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Business Angel Investment Process:

A study on how fundamentals and experiential learning shape the investment process of
Business Angels

BY

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Research Thesis - Entrepreneurship and New Venture Creation

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Abstract

Purpose – This research attempts to add to the understanding of how BAs shape their investment process and how different forms of experience influence this process. By this we will further build on the findings of Harrison et al. (2015) and aim to answer the questions: *‘How do BAs’ fundamentals and investment experiences shape their applied investment strategies and criteria?’* and *‘Is their experiential learning process limitless or is it completed at some point?’*

Methodology – This research was conducted in alignment with a qualitative research approach. Our findings are derived from semi-structured interviews held with five BAs. A cross case analysis was conducted to establish how their fundamentals and experiential learning from conducted investments influence their investment process and criteria and if experiential learning is limited.

Findings – The research shows that most of the BAs’ investment criteria and strategies are shaped by the outcome of experiential learning from investing. Fundamentals usually influence the investments process after a certain amount of experiential learning was collected. Apart from that, three paths were revealed in which investment criteria and strategies can develop – the flexible, the semi-flexible and the fixed path.

Research limitations – This research is limited to a certain scope of people, regarding the geographical location, investment scope and investment experience, as well as to its qualitative approach when it comes to the method used; namely semi-structured interviews. The information collected is a momentary sample, which only reflects a small group of investors.

Practical implications – This research will offer advice to novice and experienced BAs to consciously reflect on their fundamentals and previously gained investment experience and by that allow them to actively influence their investment strategy and criteria in the future.

Keywords – BA, fundamentals, experiential learning, investment process, investment criteria

Paper type – Master thesis

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LIST OF ABBREVIATIONS

Abbreviation	Term
B2B	Business-to-business
BAs	Business Angels
BA	Business Angel
FFF	Family, friends and fools
SMCG	Slow-moving consumer goods
SME	Small and Medium Sized Enterprise
VC	Venture capital

1 Introduction

In the last decade, the significance of Business Angels (BA) regarding high-growth entrepreneurship became more apparent and attracted considerable interest among entrepreneurs and wealthy individuals looking for investment opportunities, as well as among policy-makers around the world (Harrison et al., 2015; Avdeitchikova and Landström, 2016). Business Angels (BAs) are normally high net-worth, non-institutional, private equity investors. These individuals invest part of their net worth into high risk – high return entrepreneurial ventures in return for a share of voting control, income and eventually capital gain (Hindle and Wenban, 1999).

Previous studies regarding BAs not only highlighted the importance of access to early-stage finances but also the importance of value adding non-monetary benefits such as, networks and business experience (Avdeitchikova and Landström, 2016; Harrison et al. 2015). BAs in general are believed to be one of the most important sources of funding for such early-stage, high-risk, high-potential ventures (Avdeitchikova and Landström, 2016). As mentioned above, these contributions go beyond the monetary benefits, yet the increasing supply of capital provided by BAs to firms, especially in early-stage businesses makes them quite unique in the Small and Medium sized enterprises (SME) finance landscape compared to banks or venture capitalists (Avdeitchikova and Landström, 2016). Avdeitchikova and Landström (2016) further state, that the uniqueness of BAs lies not just in the quantity of finance that they provide, but in the type of finance, primarily providing small amounts of finance in early stages of firms' development, which is an increase of capital flow to such ventures and thus stimulates the economic growth. Many scholars also investigated how BAs increase the “quality” of firms by taking an active role in the invested company, which can come in the form of advising, coaching and providing access to the investor's network (Avdeitchikova and Landström, 2016; Politis, 2008). This translates into an increase of productivity, profitability and level of innovation of the company compared to ventures not receiving BA investments.

1.1 Shaping the Investment Process

Many scholars researched the investment and decision-making process of BAs primarily with quantitative research (Croce et al., 2016; Harrison et al., 2015; Mason et al., 2016; Maxwell, 2009; Mitteness et al., 2012). In this respect, a major aspect influencing the investment and decision-making process is experience (Harrison et al., 2015). Harrison et al. (2015) explain

how novice and experienced BAs learn from their experience and how this influences their decision-making process. Furthermore, Harrison et al. (2015) found evidence that the decision-making process is anchored on certain fixed criteria, which are developed through previously gained experience from investing. However, they claim that it is important for future research to further assess how BAs learn from experience (Harrison et al., 2015).

Angels also learn through their fundamentals. These fundamentals are the result of their previous work experience, either acquired through their corporate or entrepreneurial career or through both career paths (Politis & Landström, 2002); thus, the only experience they can rely on for their first investment.

Moreover, Harrison et al. (2015) claim that the extend of learning after the first investments seems limited. Here, the current literature does not provide a clear course of action to what extent, or if even at all, the investment criteria and strategies of BAs change throughout their investment career.

1.2 Research Purpose

The purpose of this research was to fill the gap in the literature by analysing to what extent the investment process of BAs is influenced by their fundamentals, i.e. experience from their previous corporate and entrepreneurial career. Furthermore, we have examined how BAs' investment criteria and strategies are shaped by investment experience and whether this development is limited or continuous. By this we will further build on the findings of Harrison et al. (2015).

Another purpose of this work is to show that future research concerning this topic is valuable to further understand the development of the BAs' investment strategies regarding fundamentals and experiential learning. Furthermore, it will enable novice and experienced BAs to consciously reflect on their fundamentals and their gained investment experience and therefore actively influence their investment strategy and criteria in the future.

Considering the above-mentioned factors, we seek to answer the questions:

- 1.) How do BAs' fundamentals and investment experiences shape their applied investment strategies and criteria?*

2.) Is their experiential learning process limitless or is it completed at some point?

To reach the above-mentioned purpose, semi-structured interviews have been conducted with five BAs. The method will be described in detail in sub-chapter 3.2.

1.3 Thesis Outline

In chapter 2 we will present the literature framework, including key theories regarding BAs and their investment process in form of a comprehensive literature review. This review is done to establish an understanding of previous research and further demonstrates the criteria influencing the outcome of the investment process. Moreover, we will show what the current literature states about how BAs learn from experience. We will then conclude the chapter with our own research framework.

This will be followed by the methodology chapter, consisting of the research design, research setting, sampling method and criteria. Furthermore, the interview guide will be briefly explained, after which the authors will present the data collection method and then provide the research limitations.

The empirical findings will then be presented, analysed and discussed. This will enable us to show new insights, and finally a conclusion will be drawn and future research implications will be given.

2 Theoretical Framework

2.1 Overview

We will first provide an overview of previous business angel research, present common characteristics of BAs and how they differ from venture capitalists, and then consider their objectives and motivations to invest their own capital into high-risk start-ups. Secondly, we will consider the different phases of the investment process and their investment criteria throughout different stages. Afterwards, we will compile the existing research and literature about experiential learning of BAs to see how their investment criteria and strategy are derived and shaped by the outcome of former investments and previous work and entrepreneurial experience. At the end of this chapter we developed a framework, which will be used as a guideline to answer the research questions.

2.2 Business Angel Research

2.2.1 Definition

The term ‘business angel’ can be defined as a wealthy person who is investing private capital in, as well as offering value-added services (Politis, 2008) to unlisted new ventures and entrepreneurs, to whom the angel has no existing family bonds (Mason, 2006). Their purpose is to achieve a financial return higher than their initial investment (Mason, 2006). It is undoubted that business angels play an extremely important role in the informal investment market for young firms seeking finance nowadays (Avdeitchikova and Landström, 2016). They generally try to establish an active relationship between them and their investments, but without being involved in the daily business activities (Landström, 1993).

However, according to a study of Sørheim and Landström (2001) the term ‘Business Angel’ is only one category of investors in the informal investment market. They distinguish the investor groups based on the determinants ‘competence’ and ‘investment activity’, creating a matrix of four different informal investor groups:

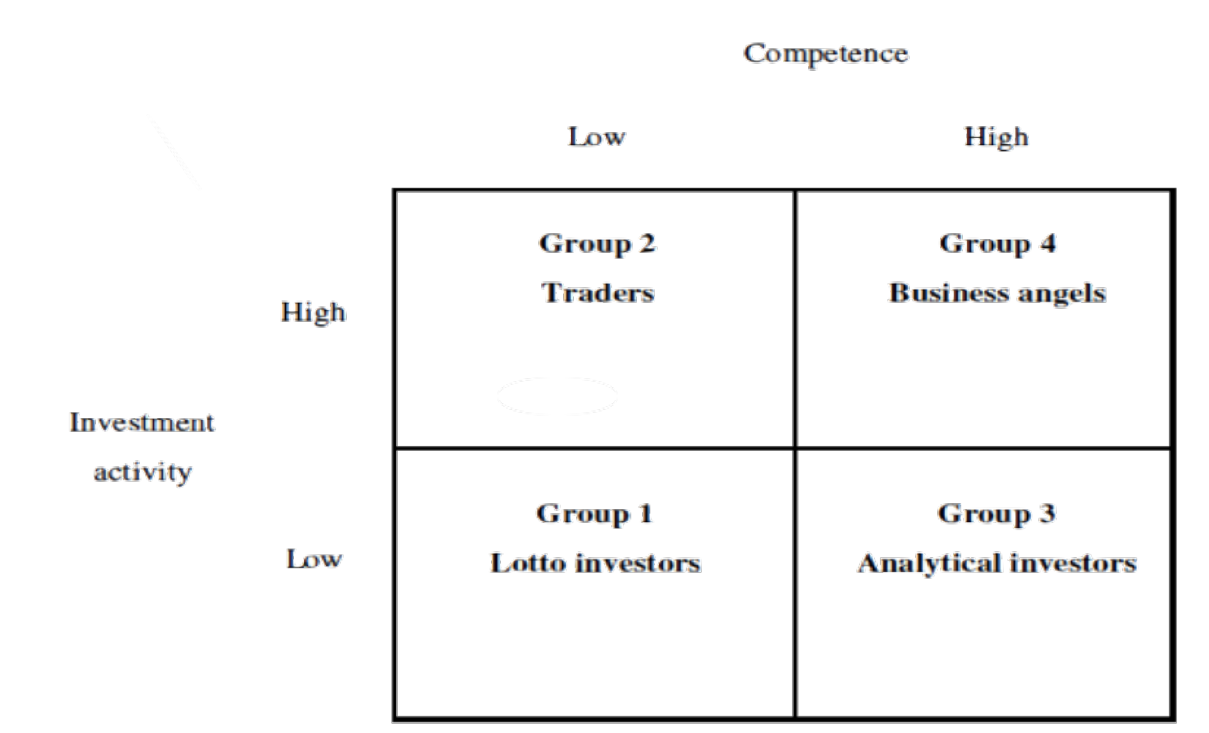


Figure 1: Categorization of informal investors (Sørheim and Landström, 2001).

