Even modestly connected entrepreneurs are six times more likely to succeed in accessing early-stage investors - if they push the right buttons.

If you have a brilliant business idea coupled with family as well-connected as Bill Gates’ mother or as financially supportive as Jeff Bezos’s parents, your company might find itself among a small percentage of successful start-ups.

In reality, the vast majority of start-ups fail. For yours to stand a reasonable chance of success, you must secure funds enabling you to validate the business idea and gain traction in the marketplace. As a first step, entrepreneurs tend to tap existing personal networks to obtain referrals to early-stage investors such as seed-stage venture capitalists or angel investors. Amid stiff competition for limited funds, getting a potential
investor’s attention through referral is often an effective foot-in-the-door strategy.

The question is: How should entrepreneurs use their existing personal networks to increase their chances of accessing a targeted investor?

**The trick is not “how many” but “how”**

Through field experiments in Singapore and India, my colleagues* and I attempted to open the black box of how entrepreneurs “activate” their personal networks to successfully secure pitch meetings with investors. Our study published in the *Strategic Management Journal* shows that even if not endowed with a privileged network, modestly connected entrepreneurs can access investors if they know how to deftly use their existing networks – in other words, by activating their networks strategically.

Our primary study involved 42 Singapore-based entrepreneurs who participated in an online workshop on leveraging social networks to connect to a panel of early-stage investors. In this real-life experiment, the participants were tasked to reach a panel of four investors and tried to accomplish this through a total of 684 network contacts. They were suitably motivated as the investors had agreed to listen to the pitches of entrepreneurs introduced to them via trusted intermediaries.

**Beyond six degrees of separation**

If the rule of six degrees of separation holds true, we can connect to any random person through about six intermediaries – good news for entrepreneurs in need of referrals to investors. What is less clear though, is who exactly should entrepreneurs reach out to as the first intermediary. Should they reach out to contacts who are socially close to themselves? Where should they start?

Habitually, most people would seek referrals from close contacts. However, we find that entrepreneurs are about six times more likely to secure successful referrals if they step out of their comfort zone and reach out to contacts who are socially closer to the investors, even if these contacts are more likely to have weak ties with the entrepreneur.

Consider this: Venture capitalists or angel investors constantly go through the “funnel process” – receiving hundreds of requests and scanning a fraction of them, only to invest in a couple of start-ups. Given the intense competition
for funds, investors are naturally more likely to pay more attention to referrals from trusted contacts.

The art of persuasion

With the question of “who” answered, the next question is “how”. Therein lies the art of persuasion.

Exchanges between people can take two primary forms: reciprocal and negotiated. In reciprocal exchanges, individuals contribute to an exchange (such as giving assistance) without knowing when and to what extent the other party will reciprocate. On the other hand, in negotiated exchanges, individuals know the precise terms of exchange – what each is giving and getting – before making it.

Prior research on searches in global social networks shows that the success of referral to the targeted person highly depends on the motivation of the intermediaries to forward the referral. Therefore, entrepreneurs must motivate contacts to refer them to a targeted investor.

Drawing on previous studies on the effects of reciprocal versus negotiated exchange, we examined the effectiveness of the explicit promise of reciprocity and an unambiguous offer of monetary incentives. Our study suggests that entrepreneurs who persuade contacts by explicitly promising return of favours in the future tend to be three times more likely to secure successful referrals as compared to the baseline of making no explicit promises of reciprocity.

Circumstances alone do not determine success

With the ongoing debate on whether being “well connected” trumps everything else, our study sought to investigate if it is indeed all doom and gloom for entrepreneurs endowed with a relatively modest network. We find that as expected, “well-connected” entrepreneurs secure more successful referrals irrespective of their approach. Yet, strategic actions based on who to ask within an existing network – even if it is modest – and how to ask for assistance provide an alternate pathway for successful referrals to investors.

Our study shows that entrepreneurs are more likely to secure successful referrals just by reaching out to contacts who are socially closer to the investor and by explicitly promising reciprocity. In fact, these contact selection and persuasion methods parallel other studies on network-
based job search and may well be applied to other forms of resource mobilisation such as corporate intrapreneurs seeking endorsement or collaborators.

If the story of billionaire Howard Schultz, chairman emeritus and former CEO of Starbucks, teaches us something, it is this: Your circumstances alone do not necessarily determine your success. The right ingredients for business paired with astute strategies to mobilise resources could put an entrepreneur on the right track to building a successful start-up, if not a unicorn.

*Jared Nai, Assistant Professor of Organisational Behaviour & Human Resources, Singapore Management University; Yimin Lin, Postdoctoral Fellow, Singapore Management University; and Reddi Kotha, Associate Professor of Strategic Management, Singapore Management University.

Find article at
https://knowledge.insead.edu/entrepreneurship/foot-door-strategies-connect-investors

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About the research

"A foot in the door: Field experiments on entrepreneurs' network activation strategies for investor referrals" is published in Strategic Management Journal.

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