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Improving the Matching Process between Entrepreneurs and Investors

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Mini Review

Entrepreneurs and investors face challenges in the early stage of entrepreneurial finance. Entrepreneurs struggle to find and then secure investment, whereas investors struggle to identify and establish investment-grade ventures [1,2]. Despite abundant funds and ideas, evaluating ideas and negotiating a deal requires a great deal of specialized knowledge and time-consuming exchange and verification of information. Both sides of the market face high search and transaction costs in order to facilitate a successful match.

Studies have modeled the matching between investors and entrepreneurs as a two-stage process in which entrepreneurs look for investors first, and then investors evaluate the entrepreneurs who find them [1,3,4] (Eckhardt et al., 2006). From these models, one can derive propositions about selection mechanisms based on the ventures' characteristics [4-6] (Eckhardt et al., 2006). For example, Maxwell et al. [7] suggest that these mechanisms involve variables such as the nature of the product, market, entrepreneur, financials, and investment. In this research, I rely on the aforementioned literature, while aiming to add the possible effect of entrepreneur and investor conceptions regarding the venture on the matching process. Furthermore, I strive to examine whether there are differences in the conceptions between entrepreneurs and local investors and between the same entrepreneurs and foreign investors.

Practically speaking, one way for entrepreneurs to reduce the costs of searching for investors is to signal relevant information in order to affect investors' conceptions. Hence the matching process is heavily influenced by the investors' conceptions of the different signals communicated by entrepreneurs. Improving this situation has been a priority of policymakers for at least a decade. However, the challenges in this matching process are still poorly understood. Moreover, policymakers, incubators, and accelerators will be able to apply the insights from the proposed research to match the demand and supply sides more accurately.

To investigate the research question arising from the above short-review, I propose employ a mixed-methods approach using data collected through semi-structured interviews and a survey of both entrepreneurs and investors (local and foreign) with the aim of analyzing where their conceptions regarding the venture agree and where they deviate from each other, in order to identify and reconcile the differences and thus improve the matching process. In view of the lack of research on a specific type of investors, i.e. business angels - I suggest focusing on the latter. Business angels are high net-worth individuals who invest their own money directly in businesses to which they do not have a family connection [8,9]. Business angels as investors are the primary source of financing for small and medium enterprises (SMEs), especially during the early-stages of these firms [10,11]. Business angels are the largest external source of start-up finance after family and friends, and in many cases they are virtually the only source of venture capital [12].

It is important to conduct interviews with several entrepreneurs and investors (local and foreign) to order to examine whether there exist conceptions that are relevant in investment decisions—beyond all those mentioned in the extensive entrepreneurship literature [13,14]. Subsequently, I suggest distributing a questionnaire to all the entrepreneurs and investors which will include different conceptions that may influence their funding decisions such as venture quality, market size, entrepreneur's experience, financial expectations, location, etc. [15,16] – including other conceptions as needed and in accordance with the insights that emerge from the semi-structured interviews.

The research findings may help to find ways to increase the volume of investment by adjusting between the relevant considerations in capital raising and the characteristics of the venture itself. Specifically, entrepreneurs will be able to increase the probability of their venture surviving its initial and critical stage by locating potential investors.

Moreover, the research is innovative in that it examines the considerations of both local and foreign investors at a critical stage of the ventures. This information will help to compare the set of considerations of both types of investors while also providing tools for policymakers and helping with the development of assistance programs in relation to principles of early-stage support [17]. In addition, the study may contribute to social welfare and spark economic growth.

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