Sørheim and Landström (2001) categorize ‘Business Angels’ in their matrix as the group that shows both high levels of competence with management and entrepreneurial experience to actively support their investments additional to high activity levels with several investments annually. For this research paper, we will therefore solely focus on the category of ‘business angels’ since our research question is centred on the influence of experience on their investment criteria. Hence, we naturally exclude informal investors with low ‘investment activity’ to gain experience from and also the group of ‘traders’, which does not provide any additional value to their investments due to missing ‘competence’ (Sørheim and Landström, 2001), another important requirement to gain the full range of experience associated with an informal investment.

2.2.2 Business Angels – Similarities and Differences

BAs cannot be seen as a homogeneous group behaving in similar ways and patterns – it has been proven that they differ widely from each other and that they can be distinguished regarding a variety of attributes – at least in relation to their investment process, preferences and criteria (Mason et al., 2016). Other attributes, such as age, gender and former career paths, however seem to be rather consistent for most angels, typically being middle aged

males (average 56 years) (Kelly, 2007; Månsson and Landström, 2006; Politis and Landström, 2002).

A study from Politis and Landström (2002), assessing the career paths of several angels, demonstrated additional similarities in how angels develop and ultimately start their investment career, after ‘climbing the corporate ladder’ in the first phase of their professional lives and subsequently gather experience as entrepreneurs themselves in the second phase. These two stages provide angels with the necessary work-, management- and start-up experience to be able to support and invest in other ventures in the third stage (Politis and Landström, 2002). In this work, we consider previous corporate and entrepreneurial experience as the fundamentals that BAs apply for their first investments.

A consistency can also be seen in the way BAs invest. Prior research shows that angels rather rely on their feelings than on a detailed data analysis (Shane, 2008), an assessment that is shared by Haines et al. (2003) who believe that BAs trust their intuition when it comes to investing. On the contrary, venture capital firms have a much more objective, stringent and sophisticated investment approach, mainly because they possess the resources for detailed evaluations of the opportunities they receive (Parhankangas, 2007).

When examining the differences between BAs, a particularly important aspect for this work is their investment experience. If they have not yet invested, but consider doing so, they can be seen as novice angels. On the other end of the spectrum, there are highly experienced BAs with several dozens of capital infusions into young firms (Harrison et al., 2015; Mitteness et al., 2012). The factor experience and the consequent application of heuristics can affect, for instance, the speed of the decision-making process or the criteria that lead to approval respectively rejection of an investment opportunity (Harrison et al., 2015). As a result, experienced angels tend to make quicker decisions about whether to pursue an opportunity or not and they put greater emphasis on the investor-entrepreneur fit, whereas inexperienced angels take more time for each step in the process and rather base their decisions on financial aspects (Harrison et al., 2015). Within this research, we will concentrate only on experienced angels, since investment experience is a crucial factor for our research. In chapter 2.4. experiential learning will be dealt with in greater detail to evaluate how BAs’ investment processes are shaped by their former career fundamentals and by past investment experience.

In the following sub-chapter, we have investigated the different investment approaches of BAs, compiled by several authors. Based on these models we have developed our own investment stage framework to refer to during this work. Apart from that, we have assessed the investment criteria for the stages throughout the investment process.

2.3 Stages and Investment Criteria throughout the Investment Process

2.3.1 General Investment Process

Many different approaches prevail in the existing literature regarding the stages of the BA investment process. Many authors have created their own models (Amatucci and Sohl, 2004; Haines et al., 2003; Osnabrugge and Robinson, 2000; Paul et al., 2007), however not all of these models only focus on the actual investment process but also on post investment stages, such as managing the investment or exiting. The framework of Paul et al. (2007) and the angel funding decision process by Mitteness et al. (2012) both consist of five stages, however not all of them are assigned to the actual decision making process: “familiarization”, ‘screening’, ‘bargaining’, ‘managing’ and ‘harvesting’ (Paul et al., 2007) and ‘application’, ‘pre-screening’, ‘screening’, “due diligence” and ‘funding’ (Mitteness et al., 2012).

We believe that these two models suit our research best. Nevertheless, they are only partly applicable. The stages that we perceive as relevant for the actual investment process are the ‘application/pre-screening’, the ‘screening’ and the ‘due diligence’ from Mitteness et al. (2012), comparable to the stages ‘familiarization’, ‘screening’ and ‘bargaining’ from Paul et al. (2007), since these are in our understanding the only stages where the angels can decide, if they want to further pursue the opportunity given, before the financial investment is concluded. For our work, we will combine the two models in a way that will condense their most important assertions. The first stage will be taken from Paul et al. (2007), namely the ‘familiarization’ stage, to consolidate the ‘application’ and ‘pre-screening’ process. The next stage is, in both models, the ‘screening’, followed by the ‘due diligence’ approach from Mitteness et al. (2012), because we believe the term ‘bargaining’ does not express the full range of activities that has to be done in the last stage before the actual investment decision is made.

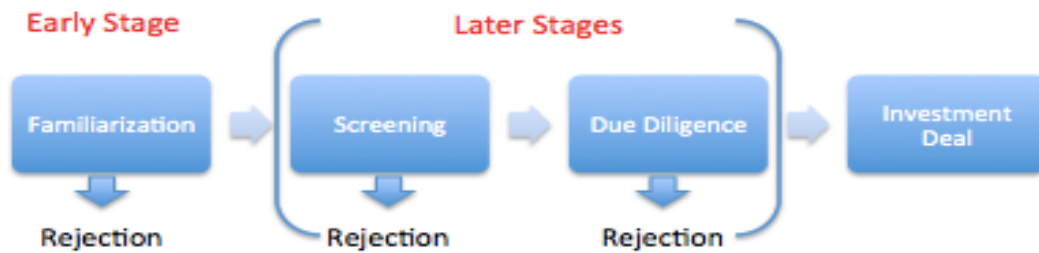


Figure 2: By Authors (2017), Merged business angel investment process from Paul et al. (2007) and Mitteness et al. (2012)

Throughout the report, we will refer to the ‘familiarization’ stage as the early stage and the ‘screening’ and ‘due diligence’ stages as the later stages. It should be emphasized that the abovementioned process with all its stages should always be considered as a simplification. In practice many deals do not show such a smooth, linear progress, which can be easily divided into certain stages (Paul et al., 2007).

Furthermore, it is important to note the findings by several authors that the investment criteria of BAs for the opportunities they encounter vary in the different stages, especially when comparing the early and the later stages (e.g. Feeney et al., 1999; Riding et al., 1995). When talking about investment criteria within this work we want to highlight that these criteria can either be seen with a positive connotation (leading to further assessment of the opportunity) or with a negative one (leading to rejection of the opportunity).

In the following sub-chapters, we will briefly highlight the procedures that take place in each stage from the BAs’ perspective and we will discuss the investment criteria that make them either precede to the next stage and ultimately invest in the opportunity.

2.3.2 The Early Stage of the Investment Process

2.3.2.1 Approach

As shown in ‘Figure 2’, the early stage of the investment process entails only the ‘familiarization’ stage. This stage can be seen as the very first evaluation of the business opportunity received by the angel (Paul et al., 2007). This definition is backed up by Hall and Hofer (1993), who see this stage as the one to gain a quick overview whether the opportunity is worth further investigations or should be dismissed immediately. In this phase, it is

common for the angels to read a summarized business plan or look at a pitch deck (Paul et al., 2007) including the assessment of quantifiable data (Mason et al., 2016).

2.3.2.2 Investment Criteria

The general investment preferences of BAs play a large role when the decision about an acceptance in this stage is made: where is the opportunity/the new venture located, does it suit the preferred industry sector (Paul et al., 2007) and does the required funding match the available investment amount of the angel (Harrison et al., 2015)? Other decisive factors can be the perceived product attractiveness (Mason and Harrison, 1996) as well as the quality and the appearance of the business plan (Mason and Rogers, 1997). The literature review shows that especially prior industry knowledge from the angel's perspective is a sought-after criterion in the 'familiarization' stage, since angels are trying to positively influence the ventures they have invested in, in order to maximize their own return and be able to increase the likelihood of achieving their desired goals (Aernoudt, 1999; Mason & Stark, 2004; Mitteness et al., 2012).

One of the main criteria to even be considered at all at this point often is a personal referral from a person within the BAs' network or from business associates (Paul et al., 2007). Such a recommendation largely increases the chances of trespassing into the next stages and can even compensate for an otherwise critical flaw in the opportunity (Paul et al., 2007, Riding et al., 1995).

