Do Policies incentivising investment in early-stage start-ups really encourage investment?

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Abstract

There is disagreement in the literature regarding the impact of policies incentivizing investors – and especially business angels – to invest in technology start-ups. We suggest that a policy that incentivizes investments in young technology start-ups effectively communicates a message of low legitimacy of these early-stage firms, thereby signalling the customers of the policy – angels – that the investment is risky. In a quasi-experiment, we use data on about 2,500 Israeli start-ups in seven high-tech industries with over 4,700 angels, and find that following the introduction of a policy known as the Angels' Act, the number of angels investing in seed stage start-ups decreased. Our findings indicate that the policy, originally designed to increase investments in early-stage firms, effectively boomeranged. We contribute to the literature by revealing that like policies targeting consumers, policies that target investors may signal negative aspects and have unintended consequences.

Keywords: *Policy; Angels; Startups*

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