How to fly with business angels
- A qualitative study on business angel investment criteria’s
Abstract

This study is concerned with business angels’ investments process and which aspects in their choice of target firms are considered important in that process. The problem statement of this thesis is: what aspects play a role in Business angels’ investment decision, and in what way? How do these aspects affect business angels when making investment decisions, and why? The aim subsequently is concerned with discerning what is most important for business angels when choosing their target firms and how business angels make their investment decisions. We also aim to be able to create a deeper understanding of business angels, and contribute to small entrepreneurial firms in their search for financiers. Our research can provide information on how entrepreneurs can attract business angels.

The study is created with previous studies as a framework, and a wide selection of studies have been used. These have been examined and issues which in those studies have been found to be important for business angels have been reviewed and accounted for in the theory chapter.

The approach we used for data collection was through qualitative interviews with the use of an interview guide. This is explained by our aspiration to understand business angels’ investment criteria rather than describe them. Due to this, the view of interpretivism along with constructionism was taken on when constructing the interviews and findings. The respondents were found through business angels networks, and the selection of business angels entailed a fair representation of the researched group. This thesis has been conducted in an academically correct manner, and the results are validated and confirmed by the respondents.

The results we came to from our interviews were that the entrepreneur was most important for business angels in their evaluations, but other aspects also played a role. We analyzed our results with the use of our theory section and hence could see that some things we had come up with were unique, whilst some findings confirmed previous studies. We found that many business angels turn down investments due to their lack of time, which was a rather new emphasize for this study. Some qualities of the entrepreneur the business angels required were that they needed to be sales oriented and not overly optimistic about the future returns and prosperity of their ventures. We have shown that if entrepreneurs are overly optimistic about the value of their own firm it is likely that they will lose the deal. This was also of interest as it has not been stated as clearly in previous studies.

We conclude the thesis by giving advice to entrepreneurs and business angels, what future business angels should keep in mind and also what entrepreneurs should know before they involve themselves with business angels.
4.1 Respondent A .......................................................................................................... 36
  4.1.1 Background aspects ......................................................................................... 36
  4.1.2 Investment aspects ........................................................................................... 37
4.2 Respondent B .......................................................................................................... 38
  4.2.1 Background aspects ......................................................................................... 38
  4.2.2 Investment aspects ........................................................................................... 40
4.3 Respondent C .......................................................................................................... 41
  4.3.1 Background factors ......................................................................................... 41
  4.3.2 Investment aspects ........................................................................................... 42
4.4 Respondent D .......................................................................................................... 44
  4.4.1 Background aspects ......................................................................................... 44
  4.4.2 Investment aspects ........................................................................................... 45
4.5 Importance of issues ............................................................................................... 46
5. ANALYSIS ............................................................................................................... 48
  5.1 Background aspects ................................................................................................ 48
    5.1.1 The Business Angels ....................................................................................... 48
    5.1.2 Networking ...................................................................................................... 49
    5.1.3 Amount of Investments ................................................................................... 50
    5.1.4 Macroeconomics ............................................................................................ 51
  5.2 Investment criteria .................................................................................................. 52
    5.2.1 The Entrepreneur ............................................................................................. 52
    5.2.2 Financial Issues ................................................................................................ 54
    5.2.3 Involvement ..................................................................................................... 57
    5.2.4 Product, Market, Business Plan ....................................................................... 58
    5.2.5 Deal killers ....................................................................................................... 59
6. CONCLUSION & DISCUSSION ............................................................................. 61
  6.1 Important aspects .................................................................................................... 61
  6.2 Contributions and Ideas for further research ....................................................... 63
1. INTRODUCTION

“The important thing is not to stop questioning. Curiosity has its own reason for existing.”
- Albert Einstein

This chapter introduces the topic for the thesis and describes our aim and problem statement. We also guide the reader through the definitions of the two different venture capital markets that exist in today's society, the formal and informal. We will then focus more on the informal venture capital market and the subject of business angels, who are the focus of this study.

1.1 Opening

Einstein said the famous words; ‘Imagination is more important than knowledge. Knowledge is limited. Imagination encircles the world.” 2 This imagination Einstein talked about can be found today within the entrepreneurial minds of men and women all over the world. The ideas and thoughts that originate from these minds are sometimes transformed into businesses, small or large. What they all have in common, however, is that they are all small to begin with, and they need capital to grow large. Many entrepreneurs do not themselves have all the capital they need. Where does this capital come from then?

One way for finding capital for small to medium sized firms is through informal venture capital. The traditional bank loans and formal venture capital firm solutions have decreased in relative use, as the informal venture capital market has grown (Landstom 1993). The actors within this informal venture capital market are called business angels, and business angels are the subject of this study.

1.2 Background

Small enterprises are called SME’s (in Sweden SMF’s) and are usually below a limit of turnover, total assets or employees. 3 These SME’s are very important for the economy both in Europe and in Sweden. The European Union states that SME’s are a motor in the economy in the creation of work and the spirit of entrepreneurship and innovation. They are also very important for the competitiveness of Europe (EU commissions report). This is enforced by studies made, e.g. by Säppä 2006, who established SME’s to be central building blocks in the economy. Osnabrugge also state that the importance of SME’s is recognized worldwide (Osnabrugge 1998).

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1 http://www.humboldt1.com/~gralsto/einstein/quotes.html
2 ibid
3 The European Commission’s definition of SMEs’: “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” (Extract of Article 2 of the Annex of Recommendation 2003/361/EC)
In Sweden, special measures have been taken by the government to encourage small firms to establish, e.g. through the creation of tax incentives (Månsson & Landström 2006). The organization of Swedish trade and industry (Svenskt Näringsliv) as well as other organizations (Almi, Nutek) are also involved in encouraging small firms and entrepreneurship. Even so, in 2006 Sweden had very few SME’s, compared to other countries. In a research conducted 2006 on amounts of small firms and entrepreneurial activity in different countries over the world Sweden ranked 38 out of 40 participating countries. In Europe Sweden ranked 15 out of the 16 countries researched (Bosma & Harding 2006). One explanation for this is unfavorable tax laws in Sweden that have not been stimulating for private wealth accumulation (Landström 1993). Even though tax incentives have been created for small firms, many tax laws on private wealth are still unfavorable compared to other countries. In addition, employment laws are strict and not overly encouraging for engaging personnel.

According to many studies on the subject it is often difficult for small entrepreneurial firms to receive finances needed for their enterprise (Landstöm 1993, Lipper & Sommer 2002, Osnabrugge 1998 etc.). Bank loans are the most common source of finance for new firms, but these are not always easy to receive without a security, and another way is then to receive funding through venture capital (Mason & Harrison 1996).

Venture capital is an aid for small firms in their quest for receiving finance and encourages the market of SME’s to grow. The venture capital market consists of both formal and informal investors, and the difference between them is important to know when reading this thesis. We will account for the different markets further down.

The definition of venture capitalism, according to Isaksson 2000, is private capital invested in firms that are not listed on the stock market. The investment is usually time limited and lasts for a couple of years. In practice this makes the venture capitalist a joint owner of the company. In order for it to be truly venture capitalism it is also required that the investor takes on a role in the firm, such as a representative amongst the board of directors (Isaksson 2000).

### 1.2.1 Formal Venture Capital

Venture capitalism can be divided into formal and informal, where formal venture capitalism is when established organizations/firms specialize in investing in entrepreneurial firms (Isaksson 2000).

Formal venture capitalism is becoming more and more visible in its importance and existence (Mason & Harrison, 1996). In the 1970s, the Swedish economy entered a period of stagnation and industrial production fell by 25% in the period 1973–82 (Månsson & Landström 2006). The Swedish government considered Venture Capital as one of many tools to take the country out of the crisis. The venture capitalist industry in Sweden was in 1998 as much as ten times larger the size it was in 1987. The reason for the growth in the area can be explained by, amongst other factors, macroeconomic
conditions. According to Månsson and Landström, the Swedish venture capital market is said to have grown due to three main reasons, first; in 1996, pension funds were allowed to invest in start-up firms, second; a reduction in tax rates at the beginning of the 1990s, and third; the creation of several new stock markets for small companies (Månsson & Landström 2006).

More recent figures tell that the venture capital market has grown in the past couple of years as well. In 2007 Swedish venture capital firms invested 33% more than in 2001 (Nutek). The size of the Swedish Venture Capital industry is now substantial, and amongst the four largest in the OECD set in relation to population (Jacobsson 2000).

1.2.2 Informal Venture Capital

Informal venture capitalism is where individuals on their own invest their privately held funds in businesses. These individuals are referred to as informal investors or business angels and are distinguished from formal venture capitalists. Business angels stand out partly because of the fact that they work alone and not through a venture capital firm. This distinction is not always easy to discern and is not obvious. To give an example; some organized networks of business angels are referred to as venture capitalist firms rather than business angels because of the fact that they are organized in a network (Isaksson 2000). However, they are still business angels, because they make their investments privately and invest their own private capital.

The enormous value of business angels is not to be underestimated (Mason & Harrison 1994). Osnabrugge and Robinson conclude that business angels are a must for the survival and growth of small firms, and in US the angel venture capital market is larger and more important than the formal venture capital market (Osnabrugge & Robinson 2000, p63, Osnabrugge 1998). Actually, business angels have been estimated to finance as much as 30-40 times as many firms as venture capital firms (Osnabrugge 1998). In countries other than Sweden, informal investors (business angels) have been established to be the primary source of equity for new firms (Wetzel 1983, Aram 1989, Freer & Wezel 1990, Mason & Harrison 1994). In Sweden, the informal venture capital market is not as developed, but it is growing. In 2004 it was estimated that Sweden had 3000 business angels compared to the US’s 400 000 business angels (Helle 2004, p 26). The numbers of business angels varies between sources but these are around the mean of figures. The variations can be explained by ups and downs in the economy and how the estimations are made. It is clear, however, that there is a substantial amount more business angels in the US than in Sweden.

The market of business angels is growing. The Swedish Venture Capital Association estimates the amount invested by business angels to be as high as 2 billion Swedish crowns every year. This is half of what the venture capitalist firms invest, and hence enough to state the importance of business angels (Helle 2004, p22). Even if these numbers may appear to be high, the European informal venture capital market is heavily underdeveloped compared to the US market. In the US, business angels have been estimated to invest 10-20 billion dollars per year in around 30 000 firms. If we do some
rough interesting calculations on these numbers we can see that Swedish business angels invest around 700 000 Swedish crowns, or $100 000, per business angel per year, while American business angels invest somewhere between $25 000- $50 000 per business angel per year. With another calculation we can also see that American business angels invest between $333 333-$666 666 per firm per year. These numbers are only estimates, and one must keep in mind that the invisibility of the business angel market prohibits absolute numbers to be determined (Osnabrugge 1998). Even so, the US market is more transparent than the Swedish market. The Swedish market has a lack of transparency because business angels usually prefer to be private with their investments and keep a low public profile.

The majority of Europe’s’ business angels are active in the UK and in the Netherlands. In UK the informal venture capital market is larger than the formal venture capital market. Together with the UK the Netherlands represent more than 60 percent of the informal venture capital market in all of Europe (Aernoudt 1999).

Business Angels

What separates a business angel is usually that he or she works alone, and shows stronger interest and involvement in the target firm (Isaksson 2000). Business angels also tend to invest earlier on in the development of the target firm compared to venture capitalist firms (Lipper & Sommer 2002). Further aspects of business angels are that they tend to invest in markets familiar to them, stay with their investment during a longer period of time and they are willing to take on a higher risk or accept a lower reward for their investment (Prasad, Bruton & Vozikis 2000).

The incentives of the business angel tend to differ from the incentives of the venture capitalist firm. Business angels naturally invest in order to receive a higher rate of return, but motives such as being able to take part in the entrepreneurial process also play a role. To invest because it is fun and interesting to be involved in a firm and to contribute to society through the involvement in the firm, and through the growth of the firm, also play a part in business angels’ decision to invest (Helle 2004, p25).

Since business angels are different from venture capitalists their reasons for choosing their target firms are also somewhat different. Business angels usually have, as mentioned, a higher level of involvement and a closer collaboration with the target firm. Can this lead to the conclusion that business angels perhaps look relatively more at the relationship with the entrepreneur of the target firm when deciding to invest? Is the

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4 Swedish business angels invest around 2 000 000 000/3000= 666 666 Swedish crowns per year; 666 666/6. 5 = $100 000  
American business angels invest somewhere between 10 000 000 000/400 000=$25 000 and 20 000 000 000/400 000=850 000 per year  
The investment per firm for American business angels lies between 10 000 000 000/30 000=$333 333 and 20 000 000 000/30 000= $666 666
personal chemistry important when choosing a target firm? This is definitely a question worth asking since the business angel often will work closely with the entrepreneur. Further, the business idea of the entrepreneur should logically be a very important factor when choosing a firm to invest in, but is this the most important aspect or can other issues influence just as much? Is the location of the firm important? Do business angels look much at the actual presentation of the business idea, or just the idea itself? What is most important for business angels when choosing investments? What aspects play a role, in what way, and why?

1.3 Aim

The aim of this thesis is to attempt to discern what is most important for business angels when choosing their target firms and how business angels make their investment decisions. Further, with our results and findings we hope to be able to create a deeper understanding of business angels, and contribute to small entrepreneurial firms in their search for financiers. The reasoning leads us to the problem statement of this thesis:

1.4 Problem Statement

What aspects play a role in Business angels’ investment decision, and in what way? How do these aspects affect business angels when making investment decisions, and why?

1.5 Definitions

Venture Capital: VC is a private equity market, which has formal and informal segments. While the formal market consists of financial intermediary firms (venture capital firms), the informal market is made up of wealthy individuals called ‘business angels’.

Business Angel: The definition of a business angel we will use is synonymous with an informal investor; a single wealthy actor within the informal venture capital market investing privately held capital and know-how in entrepreneurial firms (Isaksson 2000, Helle 2004, p20).

SME’s: Small and Medium Sized Enterprises

IPO’s: Initial Public Offerings (New Stocks)

1.6 Limitations

The thesis is limited to the Swedish informal market and business angels, and the results are therefore not applicable outside that market.

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5 The European Commission’s definition of SMEs’: “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.”

(Extract of Article 2 of the Annex of Recommendation 2003/361/EC)
2. THEORY

"It is the theory that decides what we can observe."6
- Albert Einstein

In this chapter we will account for different studies made concerning business angels and their attributes, their investment evaluation processes and how they work. We will repeat the most essential studies on the subject and while giving a view of agreeing studies also account for contradictory findings.

2.1 Introduction and Basic Information

This study is aimed at researching business angels and what aspects play a role in business angels’ investment decision, and in what way they do so. We also aim to reveal how these aspects affect business angels when making investment decisions, and why? Business angels are active within the informal venture capital market, and we will start by reviewing the whole venture capital market (formal and informal) to give the reader an overview of the theme. Subsequently we narrow down to more applicable and central theories for our research which discuss issues that are important for business angels when evaluating investments. These are called investment criteria. These criteria will have different headings under which we account for how these aspects affect business angels in their investment decisions, and why they do so. We will later use these as a framework when analyzing our results.

2.1.1 Introduction to Venture capital

Venture capital can be roughly defined as investments in companies not listed on the stock market or any other market place (Isaksson 2000). Usually, a venture capital investment consists of the investors’ own capital and/or debentures with the option to convert into stocks. This conversion usually takes place after a few years when the company has grown in value. A venture capital investment then often, or most often, leads to the investors acquiring of stocks in the prospective company. A venture capital investment is not solely completed for the acquiring of new capital for the company; it also involves a certain degree of participation in the company from the investor’s side. The investor’s participation in the company is generally observable by participation in the board of the company (Helle 2004, p 39).

A venture capital investment is not to be regarded as a very long term investment and normally the investors leave the company within 5-7 years (Isaksson 2006). The definition of venture capital differs between countries and cultures. In the US, venture capital is regarded as capital invested in high tech companies, at a very early growth stage of those firms. In Europe, venture capital is similarly regarded as capital invested in companies during their start up phase. Further, these companies are not listed on the stock

6 http://www.humboldt1.com/~gralsto/einstein/quotes.html
market or any other market place and the investment is done during a limited time period (Helle 2004, p 18).

The venture capital market has existed in unstructured form for hundreds of years. The venture capital market as we know it today, however, was developed in the 1950’s in the US. Since its birth, venture capital has become a natural source of financing. It has been a more common source of financing in the US than for example in Sweden and Europe.

Venture capital can further be divided into formal and informal. Informal venture capital is where private investors invest their own money and bring their own knowledge and experience into a company, whereas formal venture capital is where an organized firm invests in a company with less involvement (Isaksson 2000). Formal venture capital is today somewhat synonymous to larger firms investing in developing companies simply to earn money, rather than to help with firm growth and sustainability (Isaksson 2006). Business angels are active within the informal venture capital market, and they invest their own privately held funds in companies and contribute with experience and knowledge.

