COMPENSATORY DECISION-MAKING: A CONFIGURATIONAL APPROACH TO TEAM-BASED SIGNALS IN SUCCESSFUL VC-BACKED STARTUPS

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Introdução

Venture capital is a vital funding source for startups, characterized by a high-risk appetite and early-stage orientation. Due to uncertain scenarios and asymmetric information, VCs often use heuristics and are susceptible to biases, focusing on identifying founding teams capable of generating outlier returns (Gornall and Strebulaev, 2020). Therefore, signaling theory in venture capital has been growing as a filtering mechanism, based on academic and industry experiences, used by VCs to select founding teams from a pool of prospects (Ko and McKelvie, 2018).

Problema de Pesquisa e Objetivo

Current literature on signaling theory in venture capital decisions emphasizes individual signals (e.g., education) but overlooks the context and multiple signals confluence (Ko and McKelvie, 2018), leading to a narrow view of the founding context and less effective investments. This study aims to identify complementarity and substitution effects of founder-related signals and VC success, using Coincidence Analysis (CNA) based on data from 377 founders from the top funding startups in Brazil and 15 in-depth interviews with venture capitalists.

Fundamentação Teórica

Due to high levels of asymmetry and noise, Svetek (2022) highlights that VCs often rely on elimination-by-aspect heuristics rather than balancing a set of aspects during the screening phase, leading to biased decisions and missed opportunities. Drawing from the literature on signaling theory, team-based signals identify unobservable characteristics through observable traits, divided into educational background, professional experience, and previous relationships among founders, each expressing different characteristics of the founding team for more reliable decision-making.

Metodologia

This study uses a mixed method: a configurational qualitative comparative method (CCM) for causal data analysis and an interpretative qualitative approach via VC interviews. Coincidence Analysis (CNA) identifies complex causal patterns in a dataset of 377 startup founders selected from the top funding Brazilian startups, modeling necessary and sufficient conditions. The study explores founder characteristics leading to second-round investments, and interviews with top VCs provide deeper insights, enhancing our understanding of VC decisions in Brazil and aligning findings with signaling theory.

Análise dos Resultados

The CNA analysis uncovered 4 configurations. C1 merges a prestigious university background with no industry experience, highlighting fresh perspectives in new markets. C2 pairs a prestigious university background with founders with joint work experience, emphasizing prior relationships. C3 substitutes the absence of a prestigious university or prior collaboration for industry experience, underscoring specific knowledge. C4 involves entrepreneurial and managerial experience without prior collaboration, suggesting that a strong professional background can mitigate the lack of shared work history

Conclusão

In this study, we proposed that when dealing with asymmetric and noisy information, VCs tend to rely on heuristics for decision-making. Specifically, VCs often use elimination-by-aspect heuristics in

early-stage investments, focusing on individual team-based signals for future success. Using a configurational method (CNA) and in-depth interviews, our study presents four distinct signal configurations. These configurations enable compensatory decision-making, moving beyond biased individual signals and highlighting less-explored signals like relationship-based ones.

Referências Bibliográficas

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