



## Drawn to the fire: The role of passion, tenacity and inspirational leadership in angel investing



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### ABSTRACT

Extant research affirms that angel investors seek passionate entrepreneurs but questions surround whether there is value in passion itself, or if it is instead used as a marker for other important characteristics like tenacity and inspirational leadership. Employing both a qualitative and quantitative study, we find that angels value passion in addition to tenacity, as well as both together, when evaluating entrepreneurs for investment. We also find that the entrepreneurial experience of angels positively moderates the value provided by passion and tenacity.

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## 1. Introduction

“It’s hard to tell with these Internet startups if they’re really interested in building companies or if they’re just interested in the money. I can tell you, though: if they don’t really want to build a company, they won’t luck into it. *That’s because it’s so hard that if you don’t have a passion, you’ll give up.*”

[Steve Jobs (Entrepreneur & Founder, Apple Inc., *emphasis added*)]

“If you love your work, you’ll be out there every day trying to do it the best you possibly can, and *pretty soon everybody around will catch the passion from you – like a fever.*”

[Sam Walton (Entrepreneur & Founder, Walmart Inc., *emphasis added*)]

Labeled the “fire of desire” that is capable of driving entrepreneurs to achieve great things (Cardon, Wincent, Singh, & Drnovsek, 2009: 515), passion is often linked to intense emotional imagery in the new venture context. As the quotes above illustrate, when we think of passionate entrepreneurs, we envision dogged, determined individuals working long hours to overcome daunting challenges

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in the fight to breathe life into their ventures. We imagine fiery, dynamic leaders giving spirited speeches to employees, customers and investors alike to encourage them to support their venture. A burgeoning body of research is beginning to shed light on the various constructs linked to passion in entrepreneurship. Recent studies show that passion signals the presence of important factors such as tenacious persistence (Cardon, Gregoire, Stevens, & Patel, 2013; Cardon and Kirk, 2015) and emotional contagion of positive affect (Breugst, Domurath, Patzelt & Klaukien, 2012; Cardon, 2008). Given both the folklore that surrounds passion and the emergence of supportive research, it is not surprising that passion is considered to be an important criterion for new venture investors during opportunity evaluation (Chen, Yao, & Kotha, 2009; Mitteness, Sudek, & Cardon, 2012a).

Yet, we are mindful of the distinction between passion itself, and other factors to which it is linked. For example, passion might signal the presence of tenacity or inspirational leadership, but passion is not identical to these constructs, nor are they interchangeable. This raises questions surrounding *why* investors are concerned about passion among entrepreneurs. Even though we believe passion is appreciated, at least by some potential investors (Mitteness et al., 2012a) and employees (Breugst et al., 2012), we do not know whether investors value passion as a worthwhile characteristic in and of itself, or because it indicates the presence of other beneficial components. In other words, is entrepreneurial passion a proxy for other factors or is it valued for its own sake? This is our primary research question, one that has not yet been answered in extant literature. We question whether passion truly is the panacea that recent work seems to suggest it is, or whether investors actually care about other factors that are related to, yet still separate from, passion. We are somewhat concerned with the emerging literature that has started to lump many different things into an overall notion of “passion” without conceptual or empirical precision.

Our main contribution is to highlight the importance of separating passion from related ideas and effects, and determining the unique as well as joint effects of each of these concepts, both theoretically and empirically. In pursuing our main inquiry concerning why angel investors might seek passion among entrepreneurs, and whether other similar constructs might be just as, or more important to them, we integrate work surrounding entrepreneurial passion (e.g., Cardon et al., 2009), with work in social psychology on passion for activities in general (e.g., Vallerand et al., 2003; Vallerand and Verner-Filion, 2013) to assess the relative importance of entrepreneurial passion in conjunction with tenacity and inspirational leadership.

Although various aspects of entrepreneurs' presentations to angel investors have been examined (Mason and Harrison, 2003; Maxwell, Jeffrey, & Levesque, 2011), the specific role that entrepreneurial passion plays in such pitches is still somewhat unclear. Certain studies indicate that passion does lead to increased entrepreneurial effort and venture growth (Baum, Locke, & Smith, 2001; Murnieks, Mosakowski, & Cardon, 2014; Drnovsek et al., *in press*) as well as increased investor interest (Hsu, Haynie, Simmons, & McKelvie, 2014; Mitteness et al., 2012a), while others contend that emotional displays of passion are inconsequential (Chen et al., 2009). We know that investors seek entrepreneurs who are conscientious and hard-working (Chen et al., 2009; Haines, Madill, & Riding, 2003) but an individual can demonstrate conscientiousness and a strong work ethic without having passion. Thus, it is not clear whether passion is used as a proxy during opportunity evaluation by investors for other traits or attributes they deem valuable, and if so, which specific attributions are seen as highly associated with, yet separate from, passion. We try to shed light on this area by first conducting a qualitative study to better understand angels' thought processes surrounding the importance of passion, including characteristics passion serves as a proxy for during evaluations. We then employ a conjoint decision experiment to examine the relative decision preferences of angel investors concerning entrepreneurial passion and other related constructs, specifically tenacity and inspirational leadership. Since angel investors often use a contingent decision policy, relying on multiple decision factors rather than just one (Maxwell et al., 2011), a conjoint methodology is highly appropriate to investigate the relative impact of each factor in the evaluation policies of the angels in our sample. The combination of qualitative and quantitative methodologies allows us to contribute to the emerging discussion concerning the importance of entrepreneurial passion to angel investors.

This study makes several important contributions to entrepreneurship. First, we dive deeper into the relationship between entrepreneurial passion and investor assessments of new ventures. Our work extends current theory by first inducting the reasons why angel investors seek out passionate entrepreneurs, and what they might view passion as a proxy for, and then testing those reasons in a decision experiment. This is important because the mixed findings in the literature concerning the importance of passion to potential investors do not delve into the thought processes of those investors in depth to examine why angels are attracted to the notion of passion, or what passion means to them. We examine this inductively, and also test these espoused reasons deductively. In doing so, we are able to offer deeper understanding of whether angel investors value passion itself, or instead look for passion because it serves as a marker for the presence of other desirable traits among entrepreneurs.

Our second theoretical contribution expands the growing body of work in venture investment research surrounding the influence of investor characteristics on evaluations of specific entrepreneurs. Franke, Gruber, Harhoff, and Henkel, (2006) assert that venture research needs to expand the analysis of decision-making to include consideration of how specific characteristics of investors interact with those of start-ups in systematically different ways. We examine whether idiosyncratic characteristics of investors lead them to divergent views of entrepreneurs (i.e., Mitteness et al., 2012a; Murnieks, Haynie, Wiltbank, & Harting, 2011) by testing whether the entrepreneurial experience of angels might impact the weight they place on entrepreneurial passion, tenacity, and inspirational leadership as criteria for investment. Knowing how specific attributes of investors interact in unique ways with those of entrepreneurs provides deeper insight into why some investors view the same entrepreneurs differently than others.

In the sections that follow, we review extant work surrounding passion in the venture investing context. We augment this with a qualitative study aimed to elucidate the role of passion and its importance from angel investors. Next, we integrate the findings of the qualitative study with other research in entrepreneurship and social psychology to develop hypotheses regarding the influence of passion, tenacity, and inspirational leadership on angel investor decisions about opportunities. We test these hypotheses in a conjoint decision experiment, and present our results as well as offer a discussion of the implications of our findings.

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