Formal venture capitalists and informal venture capitalists have in common that they invest with a limited time horizon. They also have in common that they are involved in the firm in some way. There are substantial differences however. One is that the business angel, or informal investor, usually is involved in the firm to a higher degree than venture capitalists, (formal investors). Business angels invest in an earlier phase of the startup firm, whilst venture capitalists invest further on (Helle 2004, p 19). Business angels invest their own capital, and not the capital of a firm. These are some of the differences between venture capitalists and business angels, and we will talk more about these further on.

The difference between informal and formal venture capital firms is in practice diffuse. The difference is especially diffuse when it comes to separating very active business angels and venture capital firms. An example of a situation when it is difficult to separate them is when an informal investor makes an investment via a company that the investor controls. Then it can be difficult to determine if it is the investor who makes the investment in his capacity as a manager of the firm, or privately as a business angel? As long as the definition of business angel activity holds, when the investor invests his privately held capital and also invests knowledge and knowhow etc. into the firm, the investment is made as a business angel.

Another popular phenomenon that has emerged during the last years in both the US and Europe is so called Business Angel networks, which are formally organized networks of business angels that meet to discuss potential investments. These networks also arrange meetings between business angels and potential companies to invest in (Isaksson 2006). These networks, in their element of being organized networks, are sometimes referred to as venture capital organizations; however in actuality they are organizations of informal venture capital- business angels.
2.1.2 Introduction to Business angels

We have above described the meaning of formal venture capital and the difference to informal venture capital. Now we will go deeper into informal venture capital, and our research topic; business angels. We will repeat the definition of a business angel we use; a business angel is defined as a wealthy individual who invests privately held capital, knowhow and experience in entrepreneurial firms with growth potential (Isaksson 2000, Helle 2004, p 20).

Many studies have been conducted on the subject of business angels; who they are, why they invest and what criteria they have when investing. One book on business angels we will use much in our thesis is the one by Osnabrugge and Robinson in 2000. Their conclusions are the outcome of over four years of research and even more years of experience from the business angel market. Their book accounts for research from 300 validated empirical studies and interviews with entrepreneurs, business angels and venture capitalists (Osnabrugge & Robinson 2000, preface). Some of the studies mentioned in the book are by Osnabrugge and Robinson themselves, and they also include other essential studies on business angels. For all these reasons we have chosen to use this profound and extensive source to a large extent.

Many studies come from the US and the UK, and due to cultural and social differences between different countries the findings cannot be completely generalizable (Stedler & Peters 2002). Business angels do differ in their decision-making processes and cultural aspects should not be disregarded as they likely play a role. Osnabrugge and Robinson concluded that it would be foolish to try to describe business angels as a similar group of people. They tend to have different characteristics and make their investments on different criteria depending on their background, preferences and interests (Osnabrugge & Robinson 2000, p63). Mason and Stark reaffirm that attitudes of angels and their investment decisions are strongly shaped by their backgrounds and experiences (Mason & Stark 2004).

Keeping in mind what has been stated above about differences between business angels, yet some characteristics were mentioned in the study of Osnabrugge and Robinson as common for most business angels. Among these were that business angels prefer to make smaller investments than venture capitalists and that business angels usually invest at an earlier phase of the start-up process of the firm. They also tend to invest in basically all different industry sectors and they are more flexible compared to venture capitalists concerning the requirement of financial records in their decision making. Business angels are usually contributing to the firm in that they are involved and provide their expertise and experience. Further, business angels are present everywhere and are geographically dispersed (Osnabrugge & Robinson 2000, p63).

Remembering that cultural difference may exist, studies have shown that business angels across borders do have similar investment criteria (Landström 1993, Stedler & Peters 2002). Landström showed in his study that there were some similarities between business angels in Sweden and other countries (Landström 1993). Freeney, Haines and Riding in
their study also state that the decision process of business angels must be similar in many ways since business angels are active within similar markets. The market the business angel is active within is a market where the business angel is evaluating whether or not to purchase an investment put to sale by the entrepreneur (Freeney, Haines & Riding 1998). Conclusively, even though business angels can be expected to be different in their attributes and investment criteria there are still substantial similarities within the group.

Even though business angels may differ in their personalities, there are some studies describing the “most ordinary” business angel. This is not of immediate application to our research since we are performing a qualitative study and will not be able to generalize, but still of some interesting value. A remarkable fact is that the most common age of business angels worldwide is 50 years old. In a research conducted in Germany, 95% were male, and 55% were head of their own companies and 18% head of another company (Stedler & Peters 2002). Many studies have found that most business angels are male and have been in a management position before becoming a business angel (Osnabrugge & Robinson 2000, p156). Further, most business angels have been active within a start-up phase of a new firm before, and they usually invest close to home. Business angels are usually wealthy and well educated (Freeney, Haines & Riding 1998).

When business angels invest in a firm they offer their own capital which the entrepreneur can dispose in whatever way he or she feels is best for the firm. Even if the business angel usually is involved with the investment, there is a risk involved in this as the motives and goals can differ between the business angel and the entrepreneur. Connected to this dilemma is the agency theory, which we will describe further.

### 2.1.3 The Agency Theory

The agency theory is concerned with the relationship between one party (the principal) who delegates work, and another party (the agent) who performs that work. This relationship is concerned with two problems; the agency problem and the problem of sharing risk. The agency problem occurs when the goals and/or desires differ between the agent and the principal, or when the principal has difficulty of knowing what the agent is doing. Because of costs associated with controlling the agent or difficulties due to geographical distance the principal can perhaps not always know how the agent is acting. The problem of shared risk arises when the agent and principal have different perceptions and attitudes concerning risk. The agent may not act accordingly to the principals’ will if their risk perceptions differ (Eisenhardt 1989).

The agency theory concerns business angels in their quality if being principals giving the agents, the entrepreneurs, their money to sustain a business. Even though business angels often contribute with their own knowledge in the firm, there is still an aspect of the agency dilemma. This is evident in the study of Mason and Stark where they state that business angels evaluate the agency risk more than the market risk, as oppose to venture capitalists which do vice verse. The agency risk is evaluated through assessing the entrepreneur, if he or she can be trusted and other characteristics. Business angels assess the agency risk and leave it to the entrepreneur to assess the market risk. Hence, the
business angel looks more on the ex post investment involvement and reduces risk in that way. Since the business angel is usually planning to spend a lot of time with the entrepreneur of the firm, the characteristics of him or her must fit the characteristics of the investor (Mason & Stark 2004). The characteristics business angels prefer the entrepreneur to have will be more thoroughly discussed further down.

2.1.4 Trust

Connected to the agency theory is the issue of trust between the entrepreneur and the business angel. “Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence” (Arrow, 1972). Trust is far and wide established as important in many aspects, and an essential part of economic transactions. What is trust then? There is no one holding definition of trust, rather there are many different definitions depending on in which area you search. A philosophic view of trust, by William 1988, states that “cooperation requires trust in the sense that dependent parties need some degree assurance that non dependent parties will not defect” (Stevenson 1992). A psychologist said trust to be “an individuals’ theory as to the likely future performance of other persons” (Good, 1988). Another view of trust is one that only considers trust to be present if there is any risk involved (Dasgupta 1998).

The trust between business angels and the entrepreneurs leading their target firms can be seen as something of a mix between different definitions. It is a personal trust on a level where the business angel will work closely with the entrepreneur, and a risk taking based trust in the sense that an investment will take place. The relationship and trust between the entrepreneur and business angel is indeed very important, and if the relationship does not work, no investment will be made (Osnabrugge & Robinson 2000, p 123). Trust is essential, and needs to be present, since during a long collaboration between the entrepreneur and investor there are many opportunities for the entrepreneur to deceive the investor. Therefore, the business angel needs to fully trust the entrepreneur, have confidence in the entrepreneur and believe in the future prosperity of him (Helle 2004, p69).

2.1.5 Macroeconomic factors affecting the investment decision

From a macroeconomic perspective business angels offer extremely valuable resources for the economy. Instead of using their personal wealth for buying goods or investing in stocks in listed companies, they use their own capital and competencies to develop new companies (Isaksson 2006). Business angels are to some extent influenced by macroeconomic conditions when investing, and we will mention some macroeconomic issues briefly because it would be ignorant to completely disregard them, even though they are not of immediate relevance for this study.

Månson and Landström indicate that changes in economic conditions such as interest rates, economic growth, GDP development and inflation have moderate effects on
business angels' willingness to invest. This conclusion is however mainly based on the impact of minor changes in these economic factors. They also state that increases in GDP have positive effects on business angels’ willingness to invest. At the same time a stable or slightly decreasing economy has a positive effect on business angels’ willingness to invest. Therefore it is dangerous to draw conclusions about smaller changes in these factors in their effect on investment decisions. However, it seems a small change in GDP in either direction tends to have a positive effect on business angels investments (Månson & Landström 2006).

A large increase in GDP decreases business angels’ investments, while a large decrease spurs business angels’ investments (Månsson & Landström 2006). This implies that business angels take into account the risk of overvaluation of unquoted companies. The effects of interest rates and inflation are deemed to be less than the effect of changes in the GDP (Mason & Harrison 2000). In the study from Mason and Harrison it was concluded that a majority of business angels believe that falling or stable interest rates would have a positive influence on their willingness to invest. Approximately half of the business angels asked considered that low inflation would to some degree have a positive effect on their investment willingness (Mason & Harrison 2000).

2.1.6 Stock market trends effects

The trend on the stock market may affect the investment decision amongst business angels. A business angel’s wealth is most often affected by the trends on the stock market, which in turn has indirect effects on the unquoted companies. However in Mason and Harrisons’ survey from 2000 they claim that business angels to a high extent are indifferent when it comes to investing in unquoted companies during fluctuations on the stock market. There was, however, a downturn in investments after the dot.com crash but that was explained by the low level of IPO’s available at that time. Mason and Harrisons’ study shows that a lack of new IPO’s on the public stock market has a negative effect on the willingness of business angels to invest in unquoted companies (Mason & Harrison 2000).

2.1.7 Networks

As we have braised upon earlier, business angels’ investments have increased in recent years, in part due to the complexity of finding capital through the formal investment market (San José´ et al.2005). Many small firms involve a higher risk than what is accepted by venture capitalist firms, and venture capitalist firms also tend to have a minimum investment threshold and many small businesses lie below this (Osnabrugge 1998).

Some entrepreneurs describe that they are having difficulties of finding potential business angels because these often prefer to keep a low public profile concerning their willingness to invest. They often hold a substantial amount of capital and wish to be private with their wealth and their investments. In the investment literature this is described as the information gap. In order to overcome this information gap, formal
business angel networks have been established. These networks can be seen as a first attempt to ease the information flow between entrepreneurs and business angels (San José et al 2005). In Europe, there was in 2001 more than 130 sophisticated business angel networks, and this number has grown (Aernoudt & Erikson 2002).

A type of network is the informal one, where the business angel and entrepreneur are brought together by personal acquaintances. Through personal networks it is easier to receive funding for your idea since the investor (business angel) already knows you, or knows of you, and the selling process of the idea becomes less demanding (Osnabrugge & Robinson 2000, p80). In the absence of these personal connections, however, the formal network is a very good helping tool.

Formal gatherings in professional networks of business angels are most often conducted in a way that the entrepreneurs are invited to meet with the business angels and present their different financial plans. The business angels later give their own ideas and thoughts to help motivate and inspire the entrepreneurs. These meetings most often take place as regional gatherings. However, it is not allowed during these gatherings to receive advice from the whole network, just from separate business angels. Many networks also have their own news bulletins and homepages where business angels and entrepreneurs can easily get information about new gatherings (Aernoudt 1999). Formal networks of this kind are also existent in Sweden, e.g. Connectsverige.se, SvenskaRiskkapitalistFöreningen etc. Another way of establishing connections with investors is through snowballing, which is also a type of networking.

Most of the deals of business angels are created through professional and personal networks (Osnabrugge & Robinson 2000, p80). Additional studies reaffirm that contact is usually taken through personal acquaintances and networks. More specific; 50% of business angels have been found to meet their entrepreneurs through business acquaintances, 47% through personal contacts and 41% through networks (Stedler & Peters 2002).

Osnabrugge and Robinson state that most connections are established through personal and professional acquaintances, and very few are established through formal matching services. In their study, informal networks tended to be the main starting place when searching for an investee, or investor (Osnabrugge & Robinson 2000, p144). It has also been found that business angels are more prone to make an investment when they know the entrepreneur through mutual friends or family compared to when they have been introduced through a formal matching service (Osnabrugge & Robinson 2000, p146). However, formal networks and matching services have increased in the last years, and the importance of them should not automatically be played down (Gerald & Joel 2000). Conclusively, it is apparent that networks as a whole are important for business angels when choosing a firm to invest in.

The subject of networks is of importance to our study since our aim is to research what is important for business angels choosing their investments, and why certain aspects play a
role. The question of whether or not business angels prefer to invest in firms where they know the entrepreneur is therefore relevant.

2.2 Business angels Investment Criteria

Previous research shows that business angels in Sweden are rather careful when choosing investments and they take their time when evaluating opportunities (Landström, 1993). It is this evaluation process that is of focus in this study.

The aspects that attract investors when choosing an investment, a target firm, are called investment criteria. At the start up phase of a firm the financial records are usually inadequate for evaluating the business, since the business is rather young and the financial statements do not yet reveal much information. Since business angels tend to invest early in the start up phase they have to regard other factors than financial records. This differs from venture capitalists, who look more at financial models and calculations. A comparison of business angels’ criteria and venture capitalists criteria when looking at investments was made in the research of Osnabrugge and Robinson in 2000. Although similarities existed between venture capitalists and business angels there were also differences between their criteria’s. We will focus on the results that were found for the business angels criteria’s since this is what we have limited our research to. There have been many studies on the subject of business angels’ investment criteria’s. However, we felt none of them have been as influential as the study by Osnabrugge and Robinson in 2000. They are referred to in many important theories and seem to be a pillar in business angel research.

A table of different criteria’s importance was shown to illustrate the findings of Osnabrugge and Robinson 2000, below is the table for the business angels. The respondents were able to roughly rank twenty-seven factors from most important to least important (Osnabrugge & Robinson 2000, p137).
### Selected Investment Criteria amongst Business Angels

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enthusiasm of the Entrepreneur(s)</td>
<td>1</td>
</tr>
<tr>
<td>Trustworthiness of the entrepreneur(s)</td>
<td>2</td>
</tr>
<tr>
<td>Sales potential of the product</td>
<td>3</td>
</tr>
<tr>
<td>Expertise of the Entrepreneur(s)</td>
<td>4</td>
</tr>
<tr>
<td>Investor liked entrepreneur(s) upon meeting</td>
<td>5</td>
</tr>
<tr>
<td>Growth potential of market</td>
<td>6</td>
</tr>
<tr>
<td>Quality of product</td>
<td>7</td>
</tr>
<tr>
<td>Perceived financial rewards (for the investor)</td>
<td>8</td>
</tr>
<tr>
<td>Niche market</td>
<td>9</td>
</tr>
<tr>
<td>Track record of the entrepreneur(s)</td>
<td>10</td>
</tr>
<tr>
<td>Expected rate of return</td>
<td>11</td>
</tr>
<tr>
<td>Informal competitive protection of the product (know-how)</td>
<td>12</td>
</tr>
<tr>
<td>Investor's involvement possible (contribution skills)</td>
<td>13</td>
</tr>
<tr>
<td>Investor's strength filling gaps in business</td>
<td>14</td>
</tr>
<tr>
<td>High margins of the business</td>
<td>15</td>
</tr>
<tr>
<td>Low overheads</td>
<td>16</td>
</tr>
<tr>
<td>Nature of competition in the industry</td>
<td>17</td>
</tr>
<tr>
<td>Ability to break even without further funding</td>
<td>18</td>
</tr>
<tr>
<td>Low initial capital expenditures needed (on assets)</td>
<td>19</td>
</tr>
<tr>
<td>Size of the investment</td>
<td>20</td>
</tr>
<tr>
<td>Overall competitive protection of the product</td>
<td>21</td>
</tr>
<tr>
<td>Low cost to test the market initially</td>
<td>22</td>
</tr>
<tr>
<td>Local venture</td>
<td>23</td>
</tr>
<tr>
<td>Potential exit routes</td>
<td>24</td>
</tr>
<tr>
<td>Investor's understanding of the business or industry</td>
<td>25</td>
</tr>
<tr>
<td>Presence of potential co-investors</td>
<td>26</td>
</tr>
<tr>
<td>Formal competitive protection of the product (patents)</td>
<td>27</td>
</tr>
</tbody>
</table>

Next, we will discuss the table above and also what other studies state about different aspects and their importance for business angels when evaluating investments. What different studies have found on the importance of various issues is the basis for our thesis since we wish to evaluate what is important for business angels when choosing investments. We also wish to determine why these aspects are important, and in what way. Due to this we will go deeper into the studies and not merely describe important issues, but also in what way these issues play a role. In shaping our interviews we will use these previous findings as a guide.
2.2.1 The Entrepreneur

As can be seen in the table above, business angels are mostly attracted to the entrepreneur and the management of the entrepreneurs’ firm. Business angels tend to invest more in the entrepreneur than anything else (Osnabrugge & Robinson 2000, p 138).