The first authors to emphasize the importance of a general opportunity-investor fit, another important criterion in the 'familiarization' stage, were Tversky and Kahneman (1974). This 'fit' can best be achieved by filtering the so called 'no hopers' (Brush et al., 2012) so that BAs can dedicate their scarce time to the promising proposals. To be able to filter out these flawed investment proposals quickly, experienced angels rely on so-called non-compensatory decision making heuristics (Maxwell et al., 2011). With this technique, angels screen rapidly through the most important aspects of an opportunity and eliminate those that score low regarding certain aspects, such as product potential or opportunity-investor fit. This procedure entails the chance of accidentally rejecting an otherwise good investment due to one flaw, but it is necessary among experienced angels to cope with the large amount of incoming proposals (Maxwell et al., 2011). Haines et al. (2003) emphasise that the 'gut feeling' plays an important role, when these approval or rejection decisions are made under time pressure.

If none of these flaws could be found at the first glance, BAs usually proceed towards the later stages of the investment process, which we will examine in detail in the following subchapter.

2.3.3 The Later Stages of the Investment Process

2.3.3.1 Approach

After the opportunities have passed the ‘familiarization’ phase it can be generally stated that they provoked some form of interest in the respective BA to investigate the project in more detail in the later stages, namely the ‘screening’ and the ‘due diligence’ stage. According to May and Simons (2001) in the ‘screening’ stage, angels set up several formal and informal meetings with the entrepreneurs to see whether the first impression of the opportunity can be confirmed. Furthermore, several background checks regarding the entrepreneur(s) are conducted, mainly within the personal network of the angel (Paul et al., 2007). Since they are investing private funds and bear large risks, they “do whatever it takes to check out anyone who asks [...] for money” (Paul et al., 2007, p. 116). A further measure in this stage is an in-depth business plan analysis, mainly to study the existing market or the industry as a whole (Paul et al., 2007).

The following ‘due diligence’ stage is the last one before the investment is made. In general, this is the time to assess the opportunity from a financial perspective, usually done by the angels themselves, and to negotiate the trade-off between capital injected and equity given in return (Paul et al., 2007). In that respect, due to time constraints or even a lack of in-depth valuation skills, BAs heavily rely on their intuition when it comes to these ‘price’ negotiations (Paul et al., 2007). If the parties then can agree upon a formal investment contract, this stage, often seen as the most difficult and stressful one, can be considered as successfully concluded (Paul et al., 2007).

2.3.3.2 Investment Criteria

Regarding the reasons to invest in this ‘screening’ stage, the literature shows a clear tendency that the entrepreneur / team is by far the most important criterion and therefore the most common reason to either invest or not (Mason et al., 2016; Mason and Harrison, 1994; Sudek, 2006). During the abovementioned sessions to get to know each other, a large variety of

reasons in relation to the entrepreneur exist, which can lead to a rejection of the opportunity by the angel. Especially the management skills and experience accompanied by factors such as the interpersonal chemistry, mutual trust or the general willingness to share ownership and accept the involvement by the angel are decisive investment criteria for business angels (Lumme et al., 1998). In accordance with these findings Mason et al. (2016) described three main rejection criteria they found in their mixed qualitative and quantitative study, all related to the entrepreneur/team: the first major deterrent is missing openness and trustworthiness. If the BA feels that the other party is not providing full disclosure about the opportunity they usually immediately withdraw from this particular venture. The second and third reasons mentioned are generally the management competence of the entrepreneur as well as the ability to realistically foresee the potential and valuation of the company (Mason et al., 2016; Croce et al., 2016).

However, there are also other factors in the ‘screening’ stage that can influence the angel to ignore an otherwise compelling opportunity. In the aforementioned study of Mason et al. (2016) they identified product and market potential as further important criteria in the BA decision-making process. Nevertheless the entrepreneur/team constitutes the utmost important criterion in the ‘screening’ process of the angel (Mitteness et al., 2012).

Even though it has been found that after progressing to the ‘due diligence’ stage the entrepreneur/team aspect loses in significance (Mitteness et al., 2012), it cannot be neglected. Fiet (1995) states that individual BAs, compared to venture capital funds, simply do not possess the means to conduct a detailed ‘due diligence’. Therefore they rely extremely on a capable and competent entrepreneur/team that they can trust and that has done a comprehensive assessment of the opportunity, the product and the market potential for them (Fiet, 1995).

However, the most common investment criteria at this point are clearly financial considerations, since angels are taking a closer look into the potential rewards that come along with the risks being taken and the efforts made (Landström, 1998; Riding et al., 1995). Often the negotiations about the valuation of the equity can lead to a failed deal agreement. Especially already existing shareholders can constitute a burden in these final negotiations (Paul, 2007), e.g. because they might not be willing to dilute their share in the company or are not satisfied with the offer from the angel.

Our research aimed to find out whether all these investment criteria throughout the various stages are derived from their previous fundamentals prior to investing or if they are shaped through investment experience. We have also examined, whether these criteria develop endlessly or whether they are fixed after a certain amount of investment experience was gathered.

2.4 Experiential Learning of Business Angels

For our research, it is of high importance to see how the abovementioned investment criteria during the different phases emerge and develop due to prior experience. Thus, we will look within this sub-chapter at how angels learn from experience and how this in turn influences their investment process.

All human beings learn from their experiences made in the past (Dewey, 1938). The same holds true for BAs, who start to continuously learn from their first investment experience onwards (Harrison et al., 2015). The learning of every investment made and every possible outcome can have a tremendous impact on their future investment decisions and strategies. However, also the experience of others, e.g. other BAs, can contribute largely to their learning (Harrison et al., 2015). Prior research has furthermore shown that not only positive outcomes shape the experience of humans, but also failures can have a large impact on experiential learning (Politis and Gabrielsson, 2009). This naturally also applies to BAs - failed investments can become an invaluable source of improvement for them (Harrison et al., 2015).

Experience in general leads to the development of heuristics that are mental shortcuts in the decision-making process (Busenitz and Barney, 1997). Aldrich and Yang (2014, p. 63) provide a precise definition of the functionality of heuristics, claiming that they “affect when and how entrepreneurs learn and apply routines throughout their life course”, a definition that is likewise applicable for BAs (Harrison et al., 2015). Taking into consideration the amount of decisions they face, the opportunities they are exposed to every day and the general information overload (Zacharakis and Shepherd, 2001), angels are to some extent forced to facilitate and accelerate their decision-making process using heuristics (Busenitz, 1999). These heuristics are used throughout the whole investment

process of the BAs, for instance in the aforementioned process of filtering through the multitude of opportunities in the ‘familiarization’ stage (Maxwell et al., 2011).

As valuable as the experience stemming from investments can be, every angel starts out as a novice angel without investment experience to rely on. Thus, the only experience to depend on are the angels’ fundamentals – their fundamental experience gained in prior life stages before becoming an angel, which are the corporate career phase and the entrepreneurial learning phase (Politis and Landström, 2002). These two phases contribute heavily to the angels’ managerial capabilities, “including financial preparedness, competence building, network establishment and legitimizing of reputation” (Politis and Landström, 2002, p. 94) and to their ability to create new businesses and understand entrepreneurial processes (Politis and Landström, 2002). However, again it should be emphasized that angels are a heterogeneous group (Mason et al., 2016), in which some might have taken a totally different path shaping their experience prior to investing.

It is not clear yet to what extent the investment process of novice and experienced angels is shaped by their investment experience. Harrison et al. (2015) found evidence that the BA’s investment process is predominantly based on fixed criteria claiming that “the nature and extent of their learning seems to be restricted” (Harrison et al., 2015, p. 18).

With these findings, the researchers provide a new angle on the so far existing knowledge of how experience affects angels’ investment criteria, namely that BAs are less influenced by their on-going investment experience. They rather develop fixed investment criteria and strategies after they gained a certain amount of investment experience in combination with their previously gained fundamentals. Within this research, it has been our task to investigate whether BAs are willing to adapt or change their investment criteria and strategies based on their on-going investment experience or if they, after a certain amount of experience was gathered (from fundamentals and previous investment experience), rely on fixed criteria for their investment decision as stated by Harrison et al. (2015).

2.5 Summary – Theoretical Framework

Based on the previous sub-chapters, which compiled the existing knowledge regarding business angels’ characteristics and fundamentals, their investment process and criteria as well as their experiential learning, we created a framework to show where the current research stands, and to use this as a starting point to further develop the proposed framework. This

framework is mainly, but not exclusively, based on the findings of Politis & Landström (2002) regarding the typical career paths of BAs, the findings of Paul et al. (2007) and Mitteness et al. (2012) in regard to the investment process and on the research of Harrison et al. (2015) regarding how BAs learn from experience.

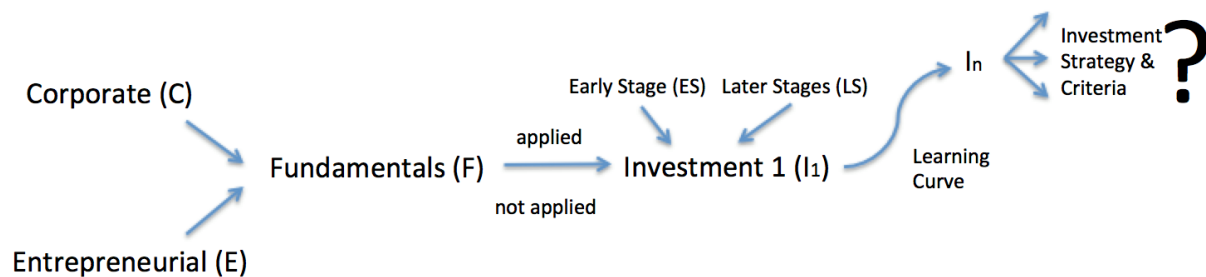


Figure 3: Initial framework - by Authors (2017)

In our model, which we derived from the theory of the previous sub-chapters, we found that each BA has certain fundamentals (F) from the previous corporate (C) or entrepreneurial (E) career to rely on (either consciously applied, unconsciously applied or not applied at all) when making the first investment I_1 , which can be divided in the early (ES) and the later stages (LS). From this first investment to all the subsequent investments (I_n) the BAs undergo a learning curve that potentially shapes their investment process and criteria. Our research is aimed to examine to what extent this development happens in the subsequent investments and whether the BAs' fundamentals or their experience from previous investments are responsible for shaping the process and criteria. Moreover, we want to assess whether certain criteria and steps in the process become fixed after a certain amount of time or if they are shaped infinitely.

