd, 2006), and its influence on business angels’ early-stage decision making. When empirically verified, practical implications of this study can be beneficial to entrepreneurs who can use the findings to improve their financial resource acquisition strategies, as well as to business angels, who can better understand their own decision-making processes.