Mason and Stark also state that business angels are mostly concerned with the personal relationship with the entrepreneur. At the same time the capability of the management team and its ability to capture opportunities is also very important, but the relationship is more emphasized. Since the business angel usually works closely with the entrepreneur the chemistry between the business angel and the investee must match. Especially at the beginning of the investment process the business angel is investing in the entrepreneur more than in the actual business (Freeney, Haines & Riding 1998). At the initial stage of the investment, the entrepreneur is the firm; he is the business and the business idea. This is why the entrepreneur is so important. One business angel in a study said; Gladly an A-entrepreneur with a B-idea, but never vice verse (Helle 2004, p 67). This comment shows that the entrepreneur is of primary importance.

Complementary research states the “human factor” as one of the most important when it comes to evaluating a potential investment. The human factor is the person or persons leading the company the business angel is evaluating. The management team or entrepreneur play one of the most important roles and are regarded as the key issue behind many investment decisions. The most critical quality according to two different researchers, Aernoudt and Säppä, is the entrepreneur behind the investment proposal (Aernoudt 1999, Säppä 2006). Säppä states in his research report from 2006 that there are nine different aspects that a business angel takes into consideration before investing in a company. These factors were ranked and the entrepreneur behind the firm was the most important feature when investing (Säppä 2006).

Business angels do realize, however, that at the start-up phase of the firm, which is when they often invest, it is uncommon and difficult for the firm to have a well organized management. This is something the business angel can help start in the firm (Osnabrugge & Robinson 2000, p 123). Business angels can accept an imperfect management team because they can themselves help fill the missing gaps (Mason & Stark 2004). Actually, as we will see further on, one of the incentives for investing often is that the business angel wants to be involved in the firm, and a gap to be filled can perhaps even be something positive when choosing investments. So, even though the management team of the firm is important it is less important how organized and perfect the team is. What is mostly emphasized is the qualities and competence of the entrepreneur leading the firm (Freeney, Haines & Riding 1998).

A business angel himself, Micah Baldwin, states in an article that there must be a competent CEO in the firm, and if the CEO is not experienced he or she must make the business angel confident that they will be able to handle the possible future setbacks and successes that come with leading a company (Gumpert 2007). The importance of a
competent leader of the firm cannot be overemphasized when it comes to how it affects business angels in their decision making, according to Gerald and Joel (2000).

There are many essential qualities that have to be regarded when it comes to evaluating the entrepreneur, such as loyalty, ability to lead the firm, reliability, and charisma. These things are all crucial and the business angel requires that the entrepreneur possesses them (Aernoudt 1999, Säppä 2006).

Baldwin mentions qualities that separate a good CEO such as; if they can create trust and have enough presence to make people follow them, if they are risk aware and if they are confident (Gumpert 2007).

According to Osnabrugge and Robinson, enthusiasm is most important when attracting investors, followed by trust, expertise, liked upon meeting and track record (Osnabrugge & Robinson 2000, p 125). Stedler and Peters established in their study that the personal impression created when first meeting the entrepreneur was very important. Additionally, the entrepreneurs’ ability to enthuse and persuade was significant to the business angel. 81% of business angels ranked a positive first impression of the entrepreneur as especially important (Stedler & Peters 2002).

Investors often prefer if the entrepreneur have invested some of his or hers own money in the firm, indicating their involvement and that they appreciate the value of money. The entrepreneurs’ track record is also of value when making an investment decision; it gives an idea of the entrepreneur and who he is (Osnabrugge & Robinson 2000, p127).

Säppä reaffirms that many business angels take into consideration the entrepreneurs’ background. It is regarded as important that the entrepreneur behind the proposal comes from the right background and bring the right competence needed to run the company. This factor was positioned as the second most important factor when investing in Säppäs’ research (Säppä 2006). Freeney et al. confirm that an important characteristic of the entrepreneur is the track record and prior experience is also highly valued to the business angel. Features of the entrepreneur such as having integrity while being open were important. The entrepreneurs’ ability of being realistic when regarding the potential of the business was also of significance (Freeney, Haines & Riding 1998).

Conclusively, the entrepreneurs’ personality, attributes, competences and trustworthiness has in many studies been found to be very important in business angel’s evaluation processes of firms.

2.2.2 Product and market

When choosing investments an important criterion for business angels is the product and market. In Säppäs’ ranking table of important issues when investing, products and technologies positioned at third place, followed by (4) sector/market, (5) market position, and (6) business idea (Säppä 2006). This indicates that the product is of importance, even if it is less important than the entrepreneur and management.
The research of Osnabrugge and Robinson gave the results that when looking at the product, business angels found it important it was unique and lie in a profitable niche. Markets with growth potential were favored, but the nature of the product itself was not very important with the explanation that the business angel could always learn about it, as long as it had the prospect of being profitable (Osnabrugge & Robinson 2000, p 128). Baldwin also states that he looks at the future of the business rather than just at the product at hand (Gumpert, 2007). Stedler and Peters established the uniqueness of the product as very important in their study, as well as the competitiveness of the product in its market. The growth potential of the market was also significant, reaffirming Osnabrugge and Robinsons findings (Stedler & Peters 2002). The importance of the growth potential of both the product and market can easily be explained by the fact that business angels tend to want to be involved in the firm for a while (a few years), and they have shown a wish for the firm to prosper. A high fast growth also goes hand in hand with high financial returns.

In Osnabrugge and Robinnsons study, the business angels found it less important to know much of the industry the firms acted in. In contrast many business angels found it important to be involved in the firm and to be able to fill knowledge gaps in the business (Osnabrugge & Robinson 2000, p 128). The wish to be involved would imply that knowing the industry was seen as important, but the research found this what not the case. One explanation could be that the business angel can aid the firm in areas such as management without any real knowledge of the industry in which the firm operates. The main prerequisite tended to be that the business angel had an understanding of the basic business, but did not need to have specific knowledge of the sector. This could still allow the business angel to assess which contributions they could make to the business (Osnabrugge & Robinson 2000, p 128). Other studies do state that business angels find it important to know the industry they invest within. We will next account for these as well.

One aspect that is worth mentioning is that if the business angel does not understand the industry it may be difficult for them to see and appreciate the value of the firm and product they are considering to invest in (Gerald & Joel 2000, p90). Further, business angels act in a way in which they can minimize the risk of making the investment. Hence, business angels are often invested in areas where they have prior knowledge as a way of minimizing the “unknowns” within an investment (Mason & Stark 2004). According to Freeney et al. the investors’ involvement in the firms they invest in is also a way of reducing the risk of investing. In order for the investor to be involved it would imply that they know the industry (Freeney, Haines & Riding 1998). However, business angels tend to be more focused on the risk linked to the entrepreneurs’ capabilities than on the actual product or market risk (Osnabrugge & Robinson 2000, p130).

Prasad et al. state that business angels prefer to invest in firms within markets that are familiar to them (Prasad, Bruton & Vozikis 2000). In Landströms’ research he states that most business angels are invested in businesses where they have former knowledge and where they also know the owners from before (Landström 1993). Most business angels have a clear understanding and knowledge about the company or business they are
invested in. They also often spend a lot of time with the manager for the potential investment company (Aernoudt 1999).

Baldwin states it is important to be involved in the business and provide some kind of support to the business. Consequently business angels should only invest in businesses they are familiar with and in areas they know (Gumpert 2007). Stedler and Peters study concluded that business angels have several motives when investing. The most important was to make use of their knowledge and prior experiences and third was to make an input to a new potentially successful start-up firm. The second most popular investment amongst business angels was generally found to be within a sector where they already possessed experience and expertise (Stedler & Peters 2002). Haines et al. confirms that the input the business angel can make to the project, of non-financial value, is of great importance to the business angel. The investors’ ability to contribute to the target firm was ranked third most important factor when choosing investment (Mason & Stark 2004).

The business angel is not usually active within the everyday life of the firm, but they do prefer to be able to make an input (Freeney, Haines & Riding 1998). The geographical closeness of the firm invested in is also rather important for the business angel for this reason of wanting to be involved (Osnabrugge & Robinson 2000, p135). Gerald and Joel reaffirm that the distance between the location of the firm and the business angels’ home is of importance when choosing investments. The closer to home the venture lies, the more positive business angels seem to be when viewing the proposal by the entrepreneur. Worth mentioning is that this does not go for all business angels (Gerald & Joel, p 91).

To conclude, business angels tend to want to be involved and this has shown to be very important in many studies. The findings on whether or not they feel they need to know the industry before investing differs. The product is important, naturally, and needs to be unique and sellable, hence profitable.

2.2.3 Financial factors

Business angels look less at the financial factors than venture capitalists, probably because since they invest their own money they make decisions on less strict financial criteria and more on a gut feeling. However, at the same time a high return on the investment is, in contrast, one of the most important factors for business angels when choosing investments (Osnabrugge & Robinson 2000, p 188). Business angels are more driven by the desire to guide and monitor a project but they see the return on their investments as one of the important elements (Aernoudt 1999). Thus, even though a business angel is investing much of his or hers knowledge in the company, they are not doing this to become friends with the investees. Freeny et al. actually concluded one of the most important incentives for business angels when choosing an investment was a possibility of a high profit (Freeney, Haines & Riding 1998).

Business angels expect a long term economic return and expect a desired rate of return of approximately 20 % on the invested capital (Aernoudt 1999, p 188). Freeney et al. found
that business angels require an even higher annualized after-tax return on their investment of approximately 30 to 40% (Freeney, Haines & Riding 1998). A minimum return on investments of 30% is the figure stated in another study (Gerald & Joel 2000, p81). Even though these numbers may appear to be high, business angels do not require an unreasonably high return in relation to the risk they take upon themselves, according to Gerald and Joel 2000.

Stedler and Peters conclude that the business angels second most important criteria when choosing an investment is the size of the expected financial return. However, they also found that only 34% of business angels thought that a high profit margin was very important when choosing an investment. Further, only 38% thought it was very important that the business move into a high profit quickly (Stedler & Peters 2002).

The criteria of a high financial return does not have to be clearly stated in itself but can be seen as implied through the requirements of growth potential of the niche market, sales potential of product and qualities of the entrepreneur (Osnabrugge & Robinson 2000, p 130).

According to Osnabrugge and Robinson business angels seem to think it is less important to be presented with numbers and calculations of the project and act more on a gut feeling. This doesn’t mean, however, that the financial calculations should not be presented. They should still be there, but less emphasis are put on them in the choosing process. The way to gain the business angels interest is through other factors that make them believe the return on the investment will be high (Osnabrugge & Robinson 2000, p130).

Business angels invest more knowledge than capital into their investments as they expect to be involved in the actual company. Hence, they have the opportunity to steer their investment. In this way they have more post-investment control and therefore often accept more risk in the initial investment. In the research report from Säppä it is also stated that business angels are willing to accept more initial risk depending on how deep their involvement in the potential company will be. If the involvement will be high the business angel is willing to accept a higher risk on the investment. Further, in the ranking table of important factors when choosing investment the financial situation of the firm ranked seven, which is not very high. The financial situation of the firm was hence not considered a very important criterion, probably because of the fact that the business angel can affect their own investment (Säppä 2006).

### 2.2.4 Co-Investors

The presence of co-investors is not essential when choosing an investment, but still of some importance. Business angels find it comfortable and safer to co-invest, and often tend to invest together with people in their network (Osnabrugge & Robinson 2000, p 136). However, when it comes to the actual selection of projects to invest in, most business angels are not in need from outside guidance in their decisions, according to Aernoudt (1999). Landström also found that business angel’s evaluation usually is independent of opinions of others (Landström 1993). Baldwin, in contrast, says he can be
influenced by other angel investors in his decisions, if someone advises him to invest he will (Gumpert 2007).

According to Stedler and Peters, business angels in Germany have mainly good experiences from co-investing and collaborating with other business angels. The collaborations can further ease the process of due diligence and help the investment decision (Stedler & Peters 2002). This is of interest to us since the presence of co-investors may be an aspect business angels consider important when evaluating investments. Perhaps co-investing is preferred because it is a way of reducing the risk of making an investment. In our study, can perhaps a co-investor then spur a business angel to invest?

2.2.5 Business Plan

Osnabrugge and Robinson found that the business plan has importance when pitching to the business angel, but it has limited importance in the evaluation process. Business angels look at how professional the plan is and how it is presented. The core is that the business plan reflects upon the entrepreneurs’ capabilities as the runner of a business (Osnabrugge & Robinson 2000, p133). More than 75% of business angels do call for a business plan before they even reflect on investing in a project (Mason & Harrison 1996). In contrast, Gerald and Joel state that business angels may foolishly invest in firms where there is an absence of a business plan, and tend to look at other factors as more significant (Gerald & Joel 2000). The business plan seems to be important because it can give an idea of how the entrepreneur works, and how serious the project is.

Mason and Stark in their research came to the conclusion that different business plans are required for different types of investors. Business angels therefore require a different set up plan than venture capitalists and bankers. To illustrate, business angels tend to look less at the financial information in the plan (as mentioned above referring to the research of Osnabrugge & Robinson 2000). However, the financial figures need to be presented and some time is spent evaluating them, but more focus is put on the growth potential of the business and potential returns. What is important in a business plan when pitching to a business angel, in comparison to a banker or a venture capitalist, is the market size, the growth potential, competitive situation and potential upcoming problems and opportunities. It is also important that the business plan connects to the business angel at a personal level and encourages the business angel to interact with the start-up firm (Mason & Stark 2004).

2.2.6 Potential Exit Route

Stedler and Peters found exit options to be of some importance to business angels when evaluating investments. Usually the contract between the entrepreneur and business angel includes sections establishing how the business angel will leave with their investment further on (Stedler & Peters 2002).
The study by Landström, conducted in 1993, showed that business angels in Sweden often lacked a potential exit route and found this was a problem. There was high uncertainty regarding the exit in the future, and many did not know how they would cash out on their investment (Landström 1993). This indicates that the question of an exit route is of some importance when choosing investment. The offer aimed to the business angel should include a future plan of the exit of the business, since this is often of some complication to the business angel (Freeney, Haines & Riding 1998). To include this can then perhaps be an aspect that swings the business angel in favor of providing the investment.

2.3 Deal breakers - Reasons for not investing

Studies show that business angels have the potential of investing much more than they actually are doing. If you triple the amount of how much business angels are investing the figure of how much they could invest is what you get. The lack of good opportunities and proposals is part of the reason for this un-invested wealth. Due to the fact that the business angel market is rather invisible and characterized by a lack of transparency it is difficult to estimate how much is actually invested by business angels but one thing is certain; it could be more (Osnabrugge 1998).

Our study is aimed at finding what is important for business angels when choosing investments, how and why. Therefore previous studies that evaluate which concerns are considered to be “deal breakers” are also of relevance to us. One might think that deal breakers are the opposite of deal makers and therefore they are superfluous to bring into this study. This is not the case however. As Freeney et al. found, problems that break a deal are not necessarily converse to issues that make a deal (Freeney, Haines & Riding 1998).

A high rate of investment proposals aimed at business angels are rejected due to various reasons (Freeney, Haines & Riding 1998). Since business angels do not usually make many investments within a year one single bad investment can cause substantial damage. It is understandable that business angels choose their investments carefully (Gerald & Joel 2000). In a study in Germany it was found that business angels received somewhere around nine investment-offers a year and rejected all but one or two. Hence, the rejection rate was as high as 84% (Stedler & Peters 2002). Further, in a Canadian study it was found that the average rejection rate amongst business angels was as high as 90% (Riding et al. 1997). These high rates call for the need of researching on what grounds the proposals are turned down (Freeney, Haines & Riding 1998).

It is important to point out that what makes business angels say no to an investment is dependent on at which stage they are in the evaluation process. If the proposal is turned down at an initial stage it is usually not due to one single deal killer but to a number of flaws within the business. Conversely, if the proposal is turned down at a later stage it is more often due to one or two single deal killers. Initially investors tend to look at the growth potential of the market and product. If these are not satisfactory the proposal is probably turned down at once. If those factors are intriguing to the business angel,
however, the next step is to evaluate the entrepreneur and management of the firm. The single most common deal killer at this stage is a flaw of the entrepreneur or management. The type of flaw is usually that the business angel has a lack of trust in the entrepreneurs’ abilities. Conclusively, at the initial stage an offer is seldom turned down on the sole basis of the entrepreneur or management, but many factors play a role in that decision. At a later stage, however, a flaw of the entrepreneur or management is often a reason for not investing (Mason & Harrison 1996). Studies reaffirm that the qualities of the entrepreneur then become crucial for deciding whether or not to actually go through with making an investment (Riding, Cin, Duxbury, Haines & Safrata 1993).