With these remarks, we will conclude the theoretical framework and progress to the methodology section of our work.

3 Methodology

In this chapter, the research design will be discussed, followed by the research setting. The authors will then present the data collection method, the sample selection and sample criteria. Afterwards, a short overview of the interview guide will be presented, as well as our data analysis. Finally, the research limitations will be shown.

3.1 Research Design

The research design of this paper focused on understanding how BAs learn from experience and how and if this influences their fundamentals, thus influencing their investment process. To gain the required information to answer the research questions, the authors conducted interviews with a selected group of Business Angels (BAs). The interview method was selected for two reasons: namely, the direct contact to BAs and their first-hand insights into their decision-making process, fundamentals and investment experience, and secondly the opportunity to ask follow-up questions, which would not be possible if we would make use of an anonymous survey. The details relating to the interviews will be provided in sub-section 3.4.

3.2 Data Collection Method

To collect the necessary data, a qualitative approach consisting of semi-structured in-depth interviews was chosen. These interviews allowed us to gather a variety of insider opinions, which were then used to formulate recommendations for a plan of action (Bryman and Bell, 2011). The strength of interviews is that they provide useful and credible information by experts as well as a variety of opinions, that could not have been gathered with a pure desk research (Bryman and Bell, 2011). For developing the literature framework, we made use of both the university library and online libraries, such as ‘Google Scholar’ and ‘Jstor’. Furthermore, the reference lists in these articles were then used to find other suitable articles, to further get a holistic overview of the topic at hand.

We were able to contact BAs through two channels; namely e-mail and LinkedIn. Lund University provided a list of the most known BAs in Sweden, which the authors used to find the initial e-mail addresses online. This produced a list of fifteen potential BAs. We invited the fifteen business angels to take part in our pilot study to check them against our interviewee criteria. Two that fit our criteria replied, which will be mentioned below in

section 3.3. After the interviews both BAs were willing to recommend us to their network, which enabled us to interview three more BAs that were also suitable for our research purpose. This practice is called “snowballing”, which is commonly known as a way of contacting one participant via the other (Biernacki and Waldorf, 1981). It is an especially useful technique to approach BAs, as in general there is a huge hidden population (Biernacki and Waldorf, 1981). As abovementioned BAs are mostly private wealthy individuals who don’t like to be in the spotlight, therefore, keep a low profile, which on the other hand makes it difficult to find a pool of BAs to contact. There are certain “star business angels” who are well known by the entrepreneurial communities, yet these are exceptions.

The interviews were held between the 10th of February of 2017 and the 18th of April 2017. This setting allowed us to interview each BA twice, analyse the interviews and conclude the findings. The results of these interviews produced a unique set of answers, with which the authors were able to compare and analyse the findings and derive operational definitions and indicators that in the end proved the research concept (Bryman and Bell, 2011). Eight of the ten interviews were conducted via Skype. This was due to the reason of the BAs time schedule and their location either being in Stockholm or Denmark. The other two interviews were conducted in person in Malmö. All interviews were conducted in English. Furthermore, to have an unbiased view both researchers separately took notes. After the interviews the recordings and notes were combined and analysed.

The interviews overall were asked in similar wordings, yet the semi-structured approach enabled the authors to follow up certain statements made by the interviewees and go in-depth (Bryman and Bell, 2011). Furthermore it allowed us to keep the interview flowing and build on the statements made by the interviewees (Bryman and Bell, 2011). As Bryman and Bell (2011) state, semi-structured interviews are flexible and rely on the interviewee to clearly understand the issue at hand.

It was of outmost importance to implement exact tools to collect relevant and valid data and by that avoid biases through questions that might push the interviewees in a certain direction, thereby forcing the BAs to answer in contradictions with their own thought process (Ericsson, 1993). This was easily avoided by implementing open-ended questions in combination with minimal information provided before and during the interview.

3.3 Sample Selection and Criteria

This search was not limited to a specific area in Sweden, but rather was a theoretically derived sample selection (Bryman & Bell, 2011; Eisenhardt & Graebner, 2007).

The BAs chosen for this group represent a variety of different investment industries. All the BAs needed to have at least three years of individual investment experience with a minimum of five investments made. During the first conducted interview, we asked all the BAs about their investment process and investment criteria to match them with our interviewee criteria. The authors especially looked for BAs who are actively involved in the companies they invest in, yet also experienced an investment where they just passively invested. Being actively involved in the companies is especially important, as this is the only opportunity to gain further investment experience. For the purpose of this thesis we define passively investing as solely giving money and not being involved in any other form in the venture. Taking all of this into consideration the setup is a strength to understand how their previously gained fundamentals and gained experiential learning from their investments shape their decision-making process.

In our opinion, this variety and combined experience ensures the credibility and representativeness of the interviews and will function as a good indication for future recommendations.

Name	Fundamentals – Corporate (C) vs. Entrepreneurial (E)	Years of Investment Experience	Number of Investments	Involvement in the Company	Min/Max Investment Amount in SEK
Mike	<ul style="list-style-type: none"> Started IT consultancy (E) McKinsey consultant (C) Investment Bank (C) 	10 years	12	<ul style="list-style-type: none"> Dependent on what he wants to achieve When his expertise is need (e.g. in Board of Advisors) 	100.000 – 1.5 million
Marie	<ul style="list-style-type: none"> Sales Engineer Position (C) Joined start-up in her industry (billing/technical automation) (E) 	5-6 years	5	<ul style="list-style-type: none"> Dependent on the size of the investment The bigger her share, the more involved she is, even in daily business activities 	50.000 – 500.000
Walter	<ul style="list-style-type: none"> Founded his own start-up (online pizza delivery) (E) 	4 years	20	<ul style="list-style-type: none"> Prefers to be passively involved When the start-up excites him, he becomes active advisor 	50.000 – 500.000
Jim	<ul style="list-style-type: none"> Some work experience in a social organization and as a sales rep, but no real corporate career Founded two companies (food industry) (E) 	9 years	8	<ul style="list-style-type: none"> Always being fully involved in his investments Advisory role regarding his industry experience Sharing his network 	500.000 – 7 million
Karl	<ul style="list-style-type: none"> McKinsey consultant (C) Founded IT start-up (E) Founded several other companies and had further corporate jobs (E/C) 	5 years	25	<ul style="list-style-type: none"> Three categories Heavily involved as chairman Involved as advisor when needed Not involved at all 	100.000 – 1 million

Table 1. Interview participant information details

3.4 Interview Guide

Building on what we learned from the literature, specifically from the chapters about the investment criteria in early and later stages (2.3.2.2/2.3.3.2.) and from the chapter about experiential learning of business angels (2.4), an interview guide was derived. Therefore, the first interview round was structured in a way that the BAs had to talk about their general motivation of becoming a BA. Afterwards the authors asked about their specific investment process and criteria when it comes to assessing an opportunity. The second semi-structured interview consisted of in-depth questions about their previous work experience and their thereby gained investment fundamentals. This was followed by questions about their own reflection on their development from the first to the last investment. To get a better understanding of the correlation between their initial fundamentals and the topic of experiential learning we continued with questions about how or if this experiential learning

influenced their fundamentals, and investment criteria. The detailed interview guide will be presented in the Appendix 7.1.

3.5 Data Analysis

The above-mentioned data collection method allowed us to analyse certain factors, such as previous work experience, gained fundamentals, the influence of experiential learning, and the investment criteria and process. These factors were then used to analyse our findings, through replication logic, which is a central part of building theory from interviews (Eisenhardt, 1989).

The transcript of each interview was assessed using an open coding approach (Bryman & Bell, 2011) and then summarized in groups for each variable. This approach is also mentioned by Eisenhardt & Graebner (2007, p. 25) who state, that “the theory is emergent in the sense that it is situated in and developed by recognizing patterns of relationships among constructs within and across cases and their underlying logical arguments”. Furthermore, this means that each interview serves as a separate test that stands on its own. This process guaranteed that the collected data is standardized and thereby ensured that establish relationships between certain reoccurring variables and participants then could be concluded in the analysis. This process is leaning on the deductive theory testing, which completes the cycle by using data to test an existing theory (Eisenhardt & Graebner, 2007).

Using a certain code and searching for cross-case patterns forces the authors to go beyond the initial impressions, and analyse the collected data through different angles (Eisenhardt & Graebner, 2007). Different categories, also referred to as codes, will be selected and then compared across the different cases. In our research, each case represented one of the participating BAs. For the purpose of this paper we also made use of a deductive content analysis, which is built on previous knowledge gained through our literature framework. Furthermore, this allowed us to use a structured matrix for our analysis (Elo & Kyngäs, 2008), which in the end was used to complement the beforehand gathered data.

3.6 Research Limitations

This research is limited to a certain scope of people, regarding the geographical location, investment scope and investment experience, as well as to its qualitative approach when it comes to the method used; namely semi-structured interviews. The information collected is a

momentary sample, which only reflects a small group of investors. Furthermore, asking them about a past investment makes them rely on their memory, which might not be completely accurate anymore. Drawing generalizations from the data collected could be non-realistic due to the specific topics and industries. This might differ from BA to BA depending on the preferred investment industry (Eisenhardt and Graebner, 2007). Yet the information at hand will provide a first indication on the direction future research could take, in terms of how investment strategies and criteria are shaped by fundamentals and experiential learning from previous investments and if experiential learning is limited.

