Signal Configurations: Exploring Set-Theoretic Relationships in Angel Investing

Abstract

In the investment process, angel investors face a challenge in assessing the quality of new ventures, and therefore, rely on signals sent by entrepreneurs. Anchored in signaling theory, we use a configurational approach to examine how new ventures credibly communicate their underlying quality, using a unique dataset of 627 new ventures that sought investment from a prominent angel group located in the greater Boston, MA area. Unlike existing research, which employs causal models to reflect one best solution, we use crisp-set qualitative comparative analysis (cs/QCA) to understand signal configurations during the angel investment decision-making process. Our findings suggest that there are multiple paths to our two outcomes, passed small group screening and passed large group presentation, validating notions of equifinality. We also find that signal configurations differ by industry. We contribute to signaling theory by highlighting the configurational and temporal aspects of signaling during the angel investment decision-making process. Implications are discussed.