When asking business angels what convinced them not to invest, Osnabrugge found that a lack of trust in the entrepreneur together with an unfavorable character of the entrepreneur was a very important cause for choosing not to invest (Van Osnabrugge 1998). Riding et al. noticed similar results and found that inadequacy within the management team, or entrepreneur, was business angels’ main reason for not investing (Riding, Duxbury, Haines).

In his study Osnabrugge researched which factors had been hesitating before making an investment that had later actually been made. He concluded that principal reasons for hesitating when making an investment were the state of financials in the firm, followed by some problem concerning the product and/or market, the character of the entrepreneur and lastly other attributes of the business (Van Osnabrugge 1998). These hesitation factors were ignored at a later stage since the investment was actually made. Had the characteristics of the entrepreneur been a primary hesitation factor most likely no investment would have been made referring to the fact that a flaw in the character of the entrepreneur convinced business angels not to invest (Van Osnabrugge 1998).

Freeney et al. found that business angels reject investment proposals on two types of deficiencies; a flaw in the characteristic of the entrepreneur or management team, or a flaw in the characteristic of the business. We will account for these two types of deficiencies next.

Some specific characteristics of the management were stated as not preferable. The management needed to be capable to create an actual business of the initial idea and needed to possess sufficient knowledge of what they were doing. If this was not the case, business angels said no. The entrepreneurs also needed to have a realistic view of the future of the business and not promise the investor unreasonable returns. To be overly optimistic was seen by the business angels as unserious and unsupported. Lastly, the entrepreneurs’ individual qualities needed to include dedication, vision and integrity. Also, if the entrepreneur was perceived as too controlling this was a reason to think twice about investing. Even though the main deal killer was found to be an unsatisfactory management of the business, skills of the management was not a leading deal killer. Lack of skills can be adjusted as long as the management is functioning, and aspects such as a promising future of the business and a growth potential could persuade the business angel to invest even though the management did not possess all knowledge needed (Freeney, Haines & Riding 1998). Gerald and Joel confirm that business angels do not appreciate
overly optimistic entrepreneurs. The firms are frequently overvalued, and this, they state, often can lead to disagreements between the entrepreneur and investor (Gerald & Joel 2000, p90).

One attribute of the business that caused business angels not to invest was if the management team was defective in any way. Even though the managers may have the knowledge and capacity of running the business the cooperation and teamwork of the team does not necessarily work. If this was the case, business angels chose not to invest. Further, if the returns were calculated to be rather low, or at least not as high as business angels had expected, this was deterrent. Other competing engagements from the business angels’ side could also be a reason for not investing, along with shortness of cash within the start up firm and an unsatisfactory amount of information provided for the business angel about the business. To get information about the business they are considering investing in is important for business angels and much of this information can be found in the business plan. If the business plan was unclear and unprofessional this was a reason for business angels not to invest (Freeney, Haines & Riding 1998).

Gerald and Joel state that business angels invest primarily because they enjoy the process, they want to have fun and they like the prospect of making money. Therefore they also state that if the business proposal is not convincing as a fun project, it will most likely not be considered at all. Further, if the business angel cannot see a way of being involved in the business they will not invest since contributing is what they think is most fun with investing (Gerald & Joel 2000, p89). At the same time, Mason and Harrison found that one of the reasons for not investing was if the firm required them to be responsible for the everyday activities of the firm. The key functions of the business were not something the business angels wanted to be in charge of even though they preferred to contribute with their knowledge and skills (Mason & Harrison 1996).

**2.4. Conclusion of Theory**

In this chapter we have looked at different studies on what business angels consider important when they look at investments. We have also made great effort to describe why these aspects are considered important, and how problems in the entrepreneurial firm may withhold the investment. The single most important aspect tends to be the entrepreneur of the firm. After that come the sales potential of the product and market. However, other aspects are as important in combination with each other. As conclusion of the theories; Business angels tend to want it all, and one flaw seems to cause them to hesitate with their investment. They tend to be very careful when evaluating investments and many aspects need to be right.
3. METHOD

“There comes a time when the mind takes a higher plane of knowledge but can never prove how it got there.”
- Albert Einstein

In this chapter we will explain our theoretical and practical research approach and which scientific standpoints we take in this study. Also we will describe in what way we collected data and how this was done, and which respondent selection we have used. Last, we will account for various quality issues and discuss the quality of this study.

3.1 Theoretical Method

The choice between a qualitative method and a quantitative one is a sharp choice of which scientific standpoint to take. Further, the choice between the different methods also has base in how you view people and their worlds (Starrin & Svensson 1994, p 63). We will discuss our viewpoints below.

The research problem of this study is aimed at determining which aspects are important for business angels when choosing target firms. We want to reveal business angels’ investment criteria and also in what way business angels evaluate investments. Because of the fact that business angels differ in their decisions it is obvious that they do not all use the same criteria. Hence, to carry out a descriptive study will not serve our interests since this will merely describe the criteria used by a majority of business angels. Instead, in order to gain a deeper understanding of what business angels look at, and why, we have chosen a qualitative research approach.

Through qualitative interviews we believe the thoughts and views of the business angels will be more easily expressed. The focus in the interviews will be more on what the business angels’ value as important when investing, rather than if they had followed a questionnaire in a quantitative research where we would have steered their answers to a greater extent (Bryman & Bell 2003, p342). Also, a qualitative research method gives us the chance to look more deeply into the business angels investment criteria and explain their origin from the perspective of the interviewee (flick 2006, p16).

3.1.1 Epistemological Considerations

In order to acquire an understanding of business angel’s investment criteria it is necessary to find out what causes business angels to establish these criteria. Further, a deeper understanding of these grounds can help convey the criteria. An understanding of the business angel is crucial in the process of understanding the business angels’ decisions. We aim to look into the business angels’ reality to comprehend his or hers point of view. The market within which the business angel is active is a market where social interaction

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7 http://www.humboldt1.com/~gralsto/einstein/quotes.html
plays a big part. The interaction between business angels and entrepreneurs is likely of importance to the decisions and actions of business angels. This view we take on is in the literature called interpretivism. Interpretivism goes hand in hand with a qualitative research method, and this goes well with the concern of this study. The opposite of our approach is positivism in a quantitative study (Bryman & Bell 2003, p 17).

3.1.2 Ontological Considerations

The ontological approach we take on is then a constructionist view. We approach the collection of data with the view that business angels’ actions depend on who they are and where they originate from, and therefore their investment criteria must be individual. Further, we take on the belief that they themselves shape their opinions and they are active in shaping their reality. This agrees with the constructionist view (Bryman & Bell 2003, p20). The opposite, objectivism, is when the reality of business angels is something that we view from the outside, and the belief that the individuals themselves shape this reality is not taken on. This would perhaps have been a more appropriate view for us had we performed a quantitative study with a positivist starting point. Then the idea that business angels make their decisions independently of personal factors would have been more appropriate. We believe, however, that business angels make their decisions partially due to their specific reality, and even though we likely will find similarities between business angels it is important to know that they are not a homogenous group of people. The view that the specific reality of the business angel shapes his or hers investment criteria is for us essential to take on, since this may explain possible variations in answers.

3.1.3 Inductive v Deductive Approach

Many studies can be found on the topic of business angels’ investment decisions and criteria. However, not many of these originate from Sweden, probably due to the fact that the business angel market in Sweden is not as developed as it is in many other countries, such as the US. In this aspect, our study will to a small extent take on an inductive approach and perhaps be able to contribute to research about business angels in Sweden. However, to state that an inductive approach is used implies that new theory is being created, and this is not what we aim to do. We have, through previous studies, found issues which studies have shown are important for business angels in their choosing of investments, and these aspects constitute the base of the questions in our interviews. Even though, as we will discuss further, our interview questions are created on the basis of previous research we still give the respondents room and flexibility in their answers. These answers will be compared to the studies, and a deductive approach is hence what is principally used. The combination of both inductive and deductive theory is common and both views usually involve some aspect of the other (Bryman & Bell 2003, p12). This is the case for our study, where our deductive approach entails a small bit of induction. We will be able to make some contributions to existing studies with our findings. We have found some aspects that business angels consider important that we did not find any substantial previous studies on.
3.1.4 Literature search and selection

While there is not an abundance of previous research on the subject of business angels, there is still a substantial amount of studies made. Many studies focus on the business angel, who they are and why they invest. Our study, however, focuses less on the actual business angel, but on what the business angel thinks is important when investing. There are some empirical findings on these issues as well, and we have included the most essential amongst these in our study.

The database we have used is Business Source Premier and Google Scholar. Our main keywords used were; business angels, investments, BA, venture capital and informal venture capital. Books that have been used have been found via Umeå University’s Library search engine, and all have been taken from the library of the University.

When searching for previous research on this subject, as mentioned above, there is not a large quantity from Sweden. Therefore, we were required to broaden our view and use empirical findings from other countries. Many studies on business angels come from the US and UK, where the business angel market has been existent for a longer time than in Sweden. The findings from these studies are not completely applicable since other studies have shown that business angels differ between countries. However, at the same time it has also been shown that business angels work in similar markets and there are some cross-boarders similarities between business angels due to this. Therefore we decided that studies from other countries could well be used. Also, we reason that this range of previous research is contributing to the theoretical base of this study. Since there are many studies on business angels and their investment criteria from the US we find it would be foolish not to use these due to the fact that they originate from a more developed foundation of studies. We do keep in mind when analyzing our results that some differences between our findings and previous research can be due to cultural dissimilarities. If we do end up with results that cannot be strengthened by previous studies it can likely be due to cultural differences, but it can also be due to the fact that we have come up with something that previous studies have not. Therefore, we have to be careful when analyzing our results, making great effort to distinguish between differences due to cultural effects and new findings.

3.1.5 Preconceptions

The authors of this thesis do not possess previous knowledge about the subject, but due to the fact that both the authors are enrolled to university courses in Business administration the authors have a fundamental understanding when it comes to the capital market. However, the authors do not believe that this has had any effect on how the thesis work has been conducted and its outcome.
3.2 Practical Method

This thesis is concerned with investigating which aspects business angels consider are important when deciding whether or not to invest in a company. The purpose of the study is to find the most important issues and to compare the results from our study to existing theories on the subject. We also keep the opportunity of contributing to research with our findings open. Furthermore, we aim to contribute with information and knowledge on how to find business angels to start-up firms who are considering different alternatives for financing of their ventures.

In order to get qualitative data for the study we felt that interviewing business angels was the best way to gather information needed. However, business angels are often characterized as very anxious about their wealth and privacy and they rarely disclose their investments. Their investments are rarely revealed to the public or to other sources than those involved in the investment (Landström 1995). Finding business angels was troublesome due to the above mentioned factors. We were therefore limited to a small amount of business angels that were willing to participate in our interviews.

The interviews were performed as semi-structured because we wanted the respondents to answer freely. However we used an interview guide that was sent to all the respondents before the interviews so that they would get a preview of the questions (Interview guide is attached in appendix). This also helped us to sustain a good structure of the interviews. The interview guide helped the respondents to answer the questions in their own way and also gave them the flexibility we felt was needed in the interviews. The rich amount of information gathered from the interviews helped us to better understand the aspects that business angels consider and also guided us in the right direction when it came to analyzing the information.

3.2.1 Respondent selection

We started our search of respondents at the Swedish Private Equity and Venture Capital Association website, which have listed most known business angel networks in Sweden. Due to the fact that it is somewhat troublesome to get interviews with business angels in general, we felt that we did not want to minimize the chances even more by limiting ourselves to interviewing only business angels living in the county of Västerbotten. We therefore contacted 10 of the 18 listed networks. These 18 networks were the 18 known networks for business angels in Sweden that we were able to find, and they were all present on the Swedish Private Equity and Venture Capital Association website, under the heading Affärsänglar and the subheading Affärsängelsnätverk. It is difficult to find business angels in Sweden, because there is no statistic information about business angels’ activities (Helle 2004, p 26).

We were limited by the fact that some networks had different geographical branches and the southern branches most often directed us to the northern branch. Therefore we could not contact all 18 networks. Each contact person for the 10 selected networks was phoned and asked if someone in the network was willing to participate in an interview. The
contact persons who did not answer were further e-mailed and asked again if someone in the network was willing to participate in an interview. Five persons responded to our e-mails and phone calls. Four of these were later interviewed for this thesis. The fifth person never came back to us with a specific time for the interview and could not be reached when we tried to contact him again.

Not all of the contacted networks answered and why they did not we can only speculate about. We do believe that the privacy issue was one contributing factor in this case. Informal investors, such as business angels, are very private about their investments, and are not keen on showing other people their wealth. This restricted our chances of finding these people. Another explanation to why these persons did not respond to our inquiries, which was later on confirmed by one of our interviewees, was that business angels are very busy and active in the business world which leads to that they are very short on time.

The contact persons also have an obligation to keep their network anonymous and this could be one reason for the low responses. All the interviews were however anonymous and this was also stated in the phone calls and e-mails sent to the networks. We must declare that finding four respondents for interviews is rather good due to the difficulty of finding business angels, and then finding business angels willing to participate.

One interview took place in Umeå where the respondent lived. Because the respondent lived close we felt that a face to face interview was preferable when possible. We then decided to conduct telephone interviews with 3 out of 4 respondents which were not living in the county.

We do feel our respondent selection is rather representative for business angels. Two of the respondents lived in Stockholm, one in Umeå and one in Dalarna. This is positive since there is a geographical spread. Three of the respondents were male, which is the most common business angel. One business angel was female, and this is rather unusual. By making an interview with a woman we feel this widens the representativeness of the study. All the interviewees were around middle age, which is also the most common age for business angels. Due to all these reasons, the representativeness of the respondents is of sound quality. We do not believe that one more interview, or even two more, would have changed our findings in any substantial way since the respondents answered questions in a similar, yet disperse manner. The respondents brought up various aspects they consider important and why they consider these important, but at the same time the respondents were also similar in their criteria and investment evaluation processes.

### 3.2.2 Design of interview guide

For our interviews we used an interview guide because we felt the interviewees should have leeway in how they replied (Bryman & Bell 2003, p 343). The interviews were conducted in a semi-structured way. We chose this interview style in order to capture and perhaps pick up new aspects that were not mentioned in our theories. This type of interview style also helped us to ask follow up questions and thereby ask for clarification if there were some responses which did not entirely reveal what the respondent meant.
(Bryman & Bell 2003, p 343). The interview guide that we used for our four interviews consisted of 31 questions. There were two main divisions in the interview guide. All questions were designed with the help from our theory chapter.

The first 14 questions were questions used to determine background facts about the respondents. Among those questions were e.g. questions about how long they had been active as a business angel and if they had their own experience from starting up a company. These questions were short and helped us establish the background facts we needed for our interviews. The second part consisted of so-called investment questions, which were used to determine the investment criteria that business angels take into consideration when deciding on investments. This part consisted of 17 questions.

When designing the questions we made an effort to avoid formulating leading questions and questions that could be misinterpreted by the respondents. We also aimed at using a clear and comprehensible language in the interviews as well as in the interview guide. We experienced that it was uncomplicated for the respondents to answer and follow the questions in the interview guide. Before conducting the interviews with the interview guide we held a discussion with outside parties, one being our supervisor, to make sure there were no evident flaws with the questions. We took the feedback from these discussions into consideration in order to create an even clearer and better interview guide.

The interviews were carried out in Swedish and the responses were later on translated into English for the results and analysis. We carefully tried to capture the nuances in the language when translating from Swedish to English to avoid language problems.

### 3.2.3 Execution of Interviews

When conducting the interviews we felt it was important that they were conducted in the most possible similar way. Therefore, the same person acted as interviewer in all interviews. The questions of the interview guide were also followed as much as possible, with some variations. Some of the respondents answered to questions before we had gotten to them in the guide, so we then felt it was somewhat unnecessary to bring them up again. However, we did touch upon those questions again briefly just to be absolutely sure that the respondents felt they were able to answer correctly. When later examining our results from the interviews we looked at each question at a time to get an overall view of the business angels’ answers.