4 Results and Discussion

In this chapter, the findings will be shown and afterwards analysed and discussed. These findings, compared with the analysis, will provide the reader with an understanding of what the business angels answered and show if they gained their fundamentals through a corporate and/or entrepreneurial career, how they used these fundamentals for their first investment, what their early and later stage investment criteria and strategies are, and lastly how they see the development of their investment strategy and criteria from their first to their last investment. At the end of this chapter our finalized research framework will be shown and elucidated.

The full overview of our participant's answers can be found in the Appendix 7.2.

4.1. Application of BAs' Fundamentals for the First Investment

Looking at the interviewed BAs we can see two different groups of how they gained their investment fundamentals; firstly, three BAs that have a corporate and entrepreneurial background and secondly, two BAs who solely have an entrepreneurial background before their first investment.

Mike already gained his first entrepreneurial experience during his time at university, where he successfully started a small IT-consultancy. After graduation both Mike and Karl started to work as consultants at McKinsey for around three years. After his time at McKinsey, Mike joined a private bank as a partner. Adding to this, Mike was mentored by Sten K. Johnson, who is a well-known industrialist and investor in Sweden, from whom he received valuable insights into the investment industry, with which he then used to found his own private equity firm. Karl on the other hand, co-founded his first own company after his time at McKinsey, where he gained valuable entrepreneurial experience. After a big merger with five other companies, this entrepreneurial experience transitioned into corporate experience, as he was part of the executive team of the merged company. Marie gained her first working experience after graduating, first as a sales person and later in different managerial positions in the industrial- and billing automation industry. After many years in corporate jobs, she felt the need to experience something new and decided to join a start-up, which developed a new billing automation process. After a couple of years at the start-up, she decided to start her own consultancy as well as a BA syndicate for women, which she both runs today.

As mentioned by Politis and Landström (2002) business angels demonstrate similarities in their investment careers, starting with a corporate career in the first phase of their professional live, as well as gathering entrepreneurial experience in the second phase. These backgrounds provide the angels with the necessary work-, management – and start-up experience, which enable them to support and invest in other ventures (Politis and Landström, 2002). For our participants, these phases might have not been in the order as presented by Politis and Landström (2002), as some have started with entrepreneurial careers first and later transitioned into the ‘corporate ladder’. Yet these career paths closely resemble the findings of Politis and Landström (2002) and show a progressive series of steps, incrementally increasing the authority and responsibilities of abovementioned BAs. These steps in their career paths have put them in a financially stable position, with which they approached the BA investment market (Politis and Landström, 2002).

On the other hand, Walter, during his second year at university, gained his investment fundamentals through starting a food delivery website. Apart from this, he never had a corporate job. He stated that the biggest gain of investment fundamentals he had was through the internationalization of his company. This enabled him to deal with similar problems that his investments faced with the topic of internationalization.

Our next BA Jim defines himself as a self-made man. He graduated from primary school in Sweden after 9 years and started high school, however dropped out, because it was too academic for him. Without a clear goal, he joined a social organization, where he worked his way up to a managerial position. The founder of the organization grew fond of him and encouraged him to pursue his dream and become an entrepreneur. After a sales job, Jim started his first candy company, which he sold to his biggest competitor. As he explained, starting this company and running it were his only fundamentals prior to investing.

The two BAs mentioned above resemble another, in our opinion, modern category of BAs. As mentioned by Gaston (1989), many entrepreneurs want to recreate their achievements of their own entrepreneurial firms within their newly invested companies. This, in our opinion, has become easier nowadays, due to the Internet age, which allows young entrepreneurs to earn a lot of money quickly, as well as gain the needed experience to lead companies. This does not exclude them from learning the ‘trades’ of the corporate world, as their companies grow, they transition into a more corporate structure. The same applies for BAs taking the self-made route, who gain their fundamentals through entrepreneurial work. Their gained wealth and

experience enables them to invest some of their personal wealth and thereby, try to recreate their success. These entrepreneurs might not see the need for additional corporate experience to start investing as a BA, as they learned through their own experience what to consider in the investment process. This resembles the findings of Mitteness et al. (2012), in which they present that BAs take totally different paths shaping their fundamentals prior to investing.

We will now show how the five BAs have made use of their previously gained fundamentals and approached their first investment.

Mike and Marie knew they wanted to become BAs and actively worked to reach some sort of strategy for their first investment. Mike explicitly mentioned: *“McKinsey and the investment bank presented me with the tools for the right investment strategy and I knew how to actively use them”*. Moreover, he stated: *“I knew where I wanted to go with my investing”*. He furthermore contended: *“I had an investment strategy: I wanted to make a name for myself and get on the radar in the investment world”*. Marie applied her fundamentals even more so, by investing into a company within the billing automation industry. As she said: *“I could offer two things, my commercial and financial knowledge. Also, my background made it easier to ask the right questions”*.

When analysing how Mike and Marie used their fundamentals, we found that these two applied their fundamentals consciously, meaning they knew they needed a strategy to enter the investment industry and be able to successfully invest. This either is reflected in the actions taken by Mike, who actively pursued a career path including strategy development and investment banking, or by Marie, who actively searched for an investment, where she could apply herself and not only contribute monetarily. Furthermore, Mike had a clear intend with his first investment, which was not about making money, but about becoming visible in the investment world and building a network, which he then further used to make successful investments.

Walter and Jim on the other hand stated that they didn't even realize they became BAs. Walter mentioned that a fellow entrepreneur approached him and he said: *“I thought this could work and I invested without any strategy”*. Yet Walter also mentioned that he had some sort of gut feeling, due to his experience from his online delivery service, when he made the first investment. Walter further contended: *“I'm sure all those experiences from the online delivery service, affected me on how I work with entrepreneurs compared to some other business angels who don't have the same experience from the very early days”*. Similarly, Jim

stated: *“It was more a gut feeling investment to be honest, most of my investments are a little bit like that”*. Adding to this, Jim mentioned that his previous entrepreneurial career made him more *“aware of the market”*.

In our opinion, Walter and Jim, unconsciously made use of their fundamentals. Both did not realise that they had become BAs and invested without any strategy. Yet both stated, they had a certain gut and market feeling. This can be seen as a subconscious decision-making process, which was unconsciously guided by their previously gained entrepreneurial experience and thereby, gained fundamentals. Yet, both these investments failed and have had little to no impact on the shaping of their investment strategy.

Karl knew he wanted to invest; yet he mentioned: *“I had no strategy for the first investment, I decided on my gut feeling”*. He further stated: *“When I started investing, I knew I needed a strategy, but I didn’t know what strategy this was”*. This was the reason for him to start investing with a small amount and by following other people’s money.

Surprisingly, in Karl we also found a BA who has not used his fundamentals at all, neither consciously nor unconsciously, but simply blindly followed other people. He knew he needed a strategy, yet only started with a gut feeling. This gut feeling was more about whom to follow than to assess the actual investment opportunity. Trusting people with little knowledge about the investment process and sector they invested in, led, to no surprise, to his first failed investment.

We want to take the above-mentioned findings and analysis to show novice and experienced BAs the importance of reflecting on their own fundamentals and gained investment experience, to find a successful investment strategy and criteria. Formulating a clear plan of action and setting a goal, simply is not good enough if one does not consciously take full advantage of previously gained fundamentals. We do not claim that the conscious application of fundamentals and experience leads to guaranteed, successful investments, yet enhances the chances incredibly.

4.2 Investment Criteria and Strategy

4.2.1 Early Stage

According to our BA participants, a large variety of criteria exist and many different strategies can be applied in the early stage of the angel investment process.

The first aspect to consider, before pursuing the opportunity further, is usually the industry in combination with the business model (Paul et al., 2007). In that respect, our BAs have distinct preferences with some only investing in their best-known industry and in familiar business models and some being open-minded to all kinds of opportunities.

As stated by Aernoudt (1999, p.188): “It is not surprising that business angels often invest in sectors related to their previous activity or to their knowledge.” This finding can be observed in our angels Marie, Jim and Karl, who are focussed on their particular niche in which they already gained experience and developed their fundamentals. Marie stated that she is attracted to businesses within the industrial- or billing automation niche, serving mainly B2B customers, however she is not totally reluctant to also investigate opportunities from other areas, if they generally seem interesting. Jim, with his long-term entrepreneurial experience in the slow-moving consumer goods (SMCG) industry is nowadays only willing to invest in this particular industry. The same applies to Karl, for whom the opportunity must have its origin in the tech sector, especially with a focus on online marketplaces and SAS workflow platforms. In general, investing in opportunities from their best-known industries helps business angels to better evaluate the risk and be able to contribute more value to the ventures (Mason & Stark, 2004). Value contribution is also the main reason we see for Jim, Marie and Karl being focussed on their preferred sector. As visible in Table 1 (Interview participant information details) these three angels usually like to be involved and provide value added for the ventures they invest in, as also stated by Politis (2008). This is only possible due to their experience and their interconnections within their industries.

Mike and Walter on the other hand, follow a much broader industry approach, which can be seen as a diversification strategy when it comes to investing (Landström, 1995). Mike stated: *“I am open to investing in basically anything, as long as it is not immoral, like cluster bombs”* and Walter said: *“I’m quite broad, so it could be more or less any industry”*. The reason we see for this indifference regarding the industry is the broad network of these two angels. They do not want to limit themselves and in case specific industry knowledge is

required to fully understand the opportunity, they can rely on someone from that industry within their network.

