



# How images and color in business plans influence venture investment screening decisions☆



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## ABSTRACT

We explore how product images and color in business plans influence venture investment screening decisions. Because images are accessible, memorable, and influential, we argue that product images in a business plan will increase the likelihood of favorable judgments during screening decisions. Moreover, because red and blue automatically affect an individual's cognition in different manners such that red elicits negative associations and blue elicits positive ones from the evaluators, we predict that the use of red in a business plan will decrease the favorability of judgments during screening decisions, while the use of blue will increase their favorability. Using a quasi-experimental field study and a series of controlled experiments, we find partial support for a positive effect of product images on favorable screening decisions and a consistent negative effect of red on favorable screening decisions.

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## 1. Executive summary

Prior studies have considered how venture investors use various venture characteristics associated with positive performance outcomes (e.g., venture management team human capital, industry attractiveness, product novelty, and so on) to make rational investment decisions. However, few have considered how visual cues affect investment decisions. Visual cues are important because people tend to automatically attend to and process images more easily than written information. Indeed, prior studies show that, although people attempt to make rational decisions, they are predominantly affected by heuristic processing using available information at hand, particularly for rapid decision making tasks.

We explore how product images and color in business plans affect the likelihood of favorable judgments during screening decisions. Using a quasi-field experiment from a business plan competition (Study 1) and a series of controlled experiments recruiting subjects from an international franchise exhibition (Study 2), we find partial support for the prediction that a greater amount of product images will lead to greater favorability in screening decisions (Study 1 supports it, but Study 2 does not), whereas we find consistent support for the prediction that red negatively affects favorability in screening decisions.

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This study contributes to entrepreneurship and managerial decision making research by providing theory and empirical evidence on how visual cues affect such decisions. Our findings complement the traditional rationality framework that explains how venture investors make their decisions based on both informational and visual cues embedded in the planning documents. Moreover, although prior studies have documented staging of venture investment decisions into various phases (e.g., searching and screening, due diligence, and deal structuring phases), most have overlooked how decisions in each stage might differ. Indeed, most studies have only considered the final outcome; i.e., whether an investment is materialized or not, leading to somewhat inconclusive results on how much business plans matter. This study unpacks this black box of venture investment decision making process by focusing on the initial screening phase, where heuristic processing of information by investors is more likely to be salient.

## 2. Introduction

Speed is essential in making decisions in high-velocity and dynamic entrepreneurial environments (Baum and Wally, 2003; Eisenhardt, 1989). Decision makers often rely on speedy screening decisions to narrow choices down to a manageable shortlist before making a final decision. For instance, employers compile a shortlist of candidates before making a hiring decision or firms negotiate terms using a shortlist of potential alliance partners before making a final deal (Brown and Campion, 1994; Tyler and Steensma, 1998). Likewise, venture investors often shortlist a few ventures out of hundreds of proposals for preliminary due diligence (Metrick and Yasuda, 2011).

Scholars have traditionally considered how people rely on analytical processing to consciously attend task-related informational cues for making screening decisions. For example, studies on ventures investment decisions suggest that investors decipher venture characteristics, such as founder capabilities and industry characteristics, to determine cue validity, i.e., the conditional probability that an object falls into a particular category using presented information for investment decisions (e.g., Chen et al., 2009; Kirsch et al., 2009). However, this framework often lacks psychological grounding and empirical fidelity (Powell et al., 2011). Indeed, a growing number of studies complement this framework by illustrating how heuristic processing, a fast, automatic, and effortless cognitive processing, prompts people to rely on various heuristic cues or mental shortcuts such as affect, and message framing, to make decisions (Baron, 2008; Cardon et al., 2012; Kahneman, 2003). One often overlooked category of heuristic cues are visual ones (Ambady et al., 2006; Mehta and Zhu, 2009). These cues can affect decision makers' motivation and cognitive evaluations because they are automatically captured by human senses and their effects are robust and unlikely influenced by informational load, time pressure, or fatigue (Ambady and Gray, 2002; Friedman and Förster, 2010).

We explore how two visual cues, product images and colors, influence venture investment screening decisions. Because visual images are accessible, memorable, and influential (Ambady and Gray, 2002; Blossom and Morgan, 2006), we hypothesize that product images lead to more favorable screening decisions. We then delineate how color influences screening decisions. Different colors have strong learned associations with danger or safety in the environment and their effects on human motivation and cognitive evaluation are well documented across various tasks (Crowley, 1993; Friedman and Förster, 2010; Mehta and Zhu, 2009). Consistent with prior color research (e.g., Bellizzi and Hite, 1992; Mehta and Zhu, 2009), we focus on the effect of red and blue on investment screening decisions involving business plans. Combining a field study and a series of controlled experiments, we find a robust negative effect of red on screening decisions.

## 3. Theory and hypothesis

### 3.1. New venture investment decisions

Early qualitative studies found that venture investors evaluate investment opportunities in multiple stages (Hall and Hofer, 1993). Venture investors (e.g., venture capitalists and angels) first search and screen potential opportunities (i.e., searching and screening stages). They then select a few opportunities from the initial set for further comprehensive assessment (i.e., due diligence stage) and eventually negotiate terms (i.e., deal structuring stage) with the few selected ventures to finalize an investment contract (Hall and Hofer, 1993).

However, subsequent studies mostly overlook such sequences and simply explore how various venture characteristics influence investment decisions (e.g., Chen et al., 2009; Eckhardt et al., 2006; Kirsch et al., 2009; Shepherd, 1999). These studies predominantly adopt a rationality framework borrowed from signaling theory in economics (Spence, 1973) or models from classical cognitive psychology, including the lens model (Brunswick, 1955), prototype theory (Rosch, 1975), and unimodel (Kruglanski and Thompson, 1999). This framework assumes that investors base their decisions on various venture characteristics that reflect what they "believe to be the basis for their judgment" (Chen et al., 2009, p. 202). In order for these characteristics to be influential, investors use the characteristics they believe to have high cue validity, e.g., a greater association with such desirable outcomes as venture survival and profitability, to reach investment decisions (Chen et al., 2009; Kirsch et al., 2009; Shepherd, 1999). For instance, using conjoint analysis, scholars found that cues associated with an entrepreneur's ability to manage new ventures (e.g., educational background and prior experience) and industry-related characteristics (e.g., timing of entry, competitive rivalry, and period of monopoly) influence investment decisions (Shepherd, 1999; Shepherd et al., 2000). Other characteristics, such as top management team composition and entrepreneur preparedness, were further validated outside laboratory settings and have been shown to communicate valuable signals to investors and thus influence their decision outcomes (Chen et al., 2009; Foo, 2010; Foo et al., 2005; Kirsch et al., 2009).

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