As mentioned, one interview was conducted face to face with the respondent. We met the respondent in his office, which is where the interview took place. The environment was calm and no phones were ringing in the background. The interviewee acted interested and talked freely when answering our questions. Some follow-up questions were posed when we felt the respondent had more to answer to a question, and all questions were responded to sufficiently. The first interview took a total time of 29 minutes. The other three interviews were carried out over the phone and an USB-recorder device was used to document the interviews. This worked very well, and when later transcribing the
interviews we had no problem of hearing what the respondent said. We do not feel there were any noteworthy quality differences between the responses collected from the face to face interview and the telephone interviews as, from our view, the respondents in the phone interviews gave us as thorough answers as the respondent we interviewed face to face. Of course some information in an interview is collected through interpreting body language and gestures the respondent uses, and this type of information is unfortunately lost when conducting a phone interview. This is a risk we have taken, but we do not feel this had a significant impact on the responses collected. All interviewees responded thoroughly to the questions and also, from what we observed, spoke unreservedly.

During the first phone interview there was no disturbances in the background, no phones ringing and no people making conversation. The respondent was most likely in his office, and he did not appear stressed or occupied. He took the time to answer our questions and elaborated when we asked some additional follow-up questions. The interview took a total of 27 minutes.

The third interview was also conducted over the phone, and the respondent was slightly more stressed than the first two respondents. It took us some time to book the interview, but during the interview the respondent clearly stated he had 25 minutes for us to do the interview and we felt this was enough time. He clearly and thoroughly answered to all our questions and elaborated when asked. The interview was done in 21 minutes and we felt this was absolutely enough to get the information we needed.

During the last and fourth interview, which also was conducted over the phone, we experienced some misfortunes at the beginning of the interview. The respondent was very offended by the first question of her age and this we must fully take on ourselves. The question of age should have been posed as a later question in the interview guide, and it is misfortunate that we did not think of this. However, in our defense, none of the other interviewees showed any irritation over answering the question of age at the beginning, with our explanation that we preferred to keep the background questions first in the interview to spend more time on the investment questions further on. The annoyance over the question of age the respondent experienced was regrettably not shaken during the interview, and we felt the respondent did not make much of an effort to thoroughly answer our questions. Due to this, we had to ask a lot of follow up questions. However, after asking follow up questions and trying to get the respondent to elaborate, we did feel we obtained a lot of information from the interview. Therefore, we do feel the interview was substantial and very usable. The interview took a total of 13 minutes.

Overall, the interviews were conducted in a relaxed manner, and we obtained thorough responses to all questions. There were no disturbances in the background during any interview, and all respondents did give us enough time for our questions without stressing. We are pleased with the execution of the interviews and collected all the information we aspired for.
3.3 Quality Issues

The conception of quality issues are crucial for all scientific work and without these researchers are unable to perform a good work (Starrin & Svensson 1994, p 163). Quality issues differ between quantitative research methods and qualitative methods. Qualitative research may appear to be more uncertain in the process of interpreting the results. The qualitative method is concerned with understanding the results and revealing the meaning behind the answers given while quantitative methods can to a greater extent look at the answers without much interpretation (Johansson 2003, p105).

Four quality issues within qualitative research methods should be fulfilled in order for the study to be trustworthy. Further, the issue of authenticity also needs to be fulfilled for the study to hold a high quality (Bryman & Bell 2003, p288). We will account for how these quality issues have been fulfilled in this study below.

3.3.1 Credibility

The credibility of a study is perhaps the most important issue when it comes to quality. If there is no credibility, the results and analysis, and further the conclusions made, have no worth. Credibility can easily be distorted through carelessness when conducting interviews or ignoring the importance of confirmation from the researched subjects. When carrying out our interviews we were eager to make sure the respondents understood the questions posed and felt they could elaborate at any time. After thoroughly transcribing the interviews we sent them to the respondents for their validation. If anything had been misinterpreted the interviewees then had the opportunity to correct this flaw. After translating the interviews it was sent to the respondents once again for approval. Due to our methodical conducting of the interviews and our careful approach when interpreting the results found we can claim the credibility of this thesis to be high. The results have been analyzed keeping in mind potential cultural differences between our respondents and previous researchers respondents, and the interviews have all been thoroughly conducted and validated.

3.3.2 Transferability

Because we conducted a qualitative study the issue of transferability is less concerned with the breadth of the findings compared to a quantitative study. The culture which we have examined is the culture of business angels and their investment criteria’s, and it is the description of this culture in its depth and richness that determines the status of the transferability. We believe the description of this culture has been very extensive as we gained elaborative answers in our interviews and many business angels answered in a similar way. This allows us to state that our study has good transferability, because it provides a substantial account of business angels' investment criteria.
3.3.3 Dependability

During the creation of this study we have kept all documents from different phases of the process and they are available for examination if this should be requested for. Throughout the study it is uncomplicated to follow the process of how this thesis has been created and thus the requirement of dependability is well fulfilled (Bryman & Bell 2003, p289). All interviews have been carefully transcribed and are also available for examination if requested. The inclusiveness of these transcriptions is very high since there were no disturbances on the recording and we have been very cautious when transcribing (Silverman 2004, p 286). Also, the interview guide is attached in appendix. We have paid much attention to the availability of information on how we have done this study, so others can review the thesis.

3.3.4 Confirmability

Confirmability is very important because it shows that the researcher has acted in good faith, if nevertheless he or she cannot be completely objective (Bryman & Bell 2003, p289). When asking questions it is crucial that the interviewer does not allow himself to be skewed by his own ideas and preconceived notions to the extent that it affects the interviewees’ answers. None of the authors of this thesis have any previous experience on the subject of business angels and therefore no preconceived ideas of what findings we would get. While recognizing that it is impossible to be completely objective we believe the confirmability of this study is very high. The authors have no theoretical standpoint which has directed the study in any course of action or conduct.

3.3.5 Authenticity

There are a few criteria within the concept authenticity, but we will focus mainly on one of them, namely the issue of fairness. This involves if the study fairly represents all the interviewees viewpoints. Had we, for example, only interviewed business angels that were women, the viewpoints of male business angels had not been included. Then we could not have stated that the research gives a fair view of the researched area- business angels (Bryman & Bell 2003, p289). We tried to get interviews with business angels of different qualities, and we interviewed one woman and three men. We do believe that we were able to represent a wide set of perspectives from the business angels’ world with our interviews and the research represents business angels in a fair manner.
4. RESULTS

"The most incomprehensible thing about the world is that it is comprehensible."8
- Albert Einstein

In this chapter we will account for the results collected in our interviews. The interviews are reported separately for each interviewee; respondent A, B, C and D. At the end a table of different investment criteria’s importance shows our respondents indications.

At the start of our interviews we asked 14 questions regarding the business angels’ prior investments and overall demographic facts. We will account for the answers in the text and here are some overall Background characteristics:

<table>
<thead>
<tr>
<th>Respondent:</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex:</td>
<td>Male</td>
<td>Male</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Age:</td>
<td>47</td>
<td>58</td>
<td>43</td>
<td>49</td>
</tr>
</tbody>
</table>

(This figure is the writers own configuration.)

4.1 Respondent A

4.1.1 Background aspects

Respondent A was male and aged 47. He had experience as the CEO of the company he once started and was now a board member in two other companies. He had started one company of his own and had now been operating as a business angel for two years.

The respondent described a business angel as a private investor, operating without an organization or company backing him. It should be a person that has the ability and a will to develop a company and not just a person with money. A business angel is also there to help develop the company and is willing to contribute.

The respondent most often found his potential investments trough the network he worked for. He never used the internet and he believed using the web is not very common among business angels. His opinion was that most business angels find their investments trough informal networks. The respondent had performed two investments in the last two years and there were no substantial differences in how these investments were performed. In both companies he was involved as a member of the board. During the last year he had received about 15 investment proposals from different companies.

When asked about if his willingness to invest was affected by macroeconomic factors, such as interest rates and a recession in the economy, he responded that it would naturally

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8 http://www.humboldt1.com/~gralsto/einstein/quotes.html
be easier to invest if there was a boom in the economy because of the fact that the he was using his own private capital when investing. Another aspect, beside the macroeconomic, he mentioned as a reason for turning down an investment was the amount of work he had to put down in the investment. He had recently rejected investments due to the fact that he did not have the time to get involved in yet another company. That was also a common aspect for rejecting an investment mentioned by his colleagues in the network, he told us.

The respondent had invested about 30% of his own capital as a business angel, and about 70% of his own capital through other investment channels. He demanded a rate of return of 3-5 times the capital he had invested in the company, in 3-5 years from the initial investment. He also sometimes used an approach which is called drag-along, which is when the investor does not actively work with the exit strategy of the investment up until 36 months from the initial investment. After the 36 months had passed, he then had the power to decide if the company was to be sold or not. If he decided that the company should be sold after 37 months then the founder had to sell or buy the business angels part of the company to the estimated market price. The respondent found the exit strategy to be very important, and he had a thorough plan.

4.1.2 Investment aspects

On the question if the interviewee contacted the companies he invested in, or if he in turn was contacted by the companies, he responded that he was usually contacted. The first thing that the respondent looked at when a potential investment possibility arose was the entrepreneur leading the company, and how well he connected with the entrepreneur. If the interviewee was to become interested in the investment the entrepreneur had to show a strong willingness to sell his own product. By this he meant that the entrepreneur must possess a strong drive for selling his product on the market. The second thing that he looked at was the product and the potential in the product. He favored products that were in his own area of expertise. He did not consider that the business plan was that influential when it came to evaluating a possible investment.

Concerning the questions asking if he used any particular financial models, the respondent answered that it is very difficult to use financial models as a business angel due to the fact that the companies most often do not posses any financial history which can be taken into consideration when deciding on investing or not. This is because business angels invest in companies that are very young. He furthermore answered that he relies on a gut feeling when making most of his investments. Nevertheless, he also concluded it is important to be aware of the risks that an investment brings and it is important that the both the entrepreneur and the business angel are aware of these risks. The interviewee told us that a common problem among entrepreneurs looking for investors is that most entrepreneurs overestimate their own company’s abilities and do not hold a realistic view of the company’s ability to grow.

Respondent A only invested in businesses within industries he had experience from and in which he had contacts he could use to help develop the business. He also stated that in
the future he would always invest in sectors he had experience from, and that would not change.

We asked him what qualities he considered important for an entrepreneur to posses in order to attract him to invest, and he explained that the ability to sell was the most important quality for an entrepreneur to have. For the respondent to even consider an investment he held the prerequisite of a market- and sales oriented entrepreneur. The entrepreneur had to have substantial selling capabilities, but also had to be humble in his approach. The interviewee stated that another important issue for him before considering an investment was of course trust; that he could always trust the entrepreneur behind the product.

The investee stated that if he invests in a company he always wants to be active within that company, and as a rule he is active in the company by being a board member. He also wants to contribute to the company he invests in, and that is generally done by contributing with contacts within the industry the company operates in. The respondent mainly had experience from the Telecom industry, and he stressed that contacts are very important in this business. He also wants to contribute with leadership to the companies he invests in. With his experience as a former CEO he believed that he could contribute in a good way in that sense.

A typical investment for respondent A lasted between 3 – 5 years. The exit from the company was normally carefully planned. When exiting, the interviewee together with the entrepreneur either decided to sell parts of the company or the whole company. As mentioned earlier, the respondent had in this case, however, the last saying of whether or not to sell. So, if he should decide that he wants to sell the company, then the company must be sold or the entrepreneur has to buy the part of the company that the investor owns. However, the respondent felt it is important that his part is sold to a person, or a company, that can take care of it and can keep developing it.

4.2 Respondent B

4.2.1 Background aspects

Our second respondent was a 58 year old male. He had been active as a business angel for the last 10 years and during that time the amount of investments made had varied. He had now been running his own consulting business for almost 13 years. The respondent had during his career also helped other people start up companies. He estimated that he had helped start up somewhere around 4-5 companies.

The interviewee described a business angel as a person that has experience. By experience he meant a person who is not too young and has experience from doing business for quite a while before starting his or hers career as a business angel. This is because capital is not really the largest part of a business angels’ investment, according to the interviewee, but most important is the drive to actually contribute with something to the company so the company can go on and start earning its own money. The business
angel should also have knowledge about the industry that he or she wants to invest in, this was important according to the interviewee. He believed that some obstacles in the development of a company could be overcome by contributions of capital, but he did not see the business angel as only a source for that kind of money, a business angel is so much more. He stated that some business angels operate mostly by the use of money and hopes that the company will develop anyway, but that is only a way to lose money in the long run.

According to the respondent a business angel does not have to be alone when investing in a company. If he wants to be the sole investor or not depends much on how the company is structured and if there are certain areas in which the company needs extra help, such as marketing or finances and so on. If that is the case, then he believes it can be good to divide the risk with another investor who has knowledge of that sector.

The respondent most often finds his investments trough informal contacts. He told us there are not that many people who are involved in companies as business angels, so if a company is interested in attracting a business angel they most often know who might be interested. The respondent explained; “So, most often the companies come looking for me, but at the same time if I have a high interest in the industry I wish to invest in, then I might find a potential investment on my own”. The interviewee also stated that he does not use the internet as a source to find potential investments, because he feels his interest depends a whole lot on the person behind the company, and the character of the entrepreneur is hard to estimate over the internet.

Last year the interviewee did one investment, and during the coming year he hopes to do another one or possibly two. He claimed that he had some good potential investments coming his way. On the question if there had been any changes in how he invests during the years he answered that there have been some. When he first started as a business angel he was very keen on investing in a lot of companies, but over the years he has become more cautious when it comes to investing. He believes he has much higher requirements on investments today, and this is because he has learned from previous investments. He feels he was now more cautious when it comes to investing.

The interviewee claimed that he received about 20 offers for investing in new companies per year.

The respondent said that his desire to invest in new companies is affected by macroeconomic conditions. Aspects that might have an effect were interest rates and recessions and booms in the economy. He explained that if for example the stocks on the OMX stock exchange were increasing in value then it would be foolish not to invest in those stocks instead. However, he pointed out that investments made as a business angel could be of interest even if there is a recession or a boom in the economy, it all comes down to the specific company and the specific entrepreneur. If the entrepreneur is skilled and the product is good it does not matter if there are fluctuations in the economy.
The interviewee invested about 20 to 25% of his capital as a business angel. He pointed out that when you invest as a business angel you must take into account the fact that the invested capital is tied up in the company for a much longer time compared to other investments. The respondent also said that how much you invest as a business angel depends on how willing you are to take risks.

The respondent does not have what he called a demand for a certain percent of return from each investment. He said that he makes an estimation which he keeps for himself and does not reveal to his investees. He told us it is pointless to tell the investees his estimation of a return because it is impossible for the companies to live up to it any way. But, of course, he wants more than just the money back on an investment, he stated.

4.2.2 Investment aspects

On the question if the respondent contacted the companies he wants to invest in, or if he is contacted, he answered that he is always contacted by companies. When he is contacted by a company he always starts to look at the product or the service that the company is supplying. He must have some knowledge about the product or the service that the company is selling. After he has looked at that aspect of the company he continues to look at the person behind the company, the entrepreneur.

The respondents’ evaluation process is usually conducted in the way that he meets with the person running the company and then he can create an opinion of whether or not the company is interesting for him. After that he tries to do his own research on the company and see if the timing is right for the company to grow or not. He always looks at the prerequisites that the entrepreneur displays, the market forecast and so on. Then he accounts for the competition on the market, and he said that according to the entrepreneur there is never any competition, but there always is. There are some control points, which the respondent said he always looks at before starting to crunch numbers and calculating.

He regarded the business plan as important when evaluating an investment and deciding if he is going to invest or not. However, it does not have to be the first thing he looks at.

The interviewee said it is customary for entrepreneurs to overestimate their own companies; however it is not that strange that they do so, it would be stranger if they did not. They have generally invented the product and if they do not believe in it, who will? The interviewee concluded that therefore it is very important to ask critical questions when evaluating a potential investment. Some entrepreneurs can handle those questions, while others cannot. Those who cannot are no longer interesting for me to invest with, the respondent said. “I am not saying that I am always right but the entrepreneur must be able to handle these questions”.

Aspects which the interviewee considers more important than others when regarding a potential investment is that he has to believe in the entrepreneur, that he feels the entrepreneur is able to pull it off, so to say. Another thing he stressed as an important issue was that the entrepreneur has a strong force for completing things. However, this
force must be balanced and the entrepreneur must always keep in mind that there is a customer out there who is supposed to buy his product. “If the entrepreneur wants to sell a technology he must be able to show how fantastic it is for the customer, he does not have to prove it to himself. It is always about proving it for the customer. If the entrepreneur understands that they have to do that, then it’s great, but most of the time they do not.”

When the investment process has proceeded into the stage where the interviewee finds the company interesting he continues his evaluation process with doing calculations of the company. However, he said that he does not rely entirely on the calculations and explained that deciding whether or not to invest is a decision taken with the use of both his calculations and his own gut feeling.

How long an investment lasts for the respondent varies from investment to investment. He stressed that sometimes it is not financially possible to exit an investment, but at the same time that is the cruel reality of business. The interviewee had some investments that had lasted from 2 year up until 8 years. The interviewee stated that he did not really have an exact plan for how he was going to exit the investment; however, he said he always had some idea for how the exit would take place.