A second crucial criterion that seems of large importance to most of the angels is a personal referral from someone they trust within their networks. Mike prefers to be approached through a referral, yet he is not as strict as Walter, for whom a personal recommendation is decisive for a further opportunity consideration. He explained, important for him *“to go past the opportunity stage is definitely a good referral from someone I trust. The best way is either if it’s someone I have co-invested with or an entrepreneur that I have invested in”*. Karl, who agrees to that stance, claimed that a personal referral is a *“huge advantage”* when the first approach is made by the entrepreneur. Marie, in case she was approached without a personal recommendation, tries to find someone in her network to help her assess the opportunity: *“I am talking to other potential BAs, potential customers and other market players to get an understanding of the opportunity and if the company really has a valuable product”*.

In this respect, most of our angels behave in a way that was described by prior business angel research (Paul, 2007). However, the degree of importance of this aspect to most of our interview participants was rather surprising. We argue that this is the result of the large number of proposals that BAs in general receive. Through this type of ‘filtering’ by only taking referred proposals into consideration, BAs find a way of coping with the amount of incoming proposals, as described by Maxwell et al. (2011), even though this entails the chance of rejecting promising opportunities.

A third factor of relevance emerging during our interviews was the opportunity/idea-investor fit (Tversky & Kahnemann, 1974), as well as the personal excitement for the angels being involved and investing in the opportunities. This kind of rather subjective ‘gut feeling’ investing could be observed in Walter and Jim. The two BAs are examples for the importance of the right ‘gut feeling’ in this early stage of the investment process, as mentioned by Haines et al. (2003). Walter, thinking back about the opportunities he was confronted with, recalled: *“Out of 500 last year, maybe, more than 400 were rejected on the first mail, because it wasn’t a good fit or I wasn’t excited at all about the business model or something”*. Jim, following Walters notion, said: *“I see a product, it does not attract me at all, even if there’s potential in it, I don’t feel any connection with the product or the idea at all. For me it’s more important that I feel kind of emotional connection to the product and I feel that it’s something I can identify myself with”*.

As mentioned above regarding the industry preferences, we conclude that BAs often are looking for the right fit between them and their investments. Investing for them is more than plainly giving money, but instead also contributing with their experience and knowledge, as well as spending time with the entrepreneur(s) to coach them. Even though the investment process of most angels can be described as extremely sophisticated, it is remarkable to see that for some of them a subjective decision-making approach based on ‘gut feeling’ is still of major importance, at least in this early stage of the investment process. This is what distinguishes BAs from VC firms and it shows their importance for the funding possibilities of new ventures, which most of the times would not be able to obtain capital from VC companies that base their decision-making on objective facts, with no room for personal feelings or empathy.

Some of our angels also show certain preferences regarding the stage of the start-up they would like to invest in, and regarding a general proof of concept. Karl, when investing as an individual angel, is only interested in seed stage companies. Jim, rather being focussed on more mature companies, stated that he does not invest in the early start-up phase respectively into ideas anymore. He wants to see that some sales were made already, that the entrepreneurs have taken a certain amount of risk themselves and that the product in general has proven to have potential. Similar to Jim, Mike needs to see some proof of concept. He once rejected an opportunity in an early stage, yet invested at a later point in time: *“It happens quite often that I say no at an early stage, to become an investor later, because the team has matured or they had some sales”*.

While Karl’s approach is in line with the results of previous research, saying that business angels usually invest small amounts in companies in the seed or early stage (Kelly, 2007), Jim and Mike, as mentioned above, deviate in their preferences. We believe that these findings are the result of their larger investment possibilities, compared to the other angels in our research. Their available investment amount allows them to invest (large amounts) into businesses that have proven to have a functioning business model. This in turn leads to higher valuations at the time when they make their investments. However, compared to angels investing in very young ventures, they do not have to worry about the possibility that these ventures will not be able to attract any customers at all, since they have already proven to do so.

Other criteria, such as the location or the team, seem to be of minor importance to the business angels, at least in this early stage. Karl, the only interviewee who talked about the

factor 'location' as an early stage investment criteria, differed in his opinion from Paul et al. (2007, p.115), who argue: "Angels prefer to invest close to home". Karl, contradicting this statement, mentioned: *"I normally only invest in my three Hubs: London, Greater Copenhagen area and Paris, but if it is a great idea, why not Vladivostok?"*. The only BA, who already evaluates the team aspect in the early stage of the investment process, is Walter, who said: *"I just didn't get a good feeling about the team by just reading the e-mail"*.

4.2.2 Later Stages

Compared to the 'early stage' investment criteria and strategy, our interviews showed that in the 'later stages' the BAs often exhibited a rather individual approach to investing with only a limited number of overlaps between the participants.

However, one single factor stood out and was mentioned by each BA, which was to obtain a second opinion. This approach goes hand in hand with the findings of Paul et al. (2007), who described, how angels, at this stage of the investment process, conduct the necessary background checks with the help of their networks to assess the opportunity.

All our interviewed BAs want a second opinion by someone from their network with specific industry experience to help them evaluate the opportunity in depth. Some even prefer to co-invest with such a person, otherwise they withdraw from the opportunity due to a lack of specific knowledge. Mike said: *"At later stages, I want someone vouching for the team, or someone else with the necessary market knowledge telling me that the opportunity is excellent"*. Another angel relying heavily on feedback from co-investors is Jim, who, even if he is convinced to invest, says that *"most of the time I think I'm not investing"* when his co-investor is not agreeing with him. Co-investing in general seems to increase largely in popularity (Paul et al., 2007).

In our work, Mike is a typical example for a case in which a co-investment is largely increasing the chances for success. Due to his background in investment banking and as a consultant, he possesses very general knowledge in many industries. This supports him in his early stage decision-making, whether an opportunity seems promising or not. However, when pursuing the opportunity further and evaluating the product and the market, he relies on someone with, as he stated *"market knowledge"*, to co-invest with him and provide the right kind of specific industry experience. Jim on the other hand, does not follow this pattern and it was surprising to see that he, with his distinct industry knowledge in the SMCG sector, still

prefers to co-invest. We explain this with a general affinity for risk sharing and with the motivational aspect that can exist while investing with another dedicated person or even a friend. How usual it has become today, not only to co-invest with one other person, but with a whole syndicate, can be seen in prior research (Mason & Harrison, 1996; Croce et al., 2016) and also in our participants, as Walter and Karl recently became active members of a BA syndicate.

Marie, Karl and Walter (as individual investors) on the other hand argued that they are not dependent on a co-investor to make an investment decision. For them it is sufficient to obtain affirmative feedback from someone they trust, who possesses the specific industry knowledge. Marie mentioned in this respect: *“Second opinions get more important, I would like to see that someone with more specific knowledge confirms my thoughts”*.

Furthermore, almost all BAs emphasized the importance of the general strength of the entrepreneur/the CEO respectively the team. These findings perfectly correlate with what past research has shown (Mason et al., 2016; Sudek, 2006; Mason and Harrison, 1994).

Comparing the answers of our interviewees, it becomes apparent that each BA has his or her own personal preference regarding what exactly the characteristic and skills are, which the CEO/entrepreneur or the team should possess. Walter explicitly mentioned that the CEO/entrepreneur and the team should not only be able to build the business, but also be able to recruit top talent for future growth. For him the management skills and the experience, as already found by the research of Lumme et al. (1998), are therefore the crucial properties the CEO should carry.

Jim stated that while evaluating the entrepreneur, he is always wondering: *“Could this person actually make a commercial breakthrough because of his energy, his abilities and so on?”*. Therefore, he usually conducts a 'personal due diligence' to really understand the entrepreneur/the team, mainly to see whether he believes that they contribute the right abilities to be successful, but also to assess whether they are honest, which is a highly important criterion for him. The same approach is applied by Karl regarding the CEO. It is crucial for him that this person is both skilled and totally honest with him. He prefers someone that resembles his own work and leadership skills. He explained that he favours to work with so called 'entreprofessionals' - *“someone who has the traits of the entrepreneurial way, with the mind-set of business people”*. For Marie *“the trust basis with the entrepreneur*

gets more important". Moreover, it is important to her to find coachable entrepreneurs and teams that are open to learn from her personal industry experience and knowledge.

These answers revealed that Jim, Karl and Marie are not only looking for professional abilities within the entrepreneurs they invest in, but also for an interpersonal fit, trustworthiness and honesty. The relevance of these criteria was illustrated by Mason et al. (2016). In their study about why business angels reject opportunities, trustworthiness and honesty were the most significant criteria for rejection. The correlation of our findings and previous research shows in our opinion the outcome of BAs' experiential learning. After some investments were made, BAs start to realize how much time they spend with the entrepreneur(s) in case they want to actively be involved and influence the ventures. Thus, an interpersonal connection based on trust and honesty is crucial - or as Karl stated: *"Otherwise I'm out!"*.

Mike is the only of our business angels who represents a slightly different opinion with regards to this topic. Even though he believes that *"all three pillars need to be good: the team, the idea/ business model and market opportunity"* to invest, he stated: *"It is easier to change the entrepreneur than the idea"*. Apart from that, it was his opinion that the team involved in investing and helping the venture is often more important than the actual team running the business. Mike's approach in this matter can once more be explained by his large professional network. He is widely connected with many talented, skilled and powerful people. Thus, he is confident that in case the product/idea has potential, which cannot be fully exploited by the current entrepreneur/team, he is always able to find someone more capable to replace them. His preference for strong products in potentially promising markets goes also hand in hand with the outcome of Mason et al.'s research (2016), according to which product and market potential was the second-most important criterion after the entrepreneur aspect.

As mentioned above most of the BAs have further aspects constituting their later stage investment criteria and strategy.

For Walter, the future funding potential through VC investors is crucial, as he stated: *"If I don't think that the major European VC investors will be interested in this case then I probably should not invest because then I would have a very hard time in two years when no one wants to invest in them and help them further"*. He also prefers businesses that can be protected in terms of lock-in/network effects to make it more difficult for potential competition to take over market shares. A last aspect, playing a central role for Walter,

especially during the due diligence phase, are existing shareholders except the founders. As soon as he feels that these shareholders complicate the negotiation process regarding his investment, he usually withdraws from the opportunity.