The respondent said he expects that the entrepreneur he invests with wants him to have an active roll in the company. He usually claims a role as a board member or a mentor or something similar. “It is about always communicating to the company and be there to give advice and follow up on your investment”, he stated.

The most common reason the interviewee had for turning down an investment was that he did not believe in the people in the company or the entrepreneur. He went on saying if you do not believe in the people in the company, then it is just a waste of time, because no one else will believe in them either. Then you might as well close down the shop, literally speaking. The person, or persons, leading the company and the lack of belief in them was the most common reason why companies fail, he concluded.

4.3 Respondent C

4.3.1 Background factors

The third respondent was a 43 year old male. He had been active as a business angel for 10 years. He is currently running his own company where he is actively working as the CEO. During his lifetime he has started about 10 companies.

The respondent described a business angel as a person with a lot of capital to invest in unlisted companies. These companies could not be owned by anyone in his or hers own family. It is also a person distinguished by investing in an early start-up phase of the company. The interviewee also stated that a business angel is a person who invests some of his or hers capital on the stock exchange, in for example real estate companies. It is a
person that is characterized for spreading capital risks. He also felt that a business angel is someone who contributes with more than just capital to the company, but someone who also contributes with knowledge and experience. He points out that most business angels are very skillful entrepreneurs themselves and have succeeded with their own companies, which has lead to that they have capital to invest in other companies. He also pointed out the difference between business angels and venture capital companies; Business angels invest and manage their own capital, and therefore they can make quicker decisions when it comes to investing in a new company or not. This is a big difference between business angels and venture capital companies, he stated.

The respondent said that he finds most of his investment trough formal networks such as business angel networks. The other investments he has found have been located trough informal networks and contacts. He has never used the internet as a source for finding potential investments. The interviewee claimed that he makes one to two investments per year, and stated that he has not experienced any large changes in how he invests. He receives about ten new investment offers every year.

The interviewee answered that he was affected by macroeconomic factors such as changes in interest rates and recessions and booms in the economy. He stated that it is always more difficult to handle the cash flow when there is a recession in the economy. He went on and explained that some of the capital in the company may be loaned capital from banks or from other institutions, which is then affected by the changes in the economy and this must be taken into consideration. However, generally these companies are in such an early stage of development that they are not very affected by how the worlds’ financial market changes. But he stressed that you should not disregard these issues entirely, as they may affect the financial construction of the company and most often lead to an overall slowdown of the economy.

The respondent invested very small amounts of his capital on the stock market and said he prefers to invest his capital in start-up companies because he likes to be a part of the journey most start-up companies do. It is more fulfilling to be able to be a part of the development in a new start-up than investing the capital in stocks and so on. He stated that the Swedish stock market does not follow the cycles as it should, and to a greater extent it is affected by the US stock exchange. The interviewee did not really have any specific expectations on the return on his invested capital; he never mentioned a specific figure. He explained that he invests in such and early stage of development that it is hard to say anything about the return. “It's a long term investment which most of the time goes on up to five years and it's therefore more important to see the bigger picture of the company”, he stated.

4.3.2 Investment aspects

On the question if the respondent contacted the companies he invested in, or if he in turn was contacted by them, he answered that he was contacted. When he is contacted by a company that wants him to invest, he always starts to look at the entrepreneur and the business idea.
His evaluation process of the potential investment is most often conducted in a way that he starts to look at the business plan and the company’s business model. He explained that it is always comforting to have a business plan to look at first. After that he looks at the people behind the company and tries to establish an opinion about them and if they are suitable for his investment. He also looks at how much capital the company is asking for, and if he believes it to be a reasonable amount for this kind of investment. If the company is in an early start up phase he also likes to look at the idea of the company, and why this idea should work for this particular company, and why no one else could sell this idea instead of them? The interviewee continued to explain that investigating the idea and the competition, if someone else can produce the same service or product as you do, works a starting point for the evaluation. If it shows that someone else holds a lot more capital than you and can go trough and compete with the same idea, it is very easy to be killed by competition, so to speak. The respondent concluded with saying that these mentioned factors are very important when evaluating a potential investment. When asked, he pointed out two things he looked most at when evaluating investments and that was the people involved in the company and the business idea. He also felt that it is very common that entrepreneurs overestimate the value of their own company.

The interviewee stated that he does not use any specific financial models for evaluating a potential investment. He claimed there is no use to even consider those sophisticated models because start-up companies do not have any financial facts to contribute with, due to the fact that they are still too young. The only financial figures one can look at are the yearly results and the cash flow. By the use of those figures you can do some kind of prediction of how the company may evolve. When asked if his own instinct plays a role when making the investment decision, he agreed that they do matter to a large extent.

The respondent stated that he does not only invest in industries or businesses which he has own previous experience from, to have experience from the sector does not play a crucial role for him when deciding on an investment. He explained he can invest in any industry or business as long as they are producing something that is legal and is not offending to other people. He would never invest within the cigarette industry or any other industry that he considers to be unethical.

The respondents investments generally lasts up to five years, he emphasized that the start-up phase for the company can be complicated and take a long time, he therefore prefers to invest in five year cycles. The respondent explained that there must be an exact plan for when he is to exit the company, and how this is going to be done. He talked about different solutions for exiting the company. One he mentioned is when the entrepreneur buys his share, which means that calculation of the expected value of his part must be done at the initial stage. Conclusively, he emphasized the importance of having an exit strategy.

When asked the question of how he usually contributes to the company he answered that he generally is a board member or works as a kind of consultant for the company, helping them in different situations.
The most common deficiencies for companies which the respondent had been offered to invest in were the business idea or the entrepreneurs behind the company. Sometimes it had been both of them and sometimes it was just one of those aspects that made him reject the investment. Another problem he mentioned was that some companies are much overvalued. The last investment offer he rejected was due to his disbelief in the entrepreneur and what the entrepreneur could accomplish.

4.4 Respondent D

4.4.1 Background aspects

The fourth and last respondent was a 49 year old female. She had been active as a business angel for the last seven years. Her last active position in a company was as the CEO of that firm. She has during her career started more than one company and is currently partner in a firm.

The interviewee described a business angel as a person who invests his or hers private capital in unlisted companies. That person should also invest knowledge and time into the company.

The interviewee stated that she found her investments through the internet and through formal and informal networks. When asked which way is the most common for her to find potential investments she stated that it was difficult for her to point to just one of those ways as the most common. She used them all; internet, formal networks and informal networks.

The respondent makes about two to three investments per year. The amount of investments had increased in the last years. The interviewee felt that it was difficult for her to respond to the question about how many investment offers she receives per year due to the fact that she is also responsible for a fund which invests in companies. This led to that it was difficult for her to separate between the offers targeted to her as business angel, and the offers targeted to her as a manager of the investment fund.

The respondent stated that she invested about 50% of her capital as a business angel and the other 50% on the stock exchange. She went on to explain that she was not active in all her investments as a business angel, in some investments she was more of a silent partner.

Her expected rate of return was ten times the invested capital. She emphasized that it was important for her to believe that goal could be reached.

She stated that her investment decisions were not affected by macroeconomic factors such as changes in interest rates or recessions or booms in the economy.
4.4.2 Investment aspects

On the question if she contacted the companies she saw as potential investments, or if they contacted her, she explained that the companies normally contacted her. The first thing the respondent looks at when evaluating a potential investment is the person behind the company, the entrepreneur.

The process of evaluating a company, the respondent explained, revolves much around finding essential background facts about the entrepreneur and facts about him as a person. After that the respondent goes on to look at what kind of company it is, what industry they operate in and so on. She also looks at similar companies in that industry and how they have been valued by other investors. She looks if she can find similarities between her potential investment and existing companies in the industry. These are the first aspects she regards in a potential investment.

When pointing to one thing that she regarded as more important than other aspects in the evaluation of investments, she pointed to the aspect of previous deals made in the industry and what she could learn from those deals. She explained that those deals were the only real thing to go on, because the potential investments are usually companies with no own history or background which can be evaluated in the investment process. The interviewee explained that the company’s business plan is not so important when she is considering whether or not to invest in the company. However, she stated, it should be comprehensible. It is important that a business plan exists but it does not have to be very specific.

The interviewee did not use any specific financial models to evaluate her potential investments. She explained there is always a possibility to do different kinds of calculations on the investment, but those calculations are only hypotheses due to the lack of financial information from the companies. The respondent stated she only invests in companies which are active in industries she has experience from. She does so because she feels she can better asses those companies. However, she concluded her answer by saying that she could also invest in businesses which are in industries that she has a strong personal interest in or in a business where she knows that she could trust the person running the business.

A typical investment for the respondent as a business angel lasts between three to five years. She stated that there is never a clear plan for how she is going to exit the company and she went on to say that she has never used such a plan.

Besides contributing with capital to her investments she stated that she contributes with an open dialog with the investee and also with her abilities to sell and lead the company. In most of the companies she invests in she is also a member of the board.

The most common deficiencies that potential investments have shown the respondent were that the company’s developing phase is too long, that they are focusing too much on the future selling and therefore neglects the selling today, which is very important. When
they later start selling it is most often in too small amounts. She explained that the actual selling in a start-up company is always underdeveloped.

The last investment offer the respondent rejected was due to the fact that the entrepreneur was demanding a too large amount of capital compared to what the respondent thought was reasonable for that type of investment. The investment then became uninteresting for the respondent.

**4.5 Importance of issues**

In the interview we asked the respondents to value a number of different aspects in their importance for them when looking at investments. 5 was very important, and 1 was not important. Below are the results. We will analyze and explain this figure more thoroughly in the analysis section next.
Aspects that the investor considers when evaluating a potential investment (In order of their importance)

<table>
<thead>
<tr>
<th>_aspect</th>
<th>Respondent A</th>
<th>Respondent B</th>
<th>Respondent C</th>
<th>Respondent D</th>
</tr>
</thead>
<tbody>
<tr>
<td>The entrepreneurs trustworthiness</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>The possibility to exit the investment</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
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<tr>
<td>A high potential rate of return</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The entrepreneurs personality and ability to lead</td>
<td>5</td>
<td>2</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>The product and the markets salespotential</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>The possibility to be active or in some way participate in the company’s operations</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
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<tr>
<td>The commitment of the business plan</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>That the investment is geographically close to where you live</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

(This figure is the writers own configuration.)
5- very important
1- not important
5. ANALYSIS

"We can't solve problems by using the same kind of thinking we used when we created them."  

- Albert Einstein

In the following chapter we will analyze our results with the use of our theoretical framework. We will start by analyzing the background aspects which characterize a business angel and continue with analyzing the different investment criteria business angels regard when investing.

5.1 Background aspects

In effort to obtain a general picture of how business angels work and the aspects behind their investment decisions we have attained background facts about our respondents. The background facts are analyzed in this section in order to give the readers an understanding about our respondents. These facts are analyzed by the use of our theoretical framework as well as incorporated and discussed with our own reflections about the respondents.

5.1.1 The Business Angels

The middle age was 49, 5 years of age for our respondents. Out of the four business angels we interviewed, three were male, and one was female. In their research from 2002, Stedler and Peters found the middle age of business angels worldwide to be 50 years old, and that 95% of all business angels were male. One of the respondents stated he felt that in order to become a business angel you need to have experience and an understanding of how a company is started. This may be the reason for why it was so difficult for us to attract a female business angel for an interview. The fact that three out of four business angels were male supports the common fact that more companies are started by men as most business angels are former entrepreneurs. This coincides with the facts we found from our interviews. All our respondents were presently, or had previously been, a manager or CEO of a company. This was also declared as one of the important background characteristic of business angels in Osnabrugge and Robinsons’ research in 2000.

All interviewed business angels had during their career started their own company, or assisted in starting up a new company. Three of the respondents had founded several companies. This confirms the study by Freney et al, which states that business angels usually have been active in the start-up phase of a company before they start their career as a business angel (Freeney, Haines & Riding 1998).

The respondents described a business angel as a wealthy person who invests in unlisted companies at an early stage of development. However, all respondents stated that the

9 http://www.humboldt1.com/~gralsto/einstein/quotes.html
amount of capital invested is not the most important aspect to consider when trying to describe a business angel. The business angel’s experience and competence from the business world should in many ways be considered as equally important as capital. One of the respondents highlighted the fact that many obstacles in the business world can be overcome by the use of money, however, this is only a short term solution and it is therefore better to overcome the obstacles by the use of knowledge.

A business angel can be involved in a company in many different ways. A business angel can be involved with helping to develop the company’s sales and/or assisting in finding the right way to lead the company. All the business angels we interviewed emphasized that an important part of a business angel’s role is to contribute to the development of the company. The respondent’s descriptions of a business angel much coincides with the description of a business angel given by Helle in 2004 and Isaksson in 2000. Helle and Isaksson similarly describe a business angel as a wealthy individual who invests capital, entrepreneurial knowhow and experience to firms with growth potential. The descriptions given by the respondents also confirm what is stated in the research from Osnabrugge and Robinson; business angels often contribute to the firms they are involved with their experience and knowledge from the business world (Osnabrugge & Robinson 2000, p128).

Concluding, the respondents all had experience from the business world and the entrepreneurial world. They all described a business angel as someone investing capital, knowhow and time into firms, and they all saw themselves as business angels. From this we can establish that the importance of contributing with knowledge in an investment was equally important for all business angels and that they all regard their competence as valuable.

5.1.2 Networking

The respondents generally favored to invest on their own and not as a group. However, during some occasions they felt it could be beneficial to invest as a group due to the fact that they did not have any spare time to work with the company or due to the fact that they wanted to spread the risk by investing together with others. When it came to how the business angels found their investments, the most common answer was that companies in need of capital and knowledge came to them. Informal contacts were the most common way for finding potential investments according to the respondents. All respondents were also organized in so called Business angel networks which had introduced them to some investments. The research by Aernoudt and Eriksson similarly stated that organized formal networks are important for business angels, and these networks are growing in numbers (Aernoudt & Erikson 2002). This also goes along with the study by Stedler and Peters from 2002 which found that 50% of all business angels invest in companies they have found through business acquaintances and that 47% of all investments are found through personal contacts. Osnabrugge and Robinson also stated that most of the deals with business angels are created through professional and personal networks (Osnabrugge & Robinson 2000, p80). Hence, our findings on the subject of networks show that networks are important in Sweden in the same way as they are in other countries. Our
respondents used networks to a great extent when looking for potential investments, and this seems to be universal when comparing to other studies.

We know in fact that there are more wealthy persons in the US compared to Sweden, as described by Helle in his study from 2004 (Helle 2004 p 23). This may then ease the process for American entrepreneurs to find potential investors, whilst it might be more difficult for Swedish entrepreneurs to find potential investors and therefore the process can be eased by the development of Business Angel networks. We therefore believe that the Swedish small firms may benefit from the positive development of Business Angel Networks.

The internet was, according to our respondents, not a common tool for finding potential investments. One of the respondents said it is important to get to know the entrepreneur behind the firm, and when using the internet this is not possible to the degree the business angels feel is needed. This agrees with the importance of getting to know the entrepreneur established in the theory from Osnabrugge & Robinson in 2000. Only one of the respondents stated that he used the internet as source to find potential investments. Even though we cannot make conclusions concerning the use of internet as a source for finding potential investments, we believe that it is not very common for business angels to use the internet as a source to find potential investment due to reasons mentioned above. However, internet can be a good tool for finding information about companies and their industries and it may assist the business angels in many ways.

5.1.3 Amount of Investments

The respondents’ investment patterns were very varied, and it is therefore impossible for us to make a conclusion in this matter. But as previous studies have shown, the amount of investments made is very individual from business angel to business angel. Some of the respondents told us that their amount of investments had decreased while other respondents said that their investments had increased. The study of Osnabrugge and Robinson in 2000 said it would be foolish to describe business angels, and thereby their amount of investments, as unanimous (Osnabrugge & Robinson 2000, p 63). This can be applied, perhaps especially, when talking about the amount of investments made. Most likely if investments increase or decrease over time depends on previous experiences with investments, and also on how much capital the business angel has available. One of the respondents described that how he invested depended much on at what stage the companies he was planning to invest in were. Another respondent explained that he was more naïve at his beginning as a business angel, and had learned from previous investments to be more careful. To come to an overall conclusion about how our respondents’ investment patterns have changed over time is therefore not possible within this study. We can say, however, that investment patterns tend to be individual, confirming previous studies’ findings (Osnabrugge & Robinson 2000, p63, Mason & Stark 2004).

When it came to how many investments the business angels did on average per year, all the respondents stated that they did about one or two investments annually and they each
received about 15-20 offers per year. This indicates that an entrepreneur seeking capital and entrepreneurial knowhow from a business angel can have a difficult time finding a business angel willing to invest. This becomes clear if we look only at the number of proposals received compared to the number of investments made. A rejection rate of approximately 90 percent, or slightly higher, originates from our respondents answers. This is in line with the findings of Stedler and Peters in 2002 and Riding, Duxbury and Haines in 1997, where both studies found a rejection rate over 80 percent. We can only conclude from these findings that it seems to be difficult for entrepreneurs to attract an investor to actually invest. The rejection rate is very high in our findings, and when looking at other countries the same high rejection rate comes across. The high rejection rate seems to hold across borders; business angels are difficult to persuade to invest.

We know that there are many different aspects which are considered when a business angel is evaluating an investment and it is not possible for us to speculate on why so many investment offers are turned down. The cautious attitude the respondents seem to have when it comes to investing is, however, completely agreeing with the previous study made by Landström in 1993, which described Swedish business angels as characterized by being careful and taking their time when evaluating investments.

5.1.4 Macroeconomics

Three out of four respondents stated that their willingness to invest was affected by macroeconomic conditions, and this is reasonable if one considers that business angels invest their own money in firms. When there is a boom in the economy the business angels’ private capital grows and makes it easier for them to invest. Naturally, the opposite goes for when there is a recession in the economy.

One of the respondents also stated that if he felt that, due to the macroeconomic factors, it was better to invest in listed companies than in unlisted companies as a business angel, he then did so. The respondent then regarded the listed companies as a possibly safer investment compared to unlisted companies when there were negative changes in macroeconomic factors. There is higher risk involved in investing in small entrepreneurial firms compared to investing in listed firms, and business angels take on a great deal of risk with their investments. This is also a reason to why they require such a high return on investments. One can understand that at bad times business angels are less prone to risk their capital. Not all of the business angels we interviewed let themselves be affected by macroeconomic changes, however. This can also be explained by the fact that they likely feel they can affect their investments with their involvement, and because of this they do not believe the risk is very high. Macroeconomic conditions were not a major issue for our respondents, however. The effects on business angels’ willingness to invest when there are changes in macroeconomic conditions is also confirmed in previous studies made by Mason and Harris in 2000, and by Månsson and Landström in 2006.

We found that there were differences in how much the respondents invested. Some of the respondents invested about half of their capital in listed companies whilst one of the respondents invested almost none of his capital in listed companies. They all had
different reasons as to why they invested in listed companies and why not. The reason for why some interviewees invested a larger percentage in listed companies had a great deal to do with their desire to spread their risks and that they did not have enough time to get involved in more companies as a business angel. To start up a firm and help it develop naturally takes a lot time from the business angel’s side, and this is something they may not have. Reasons for why some of the respondents chose to invest more capital as a business angel in unlisted companies was because they enjoyed being a part of the development of the companies and therefore favored that more rather than investing in already established and listed companies. The desire to be involved in firms is explained by the fact that business angels normally have been active within their own firms, and feel this is something they enjoy. Perhaps when lacking a business idea of their own, investing in others’ ventures become more appealing. We will come back to this aspect further.

The time aspect presented above was for us a relatively new for why business angels choose to not invest in unlisted companies. The respondent presenting this aspect explained that he had rejected investments due to the fact that he did not have enough time to be involved in too many investments, and therefore sometimes he felt it is better to not invest. The respondent also explained that this was a very common factor for why business angels rejected investments. He was able to make this conclusion in his other attribute of being a leader of a business angel network, and being in contact with many business angels. We found this very interesting because it is not mentioned in previous studies as such an important reason for business angels when choosing not to invest. Freeney et al did find that other competing engagements can be a reason for business angels not to invest (Freeney, Haines & Riding 1998), but it has not been brought up by other studies to the extent of importance that we found. This is of interest because then it may not be a flaw within any attribute of the business or entrepreneur that makes the business angel reject an investment, but the lack of time. From our interviews it became apparent that business angels invest because they enjoy it, and maybe if an outstanding opportunity comes their way they may still invest even though they do not actually have time. This is something which could be researched more about, to what extent the lack of time influences business angels. Our findings are, however, that time is a very important issue, and many times the lack of it forces business angels to say no.

5.2 Investment criteria

In the future section we will refer to the table from the result chapter, which shows our respondents valuation of different issues’ importance in their evaluation process.

5.2.1 The Entrepreneur

For our respondents the entrepreneur was a very important aspect within the business. All four interviewees stated the entrepreneur to be one of the first things they looked at when evaluating whether or not to invest in a company. Two interviewees stated the entrepreneur to be the primary concern for them. For three of the respondents the most important aspect in the evaluating process of a firm was also the entrepreneur, and it was
important for the fourth respondent. Since business angels need to trust and believe in the entrepreneur one easily understands that they also need to feel a connection and liking to the entrepreneur. It would be uncanny for anyone to invest a substantial amount of capital in someone who does not earn their respect or fondness. This is reaffirming to many previous studies made, who state that business angels value the entrepreneur as very important when choosing investments (Osnabrugge & Robinson 2000, Stedler & Peters 2002 etc.).

Qualities that business angels find important within the entrepreneur have been the subject of some studies, and we wanted to find out which qualities were important for our respondents. One interviewee put much emphasize on the entrepreneur’s abilities to sell his product. This he felt was the core of all business, and he stated he could not exaggerate the importance of a sales oriented entrepreneur. Another respondent agreed with this when saying that a common deficiency within firms is that they do not sell enough. The selling is of course important since this is the core of any profit in any business. One respondent explained how important it is that the entrepreneur really understands there is a customer out there who is supposed to buy the product. In our search for previous studies, amazingly, we did not come across this aspect in any substantial findings. The desired qualities of an entrepreneur have been determined in many studies, but the sales orientation the entrepreneur should have is somewhat new for us, and something we can contribute with. The respondents profoundly felt that not enough entrepreneurs are sales oriented, and they needed to be so. An implication of this is that the business angels do not want to have the sole responsibility of the selling, the entrepreneur needs to be aimed towards the market as well. This, however, also coincides with the study of Mason and Harrison, which stated that business angels do not want to be in charge of everyday activities in the firm (Mason & Harrison 1996). If the wish to have fun, and enjoy the process, is a reason for investing it is logically unfavorable if the firm needs too much aid, too much guidance, or too much time. Säppäs’ research also found that business angels invest in firms where the entrepreneur has the right qualities and competences to lead the firm (Säppä 2006). We can only agree with this, with the new aspect that one of the most important competences tends to be the sales qualities.

Other qualities of the entrepreneur the business angels looked at were the entrepreneurs’ driving force, which should be strong. The entrepreneur also needs to truly believe in the business idea and be willing to pull it through. One interviewee stated that in the long run it is the entrepreneur who will push the company forward, and therefore he needs to show he can do this. The entrepreneur should also be energetic and smart, according to one respondent. He should be open for changes and renewal. These essential qualities were also established in Osnabrugge and Robinsons study where enthusiasm, expertise and liked upon meeting was found to be some of the most critical characteristics (Osnabrugge & Robinson 200, p 125). Stedler and Peters, along with others, also found that the first impression of the entrepreneur was important when choosing investments (Stedler & Peters 2002). That the business angels felt the personality of the entrepreneur was so important is nevertheless interesting, because entrepreneurs do differ in their attributes. Therefore, we can only expect that a clash or a click between the entrepreneur and business angel also must depend on the business angel’s personality. There must be a
mutual liking. So, even though business angels differ in their personalities, and entrepreneurs differ, the investment criteria can be similar between business angels. They must feel a connection to the entrepreneur, and different business angels feel connections to different entrepreneurs. This is good to keep in mind since an entrepreneur turned down by one investor should not lose faith, but instead present themselves to another.

The personality and leadership capabilities of the entrepreneur were for the respondents important, and valued 5, 5, 4 and 2 (see result sections’ table “Aspects that the investor considers when evaluating a potential investment” p46). Two of the respondents felt that the leadership capability of the entrepreneur was not very important, but the personality does play a big part. One interviewee further said he could be involved with leadership because he felt he had experience from this, and normally as the firm grows the entrepreneur does not take the most crucial management role anyway. One explanation can be that business angels usually are managerial, and if the entrepreneur is too controlling as a manager this could involve a clash between the business angel and the entrepreneur. Osnabrugge and Robinson also found in their study that business angels can accept an imperfect management, because they usually invest during such an early phase of the firms (Osnabrugge & Robinson 2000, p 123). Mason and Stark also found that business angels can accept an imperfect management team because they can themselves help fill the missing gaps (Mason & Stark 2004).

The trust between the entrepreneur and the business angel was of very high importance for all of our respondents, and were valued 5, 5, 5 and 5 (see p 46). This is reasonable and not unexpected. The respondents did not elaborate much on this issue of trust, but rather just established it; trust is very important. Therefore this can be analyzed as a non negotiable issue. If the business angel cannot trust the entrepreneur he must be a fool to invest anyway. Studies on business angels often mention this issue, amongst others Osnabrugge and Robinson established the importance of trust. The relationship and trust between the entrepreneur and business angel is indeed very important, and if the relationship does not work, no investment will be made (Osnabrugge & Robinson 2000, p 123). It does seem trust is more important in business angels’ constellations than in ordinary monetary transactions, since private capital is invested and close collaboration is ahead.

5.2.2 Financial Issues

During the evaluation process the entrepreneur played an important role for all the respondents, and after that some other aspects came in. Amongst these were the product or service, and if the business angel knew anything about the sector. All four respondents looked at the firms’ future sales potential and the competition. They stated that they look at the prospects which are given by the entrepreneur, but they also make their own calculations and evaluations of the firm- and calculate what they believe is reasonable for the future of this particular firm. However, none of the respondents use any sophisticated financial models, with the argument that there is not much financial information to go on since the firms are so young. That the business angels make their own calculations is also related to trust, the agency theory and control. Analyzing further, there is no reason for
the business angel not make his own calculations, at the beginning of an investment he has not yet had time to get to know the entrepreneur and hence cannot trust him. Also, business angels likely make their own estimations because they want to be involved, and they have more experience of market estimation than many entrepreneurs and can make a better forecast.

Two of the respondents stated that they use their gut feeling at the beginning of the investment process, and the entrepreneur does play a big role in that. This agrees with the findings of Osnabrugge and Robinson 2000, who claimed that a big difference between venture capitalists and business angels is that business angels do not use financial models and invest more on a gut feeling (Osnabrugge & Robinson 2000, p 188).

The business angels we interviewed did have some idea of a return on investment requirement. Two of the respondents explained that at the beginning of the investment a requirement of a certain return cannot be expressed as a demand, but rather they make an estimation themselves of what they believe is reasonable as a return. When asked how important a potential high return is for them when choosing investments, the responses were 4, 5, 4 and 5; indicating the high importance of this (see p46). Some of the interviewed business angels emphasized the aspect that it is the entrepreneur who has to make them believe they will receive a high return on the investment; in some ways it is the qualities of the entrepreneur that they invest in. So, it is important that the business angels think they can receive a potential high return, even if there was no stated demand for some of the respondents. Here comes the issue of trust again, the business angel needs to trust that the entrepreneur will bring him prosperity. This agrees with Helle; the business angel needs to fully trust the entrepreneur, have confidence in the entrepreneur and believe in the future prosperity of him (Helle 2004, p69). Two of our respondents did, however, have a required return on their investments, which they believed and trusted they would receive, or else they did not pursue with the investment.

Aernoudt found the required return on investments to be 20%, Freeney et al. found it to be 30-40% and Gerald and Joel stated the requirement is never less than 30% (Aernoudt 1999, Freeney, Haines & Riding 1998, Gerald & Joel 2000, p81). Two of our respondents did have a required return on their investment higher than these and this can perhaps be explained by some cultural differences. In the US, Canada and Brussels where these other studies origin from, Business Angels may require a lower rate of return since the market there is more developed, and entrepreneurs can find other investors if the required return is too high. In Sweden perhaps the investors require a higher return as a compensation for their exclusiveness, and because they can. One respondent stated his requirement was 3-5 times the invested capital back; another wanted ten times the money back. These requirements are in percentage very high; 300-500 and 1000 %. However, these numbers represent the required return on the total investment while previous studies’ findings represent the amount required back per year. Even so, the required return amongst our respondents is rather high. Why they are so high is something that more research could be concerned with. It seems it would be more profitable for the entrepreneurs to take a bank loan instead of receiving funding from business angels. However, some entrepreneurs have no security and are not eligible for a bank loan, and are forced to turn to business
angels. It may, at the same time, be easier to receive funding from a business angel since business angels have no actual legal right to require the capital back as a bank has. One thing is clear from this; business angels seem to value their own competence extremely high. Of course the business angels can never be absolutely sure they will receive this return at the end of the investment. We can only analyze these requirements are stated as part of a safety precaution, they must state they want this back to spur the entrepreneur to grow his venture. Gerald and Joel did state in their study that business angel’s required return is not unreasonably high in relation to the risk they take upon themselves (Gerald & Joel 2000), but a discussion of what is reasonable is still logical to hold. Perhaps business angels in Sweden involve themselves in smaller firms than business angels in for example the US. A small business in the US is often larger than a small business in Sweden, with more employees and higher turnover (SBA website). Therefore it is reasonable that Swedish business angels also take on more risk when investing, and require a higher return for this. We did some rough calculations in the introduction where we found that Swedish business angels tend to invest more capital per year compared to American business angels (see p6). It is possible that business angels in Sweden also invest higher amounts than business angels in the US, due to the fact that they have fewer investment opportunities. They may also be more involved in the firms due to this reason, and more willing to invest more capital.

All the interviewed business angels said they usually leave their investments within a certain time frame. Business angels do tend to invest during a limited time period (Isaksson 2000), and this was reaffirmed with our findings. Two interviewees stayed with their investments for 3-5 years, one for 5 years, and another from 2 years to indefinitely. The respondent who stated he stayed from 2 years to indefinitely also said that sometimes the reality is harsh and the business angel cannot exit even if he wants to. Of course, his goal was to be able to exit. Landström in his study stated that business angels in Sweden often lack a potential exit route and found this was a problem (Landström 1993). When we asked the business angels how important a potential exit route was for them, the responses were 5, 5, 5 and 5 (see p46). This can perhaps be a lesson learned the hard way by business angels, and therefore they now require a fixed plan for how they will exit in the future. Freeney et. al also stated in their study that offers aimed at business angels should include a future plan of the exit of the business, since this is often of some complication to the business angel (Freeney, Haines & Riding 1998). Our study reaffirms these findings. If the investors do not see a future exit, they do not invest. Three respondents clearly stated the importance of a fixed exit strategy. To be involved within a firm forever is not what business angels do, and therefore the exit is naturally important. One respondent, however, stated that there seldom is a fixed plan for how the exit will take place, but did feel the importance of being able to exit.

One thing that was of some new interest to us was the fact that three of the business angels felt that entrepreneurs often overvalue their firms. Two interviewees even claimed that the entrepreneur never can see the competition and the market realistically, and they always overvalue their firms. They all stated that if the entrepreneur overvalues his firm, and refuses to see a more realistic view under the guidance of the business angel, this is a reason for not investing. In previous studies this aspect of overvaluation has been brought
up, (Freeney, Haines & Riding 1998, Gerald & Joel 2000), but not to the extent that we expected the business angels to find it as important as they evidently did. We can analyze it further; if the entrepreneur does not want to listen to the business angel the business angel might feel he is not needed within the venture, and hence back out.

One respondent pointed to the aspect that the entrepreneur needs to be open-minded, humble and realize his limitations. Freeney et al did find in their study that entrepreneurs needed to have a realistic view of the future of the business and not promise the investor unreasonable returns. To be overly optimistic was seen by the business angels as unserious and unsupported (Freeney, Haines & Riding 1998). Our findings, however, further shows that this aspect is perhaps even more important than so. If the entrepreneur consistently overvalues his firm, the business angels will back out and not consider investing.

5.2.3 Involvement

It has been established that business angels like to be involved in the firms they invest in, and we will discuss this next. One interviewee stated that he does not need to have any previous experience within the sector the firm operates in, whilst the other three felt this was important, due to the fact that they could more easily evaluate those firms and they also had a larger possibility of being involved. One further stated he does not need to know the industry by heart, but he does prefer to have some knowledge about it. When asked about how important it is for the business angels to be involved the replies were 3, 4, 4 and 4 (see p46). One respondent said he would like to believe the entrepreneur has some interest of being helped by the business angel with other issues other than capital supply. This reaffirms what we stated above, that business angels do want to be involved and feel this needs to be appreciated.

Qualities which the respondents usually contributed with were mentoring, sales competence, advising, leadership and networking. They all stated that they usually are involved in the firms by being a board member. Studies have found that business angels do wish to be involved in firms they invest in, and our findings reaffirm this. A few studies which state the involvement to be important are; Prasad, Bruton & Vozikis 2000, Gumpert 2007, Mason & Stark 2004, Freeney, Haines & Riding 1998. Osnabrugge and Robinson found that business angels do want to be involved, but do not need to know much of the actual industry the firm operates in (Osnabrugge & Robinson 2000, p 128). This was the case for one of our interviewees. The interviewee who stated he does not need to have experience from the sector did feel the need to be involved in the firm, but felt he could be involved through qualities other than expertise of the actual market.