Jim confirmed Walter's assessment, saying that negotiations and discussions in the later stage with old shareholders – often friends, family and fools (FFF) - can be extremely tiresome, and usually push him out of the opportunity. In general, besides the entrepreneur, at this point of the investment process he is generally analysing the market potential, as well as the level of uniqueness of the product. If he sees no room for growth or a product that is easy to imitate by the competition or even already existing, the investment becomes much less interesting for him. One last essential criterion, mainly during the 'due diligence' stage, is the realism exhibited both in the forecasted revenues and profits, as well as in the valuation of the company done by the entrepreneur. Jim mentioned that he can assess with relative ease, whether forecasts and valuations are realistic.

Marie follows Jim's approach in that respect, since a wrong equity valuation on the part of the entrepreneur constitutes a real *“show stopper”* for her. Furthermore, she stated that *“time to market, time to exit, becomes also important for me”*, meaning that before making the investment she is already contemplating how to receive her intended return on the investment.

While Mike had no further specific investment criteria or strategies in the later stages than the ones mentioned above, for Karl the in-depth evaluation of the opportunity depends on how well he understands the business idea/model (within his preferred tech industry). He contended: *“If it's an area that you know quite intimately, then you are willing to place a bet on the company just based on the idea and the team; if you don't know the area that well, you also prefer to have some metrics”*.

Analysing the individual later stage investment preferences of each angel, it surprisingly becomes apparent that no angel mentioned the importance of financial considerations in detail, at least not in terms of future financial rewards, contradicting prior research (Riding et al., 1995). They were rather looking for a sense of realism shown in the forecasts, exemplified by Jim's statement that he immediately rejects if entrepreneurs are not realistic and have no understanding of reasonable company valuation.

When considering the issue of already existing shareholders (except the founders) in the final negotiations however, both the previous research and our findings are in accordance, at least for two of the BAs. As Paul et al. (2007) stated, these shareholders often constitute a burden to the successful conclusion of the investment, as mentioned above by Walter and Jim.

4.3 Development of Investment Strategy and Criteria through Experiential Learning

In this sub-chapter, we will show our findings regarding the development of the BAs investment criteria and strategy through experiential learning from investing.

4.3.1 Mike

Mike's first remark when he talked about his experiential learning was: *"It is easier to change the entrepreneur, than the idea"*. He added: *"The innovators are seldom the best entrepreneur"*. Furthermore, Mike explained: *"The entrepreneur should seldom be the business leader, they are most of the time two very different characters"*. Yet, not only the team running the company is important for him, but also the team supporting the venture. As he stated: *"For me the team, on a larger scale matters more now"*. On a more personal level he contended: *"I learned that general knowledge needs to be replaced by specific knowledge"*, meaning: *"I had to learn to take a step back and search for the right people, if I couldn't help anymore"*. Adding to this Mike mentioned: *"I had good fundamentals from McKinsey and the Investment Bank, which gave me a head start, yet making the investments really shaped my investment strategy and criteria in the long run"*. Taking his 10-year experience into account he stated: *"I think that I reached around 10% of my optimal investment strategy. I would like to think that I still have a lot to learn and potential to improve"*.

When analysing Mike's development, we can find that his decision-making process was initially based on his fundamentals, but then shaped through experiential learning. Contrary to Shane's (2008) and Haines et al.'s (2003) research, we found that Mike does not rely on his feelings and intuition, but rather on a detailed data analysis, which he perfected during his previous work experience at McKinsey and the investment bank. On the other hand, the experience of taking a step back, when more specific knowledge is needed, as well as evaluating the investment team, are two outcomes influenced by a failure experience, which is in accordance to the findings of Politis and Gabrielsson (2009), who stated that failures can have a positive influence on the learning process. When taking Mike's self-reflection into

consideration, we can see that he thinks he has reached around 10% of his optimal investment strategy. This in our opinion is a conservative reflection, taking his fundamentals and investment experience into consideration. This clearly needs to be put into perspective, by acknowledging that he most likely makes a comparison between being a BA and a full time private equity investor, where he sees being a BA as more of a ‘fun hobby’.

4.3.2 Marie

The second BA Marie began with stating: *“I learned the lesson of not falling in love with the product and forgetting the entrepreneurs”*, which was due an unsuccessful investment she made. During this particular investment, she was overly enthusiastic about the product and subsequently disregarded the team. She added: *“I am now more concerned about the people than the product, and if these people are capable of taking the necessary steps to make the company successful”*. She added: *“I am investing more time in the entrepreneur and really finding out if they are commercially driven”*. Furthermore, she needs to see a purpose for herself in the company: *“I want a team that I can complete and where I can add more than just my money”*. When she self-reflects the last five to six years of investment experience, she stated: *“I think I reached around 50 % of my optimal investment strategy. Still learning. In other aspects, I believe I have a good risk balance in my portfolio”*.

Marie had a clear learning experience, after her first failed investment, and added the team focus to her investment criteria, which correlates to the findings of Harrison et al. (2015), who stated that inexperienced angels rather base their decisions on financial aspects, as well as to Politis and Gabrielsson (2009), who mentioned that failure can cause a positive experiential learning. Furthermore, Marie’s case confirms the findings of Shane (2008), who stated that BAs rather invest on gut feelings. Yet, this was only true for her first investment. Nowadays, Marie follows a more refined investment approach due to experiential learning. Taking Marie’s self-reflection into consideration, we can see that she thinks she reached around 50% of her optimal investment strategy. In our opinion, her few investments, makes this a rather high progress estimation. This can be explained by her only investing in her best-known industry.

4.3.3 Walter

Walter was one of our BAs with the most extensive personal development as an investor. His first investment was a failure and he realized that he would need some kind of strategy in order to be a successful BA. However, he admitted that in the beginning he *“just made investments and saw it as some kind of learning experience”*, mainly investing into projects that excited him personally. About his first investments he said: *“In the early days I focussed a lot on: Do I think the product is interesting? Did I see that the world needed this product?”*. Nevertheless, he was aware of the need of a good team and a promising market, yet he admitted that he was not able to fully understand or examine these factors back then. Assessing his overall investment process and criteria today, he stated: *“I still don’t want to invest in stuff I’m not excited about, I rather have much stricter criteria”*. To be more specific, his experience taught him to look for the following aspects:

First, he realized how important it is to have an entrepreneur/CEO that can hire top talent to fuel the growth aspirations of the start-up, as some of his previous investments failed to do so. Moreover, as stated in the previous sub-chapter, he learned to evaluate a product/idea from a VC perspective, knowing and having dealt with most of the major European VC firms. He once went through the troubles of an investment that could not acquire further capital in later financing rounds, making his investment worthless. Thus, he added the criterion to his strategy that in general he must be convinced that other investors would be willing to finance the company in the future. His investment experience also taught him how crucial it is to look for lock-in/network effects to fight off competition, since in the past some of his investments struggled retaining customers when competitors arose. Overall, he believes that he is a much better business angel nowadays, also due to his broader network. Therefore, he can help his investments rather on a strategic than operational level, connecting them with the right people to foster their development. *“I’ve been spending so much time on being an angel that it feels like I’m learning something every day and improving every day. When I compare the first five companies I invested in, to the last five, it definitely feels like the last five have a bigger probability of being successful. Based on my development I would say I have reached 80% of my optimal investment strategy”*.

At first Walter didn’t even realize he had become a BA, and did not consciously use his fundamentals. He rather was influenced by the experiences of investing and developed his investment strategy accordingly. Walter expressed that he made the decision to “give money”

based on a feeling, rather than a data analysis. This confirms the statement of Shane (2008) and Haines et al. (2003), who both claim that BAs rather rely on their feelings. Yet, taking Politis and Gabrielsson (2009) into account, we can clearly see a development after the first failed investment. This failure enabled him to invest on a more strategic level. These strategic abilities were needed to accelerate his decision-making process, by implementing new ‘filtering’ options to cope with the amount of investment proposals. This confirms Maxwell et al. (2011) in their research findings. Overall, he stated that he has reached around 80% of his optimal investment strategy. We explain this with his entrepreneurial background, helping him to understand the needs of the start-ups he invests in, as well as with his broad network and his enhanced understanding of the investment market as a whole.

4.3.4 Jim

As for Jim, the most important learning as a BA was certainly to focus his investments on the SMCG industry, an area in which he gained his previous entrepreneurial fundamentals. His first investment was into an online platform, a type of venture he knew basically nothing about and it turned out unsuccessful. He realized that neither he was able to assess opportunities properly, which do not stem from his SMCG industry, nor was he able to support these investments and add any kind of value (*“I don’t feel that I can contribute”*). Consequently, he realised: *“I’m not going into anything I don’t understand”* and *“I principally right now say ‘no’ to everything, even if they’re coming with a great idea”*, when asked for an investment by anyone else than from his preferred industry.

Jim described another clear development in his strategy: when he started investing, he admitted that he was clearly influenced by his gut feeling, without applying any concrete criteria. This fact changed heavily for him nowadays, as he conducts a due diligence both on the opportunity itself, but also on the team/entrepreneur before investing. In that respect, he feels that his professional development makes it much easier for him nowadays to read, understand and evaluate financial forecasts and business plans. Furthermore, he stopped dealing with start-ups that are still in the idea phase without having any sales. He experienced that these opportunities usually offer too little return compared to the necessary effort of making them successful. He argued: *“I don’t feel that I have the time and the resources even, to go in in a start-up level”*. Similarly to Walter, he also learned the importance of products that are unique and can build barriers to fight off competition. Lastly, he stated that his

experience from actual investments shaped and improved his investment criteria and strategy much more than his previous entrepreneurial fundamentals. His investment criteria and strategy now within his preferred industry are basically set and he stated that has reached around 90 % of his ideal process.