Three of the respondents, as stated, preferred to invest in firms operating in sectors where they had previous experience. Two subsequently stated that they invest in businesses where they can contribute, within sectors they know. One further explained that he did not like to put money into a firm and then trust the entrepreneur to a 100%; he liked to have some control. One respondent preferred to either invest in firms where he had previous experience or strong interest, or could also invest where there was someone who
he profoundly trusted. The agency theory is concerned with the issue of trust and confidence between parties, and we established in the theory chapter that this theory is somewhat applicable to business angels trust dilemma. Mason and Stark stated that business angels evaluate the agency risk more than the market risk, as oppose to venture capitalists which do vice verse. The agency risk is evaluated through assessing the entrepreneur, if he or she can be trusted and other characteristics. Business angels assess the agency risk and leave it to the entrepreneur to assess the market risk (Mason & Stark 2004). This can be reaffirmed by our findings which show that business angels do evaluate the trustworthiness of the entrepreneur, and feels some need to control the business with their involvement. If they do not plan to be involved in the firm, they need to profoundly trust the entrepreneur instead.

5.2.4 Product, Market, Business Plan

The product or service was, along with the entrepreneur, one of the first things the respondents looked at when evaluating an investment. Three respondents stated they look at the entrepreneur first, and then the product. The fourth claimed to only look at the entrepreneur, the product came later. The responses to how important the sales potential of the product and market were rather high; 4, 3, 3 and 5 (see p46). This shows the product is important, but not of immediate concern for the business angels. Other aspects played a bigger role when choosing investments. At the same time, the sales potential of the entrepreneur was very emphasized by some of the respondents, which is interesting. One explanation is that an entrepreneur with outstanding sales qualities can perhaps sell an imperfect product, but an entrepreneur with no sales qualities may have difficulties of selling anything at all. In Helles’ research one business angels claimed: “Gladly an A-entrepreneur with a B-idea, but never vice verse” (Helle 2004, p 67). Our findings strengthen this expression, since the entrepreneur was the most important issue, and the product came close behind in the evaluation process of investments.

Some of the respondents brought up the aspect of the uniqueness of the product, the product had to be unique and bring something new. This goes hand in hand with the competition of the market, if someone else can do the same product and sell it, the business angels did not invest. The research of Osnabrugge and Robinson also gave the results that when looking at the product, business angels found it important it was unique and lie in a profitable niche (Osnabrugge & Robinson 2000 p 128). The personality of the business angel can be brought up here again, the personality shapes the business angel’s interests and likings, and if he falls for a product or not can also be individual.

Only one respondent claimed he required a business plan when approached by entrepreneurs, the other three did not mention this as something they required. All four, however, stated they do think it is important to have a business plan, but it is not crucial in the investment decision. When asked about the business plans importance in its quality of being engaging, the replies were 3, 5, 3 and 3 (see p46). The respondent who required a business plan also felt it needed to be very engaging, and enthusing. The other three respondents stated the business plan needed to be present, and this was very important, whilst the actual layout of the plan was less important. This reaffirms Osnabrugge and
Robinson’s findings that the business plan reflects upon the entrepreneur’s capabilities as the runner of a business. If the plan is not there, this gives an unserious impression of the entrepreneur. Business angels may require a business plan as a means of minimizing the risks of investing in an unserious entrepreneur. Some respondents stated they do not always look at the plan; they only look to see it is there.

One of our respondents said the business plan was not required for him to create an initial interest in the business, but it was crucial for the actual investment decision later on. This also reaffirms the idea that a serious entrepreneur needs to provide the investor with information from the business plan. The fact that many entrepreneurs overvalue their business, which was brought up earlier, comes in play here again. The business plan may not be realistic in its calculations of the future, but our respondents claimed they all make their own calculations anyway. Therefore the business plan tends to give an idea of the entrepreneur and what they believe, rather than being crucial for the respondents’ investment decisions.

The responses to how important it was that the firm was geographically close to the business angel were 2, 3, 4 and 2 (see p46). Two of the respondents mentioned that they were invested in firms which were very far away geographically, but they still managed to be somewhat involved in those. One respondent explained that of course it was positive if the firm was geographically close, but not a prerequisite. Therefore he indicated a high importance, because if the firm was close by it was seen as something extra positive. However, if the business idea and the entrepreneur seemed interesting, the geographic distance did not play a crucial role. The agency theory and the issues of trust play a role here as well, since it most likely is easier to control a firm which is closer to you. Gerald and Joel state that the closer to home the venture lies, the more positive business angels seem to be when viewing the proposal by the entrepreneur (Gerald & Joel, p 91). This agrees with our findings to some extent as one respondent agreed that the closer the venture the more positive he felt about investing. Three respondents did not put as much emphasis on this however, and our findings are then also somewhat contradictory to Gerald and Joel.

### 5.2.5 Deal killers

When turning down investments, two responded that it was either due to the entrepreneur or the business idea which were unsatisfying. This confirms the research by Freeney et. al, who also found that business angels reject investment proposals on two types of deficiencies; a flaw in the characteristic of the entrepreneur or management team, or a flaw in the characteristic of the business (Freeney, Haines & Riding 1998). Two respondents said that the most common flaw in businesses is that they do not live up to the sales requirements, they do not sell enough and there is no prospect for selling enough in the near future. This agrees with many studies who have found the growth potential of the market and product to be essential when choosing to invest (Osnabrugge & Robinson 2000, p 128, Stedler & Peters 2002).
Two respondents stated the entrepreneur was the reason why they last turned down an investment, and that was a frequent reason for saying no to investments. Another said it was due to the fact that the entrepreneur, who he nevertheless believed in, had missed a great business opportunity against his recommendations, and hence the lack of trust and confidence came in play which made him turn down the investment. The fourth respondent stated the reason for turning down the last investment was a too high requirement of capital, and the infrastructure of the business was unsatisfying. One business angel made the comment; if you have a great entrepreneur with a bad idea, it won’t work. Similarly, if you have a bad entrepreneur with a good idea, that won’t work either. This indicates that business angels do need the whole constellation to be satisfying, and if something fails the business angel does not invest. In previous studies, reaffirming, it has been found that business angels tend to turn down offers at an initial stage due to a mix of reasons, and at a later stage due to one or two deal killers; a flaw in the entrepreneur or business (Mason & Harrison 1996). We do not know at what stage of the investment process our respondents were since this was not something we chose to look into. However, we can discern from our findings that the entrepreneur tends to be very important, and if unlikeable a noteworthy deal killer. Other aspects could also break a deal, and we can conclude that business angels are careful and thorough when investing. It seems if something within the venture fails the business angels say no.
6. CONCLUSION & DISCUSSION

"Everything should be made as simple as it is, but not simpler."\(^{10}\)
- Albert Einstein

In this last chapter of the study we will reflect back to the problem statement and aim from the first chapter, and evaluate if we have answered the questions posed. Also we will sum up our findings and give suggestions for further research.

We think that through the creation of this thesis we have answered the questions in the problem statement and completed the aim stated at the beginning. The problem formulation of this study was “What aspects play a role in Business angels’ investment decision, and in what way? How do these aspects affect business angels when making investment decisions, and why?” We have researched what is important for business angels and collected elaborative responses from which we have been able to draw conclusions.

The aim of this thesis was to attempt to discern what is most important for business angels when choosing their target firms and how business angels make their investment decisions. Further, with our results and findings we hoped to be able to create a deeper understanding of business angels, and contribute to small entrepreneurial firms in their search for informal investors. This aim has been fulfilled as we have revealed important issues the entrepreneur should keep in mind when attracting investors. We have also surveyed which aspects business angels consider when evaluating investments, and why.

6.1 Important aspects

Similarly to other previous studies, the entrepreneur was also in our study found to be the most important aspect which business angels looked at. The personality and qualities of the entrepreneur was crucial to the investment decision. How the business angels perceived the entrepreneur and how well the personalities matched was fundamental in the process. Involved in this is the trust between the business angel and entrepreneur which also is essential. The business angel needs to trust the entrepreneur and believe in him or her. Business angels to a large extent invest in people who they feel they can trust and respect, and this implies that entrepreneurs should be open and truthful about their ventures when presenting them to the angel. We believe this is crucial when seeking a business angel to invest.

The competences of the entrepreneur should include many aspects, and one of the most important was a high level of sales focus. Our respondents felt that this was one of the determining aspects when they were to decide whether to invest or not. This did not come through as an aspect this important in studies we have reviewed and used. Sales are of course very important since this is where the profit comes from. Entrepreneurs should

\(^{10}\) http://www.humboldt1.com/~gralsto/einstein/quotes.html
therefore put emphasize on this, and be aware that it is them who need to do most of the work involved with boosting sales. They should present their products to the business angels with a sales focus in mind, show they know how to sell it, and who to sell it to. If too much responsibility concerning the sales is put on the business angel this is a reason for them to say no to the investment. An implication of this is that entrepreneurs should learn their market and learn how to sell, in one way or another. If this means taking a sales course or learning by experience is irrelevant, as long as they in the end posses this important quality.

Another aspect that was not very highlighted in previous studies that came up in ours was that business angels generally have a lack of time. This may lead them to be unable to invest in firms, even if they want to. This is of interest to the entrepreneurs who search for business angels, and it is also of interest to those who consider starting a career as a business angel. They need to be aware that it is a time consuming activity which requires much from the angel. To entrepreneurs seeking business angels without any luck a comfort can be this issue of time; business angels do not have very much time and this can be the reason to why they turn down an investment. On the other hand, when they do invest they put much time and effort into the investment, and this implies they care about their target firms. This can be a great aid to the entrepreneur. Also, when turning down an investment due to the lack of time this implies the business angel does want to be involved in the firm and put a substantial amount of time within it, and this is positive.

One aspect that was very important and commented by our respondents was the fact that entrepreneurs often overvalue their firms. This tended to be a problem for the business angels, and a reason for them to turn down investments. It has been stated in previous studies this is a common flaw in the entrepreneur, but we looked at the problem from the business angels’ perspective. It seemed the business angels distanced themselves from entrepreneurs who were not completely open, willing to listen to them and take their advice. This indicated that business angels feel they have much to contribute to businesses, and led us to wonder how much they actually can do for new firms. The respondents also indicated they have very high required returns on their investments, returns which to an untrained eye seemed almost unreasonable. Along with these requirements the business angels, in our opinion, seemed to demand much from the entrepreneur. All this led us to question; is it always favorable for an entrepreneur to search for a business angel? Could an entrepreneurial firm with an outstanding idea be able grow to same extent without the business angels help? As a response one can state that the business angels do not call for any security on their investment. They do provide the firms with knowhow and guidance and they are familiar with the business world. Most business angels tend to have experience from being entrepreneurs themselves and hence know what the firms are going through and which difficult decisions to take. In this way they can contribute with an enormous support. On the other hand, perhaps a very strong independent entrepreneur is better off on his own, with making his own decisions and developing the firm in his own way. It is reasonable to hold a discussion about the balance between business angel’s demands and contributions.
When looking at business angels’ investment criteria and what they found was important when choosing to invest in firms, we found that they tended to require a set of different qualities of the venture. The entrepreneur was important, as stated, along with product, market potential, exit routes, the possibility of being involved and other aspects. Even though some of these aspects were considered more important than others, it did seem as though the business angels required almost all aspects to be fulfilled in order for them to invest. This tended to be a safety precaution from the business angels side since they invest their privately held capital and do risk the possibility of not retaining anything back if the venture should fall. When they do invest, however, as a result of this safety thinking they require high returns, high qualities of the entrepreneur and venture as well as a possibility of being involved in the venture. To conclude, many aspects should be just right to get the business angel to invest, and if they choose to invest high demands are put on the entrepreneur and the venture. The entrepreneur should be aware of the fact that business angels may take on a strong role in their business, and they have to flexible and willing to adjust. Another thing worth mentioning is that if you as an entrepreneur do not succeed in attracting one business angel, you might experience better luck with another. Business angels look at the personality of the entrepreneur, and naturally different personalities click, and clash.

6.2 Contributions and Ideas for further research

The three new aspects which were found in this study were the aspect of the business angels’ lack of time to invest, the aspect of how entrepreneurs often overvalue their firms and lastly the aspect of how the entrepreneurs should be sales oriented. All of these tended to be crucial for the business angels, and we have not found studies which as strongly reaffirm this. Therefore these aspects could be subjects of further research.

To what extent does time actually matter when business angels turn down their investments? If we were to conduct a research on business angel’s lack of time and its implications we would use a qualitative approach. One way is to let business angels look at different investments with a limited time schedule, and then one can see if they choose to invest even if they do not have time when the investment is interesting. From this certain conclusions could most likely be drawn on the implications of time.

Another subject for further research is the overvaluation of firms amongst entrepreneurs. How common is the overvaluation of firms, and what are some implications of this? Our approach, had we done this, would be a quantitative study where entrepreneurs are made to value their ventures. Their valuation would later be compared to a business angels’ valuation.

Lastly, a more detailed study on whether or not entrepreneurs are sales oriented or not could be conducted. If they are not sales oriented, which is what we found, why is this so? This could be researched through qualitative interviews with both entrepreneurs and business angels. One can look into how sales oriented entrepreneurs think they are, and further how sales oriented the business angels think the entrepreneurs are. Through
interviews the reasons behind the lack of sales orientation can also be established, if a lack should be found.
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APPENDIX

FRÅGEFORMULÄR

Bakgrunds faktorer
- Kön:
- Ålder:
- Hur länge har du varit verksam som affärsängel?
- Vilken position hade du senast du arbetade i ett ftg? (Ledarposition av ngt slag?)
- Var det företaget ditt eget eller var du anställd?
- Har du startat ett eget företag ngn gång?
- Kan du beskriva vad du tycker en affärsängel är?
- Hur hittar du med dina investeringar –via proffesionella nätverk, oformella kontakter (typ affärsbekanta el vänner), eller hittar du dina potentiella firmor själv via internet och dylikt?
- Har det skett ngn förändring i hur du investerar? Antal investeringar per år?
- Ungefär hur stor andel av ditt egna kapital investerar du som affärsängel och hur mkt på börsen?
- Ungefär hur många investeringar gör du per år?
- Ungefär hur många erbjudanden får du per år till att investera?
- Har du ngt krav på avkastningens storlek?

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Investeringsfrågor

- Är det oftast du som tar kontakt med dina företag som du vill investera i eller vice versa?
- Om det är du- vad är det som (oftast) får dig att ta kontakt med ett visst företag?
- Vad är det första du tittar på när du värderar ett ftg du funderar på att investera i?
- Hur går din värderingsprocess till?
- Vilka faktorer är viktigast i värderingsprocessen?
- Använder du värderingsmodeller eller litar du på instinkt?
- Investerar du oftast i ftg inom sektorer som du har erfarenhet i?
- Om ja, varför?
- Investerar du helst i ngn specifik brach eller är det öppet?

- Varför?

(Nu kommer vi fråga om sju specifika faktorer som vi har hittat stöd för i terorier. Vi vill att du ska gradera dessa från en skala på 1-5, där 5 är mkt viktigt och 1 är oviktigt.)

Faktorer som är viktiga för dig när du överväger investering i ett företag:
- Gradera följande faktorer på en skala från 1-5, där 5 är mkt viktigt och 1 är oviktigt:

1. Entreprenörens personlighet och ledarskapsförmåga 1 2 3 4 5
2. Tilliten till entreprenören 1 2 3 4 5
3. Produkten och marknadens sälj- (ftgts) potential 1 2 3 4 5
4. Potentiell hög avkastning 1 2 3 4 5
5. Möjlighet att gå ur ftgt i framtiden 1 2 3 4 5
6. Affärsplanens engagemang 1 2 3 4 5

7. Möjlighet att vara delaktig/bidra i ftgt 1 2 3 4 5

8. Att ftgt ligger geografiskt nära dig 1 2 3 4 5

- Vilka egenskaper tycker du att en entreprenör ska ha för att du ska lockas att investera i ftgt? Hur viktig är tilliten till entreprenören?

- Under vilken tidsram investerar du oftast? På vilket sätt föredrar du att gå ur ftgt? Är det viktigt att det finns en utstakad plan för att lämna ftgt?

- Hur viktig är affärsplanen för dig?

- Är det viktigt för dig att kunna bidra med ngt till företaget? På vilket sätt bidrar du oftast till ftgt?

- Enligt din erfarenhet- vilka är de vanligaste tillkortakommanden i de ftg du tittat på att investera i?

- Senaste gången du tackade nej till en investering- vad var anledningen till det?