Analysing Jim's statements showed that he has learned from his investment experience, rather than from his fundamentals. However, for his investment strategy nowadays he is applying his fundamentals to some extent, in combination with his experience gained from investing. In our opinion, both investing and failing within different industries, shaped his preferred investment strategy, which confirms the findings of Politis and Gabrielsson (2009). As a result, Jim nowadays exclusively invests in his best-known (SMCG) industry. This can be seen as a self-imposed limitation of the experiential learning process regarding the industry, similarly to the insights described by Harrison et al. (2015, p.18), who argued that "learning seems to be restricted" for some key investment criteria. Yet, this limitation led Jim, as he states, to a nearly perfect investment strategy (90%). A statement made by our BA Mike also applies to Jim: *"Knowing what you know is good, yet knowing what you don't know is even better"*. Therefore, in our opinion, limiting himself to only investing in his preferred industry can be seen as a strength developed through experiential learning from investing.

4.3.5 Karl

Karl approached his first investments with a *"trial and error"* mentality. This means that he made many small investments in the beginning, leading him to the investment strategy he followed ever since. Adding to this, Karl stated: *"I followed too many people that just said: This is great, you should really invest"*. This showed him that certain knowledge is needed to assess, who is trustworthy enough to follow in these decisions and from whom he should keep his distance. An interesting remark was: *"My previously gained working fundamentals influence my investment strategy today, but not in the beginning"*. Adding to this he mentioned: *"I went through three phases in my investment career, Phase 1: following money and without a strategy, Phase 2: I had developed a strategy and took my fundamentals into consideration, Phase 3 I recognized during my Phase 2; Phase 3 is where I teamed up with a group of people"*. Taking only phase 2 into consideration, due to us being only interested in investments done without any syndicates, Karl stated: *"After these years I think I have reached around 60% of my optimal investment strategy"*.

Karl's investment approach in our opinion is a rather unique one. He disregarded his fundamentals completely and based his first investments on a 'trial and error basis'. This reflects on the article of Politis and Gabrielsson (2009), in which failure can have a positive influence on learning, in this case to formulate an investment strategy. Yet, in our opinion, this is a risky approach, and arguably offers little experiential learning, due to him not being directly involved in the actual investment process, but merely giving money. After his 'trial and error' phase he utilized his fundamentals, combined these with his experience and formulated a sound investment strategy, which he has been using ever since. In his self-reflection, he stated that he has reached 60% of his optimal investment strategy. This can be explained by him taking his fundamentals into account, combining these with his experiential learning, and thus shaping his investment strategy, which is focussed on his preferred industry.

With the findings and discussion, we will now finalize our proposed framework.

4.4 Completion of the research Framework

Based on the findings and the analysis in the previous sub-chapters, we completed our research framework.

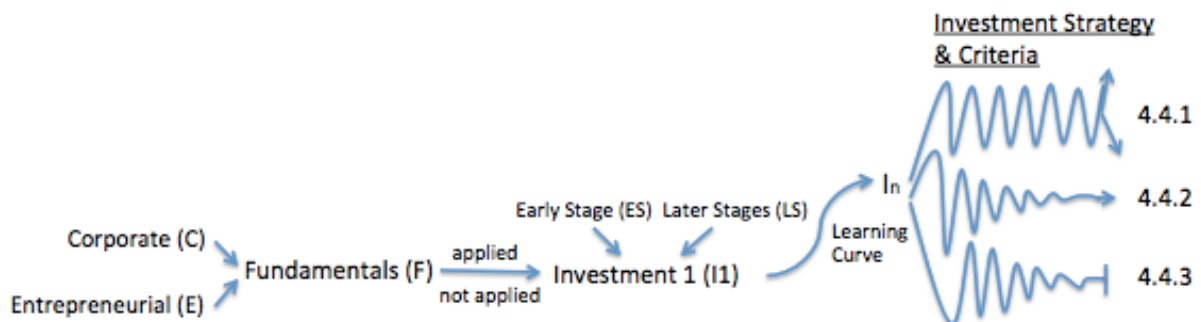


Figure 4: Finalized framework – by Authors (2017)

Our research has provided us with three ways in which each single investment strategy and criterion of BAs can be shaped, either by their fundamentals, by their experiential learning or by both. Within this sub-chapter, we will illustrate these three paths in detail and show with the help of our findings what specifically led to the development of each path.

4.4.1 Flexible Path

The first path that became apparent throughout our findings was the so called ‘flexible’ path. This path is characterized by steady change in the relevance and the application of an investment strategy or criterion.

A totally flexible investment criterion within our research was the preferred industry by Walter and Mike. Both are totally open to promising investment opportunities, not limiting themselves to certain sector preferences. Walter stated that he acquired a better understanding of the whole process of being a BA, being able to help his investments on a strategic level, which is a result of his experiential learning. Mike on the other hand gained general knowledge in many industries during his prior corporate and entrepreneurial career. Therefore, his fundamentals allow him to be open-minded to investment opportunities from various industries.

Another example for the flexible path is Karl’s location indifference. He would invest anywhere in the world as long as the opportunity seems to offer a return that is worth the efforts. Since he started as an angel without any particular strategy, this insight can be attributed to his experiential learning, as he became aware of the fact that good investment opportunities can also be found outside his home country Denmark.

Overall, it can be concluded that the flexible path regarding investment criteria and strategy applies mainly for the early stage of the investment process, or in other words, predominantly for aspects that can be evaluated and decided upon quickly after receiving the opportunity. Thereby, neither the BAs’ fundamentals, nor their experiential learning can be solely held accountable for the outcome of this path, which is rather shaped by both factors coherently.

4.4.2 Semi-flexible Path

The second path we formulated is what we call the ‘semi-flexible’ path. It is characterized by investment criteria and strategies that initially can be very volatile in their application, however that become increasingly anchored over time. Nevertheless, in particular cases it is still possible for BAs to deviate from these criteria and strategies.

After the assessment of our findings, it becomes obvious that only later stage factors of the investment process are following the semi-flexible path. We could see this outcome in the angels' preferences regarding co-investing respectively asking their network for a second opinion. Jim mentioned that he is usually not investing when his co-investor is backing out of the investment. Marie stated: *"I would like to see that someone with more specific knowledge confirms my thoughts"*. This diction emphasizes that they generally have their fixed routines from which they only derogate under special circumstances.

There was only one business angel among our participants - Mike - for whom the entrepreneur/team aspect can be considered semi-flexible. Even though for him the entrepreneur/team aspect is equally important to the product and the market, he believes that a weak entrepreneur/team can always be replaced but a bad idea or product will stay bad.

Considerations regarding lock-in/network effects (Walter) as well as product uniqueness evaluations (Jim) can also be perceived as semi-flexible criteria. For the respective BAs, these aspects are determined for every opportunity that proceeds to the later stage investment process. If it is likely that competitors can easily copy the product or make customers switch, these insights in most cases constitute a threat to the investment deal.

Most of the examples mentioned for the semi-flexible path show a clear connection to experiential learning through investing. Walter and Jim both learned about the importance of a unique product while they saw their investments either thrive or fail. Furthermore, Mike realized after some investments that the product and market is more important for him than the team/entrepreneur, making this aspect, even though still crucial, a semi-flexible one.

4.4.3 Fixed Path

The last path we found during our research was the fixed one. It is initially proceeding comparable to the semi-fixed path, however investment criteria and strategies following this path become fixed at a certain point of time.

Considering our participants' answers it becomes apparent that this path is the most dominant one, both in the early and the later stages of the investment process. We found many examples of (nowadays) fixed criteria or strategies within our research.

One obvious example is the fixed industry preference of three of our angels. Two of them (Marie/Karl) are, influenced by their prior fundamentals, solely focussed on their favoured industry to provide value for their investments. Jim on the other hand learned through the experience of a failed investment to stick to his best-known sector.

Jim also understood through his investment experience that early stage investments are usually not profitable for him, comparing gains and efforts made. Thus, he is nowadays only looking for more mature ventures that have made first sales.

Evaluating the later stage investment criteria and strategies most of our BAs learned something about the entrepreneur/team factor as a consequence of investment experience. Marie and Walter were initially mainly focussed on the product and how much they were excited by it; until today they observed that the right entrepreneur/team is much more important than initially thought, due to bad experiences in that respect. Therefore, the strength of this aspect is fixed for both of them to invest nowadays.

Another strong example of how experiential learning from investing influenced the investment process of one of our participants is the search for future VC funding potential done by Walter. Over the past years as a BA this has become an inevitable factor for him to contribute money to a venture.

It can be summarized that in most cases experiential learning from investing is the reason for investment criteria and strategies that follow the fixed path, especially in the later stages of the investment process.

5 Conclusion

This research paper explored how BAs' investment criteria and strategies are shaped by their fundamentals from previous career paths and by their experiential learning through investing. Thus, we further investigated the topic of the experiential learning process of BAs, a research gap demonstrated by Harrison et al. (2015). For our work, we conducted a qualitative study, or more precisely semi-structured interviews with five BAs from Sweden and Denmark. To support and analyse our research results, we created an initial framework, which is predominantly, but not exclusively based on the theory of previous career paths of BAs (Politis & Landström, 2002), on the stages within the BA investment process (Paul et al., 2007; Mitteness et al.; 2012) and on the experiential learning of BAs (Harrison et al., 2015). This framework has been completed through our findings.

Firstly, our research found that only two out of our five BAs consciously used their fundamentals for their first investments. However, nowadays all the angels to some extent make use of what they have learned in their previous career phases. Some of them regarding the industries they invest in, to be able to evaluate the market potential or to contribute non-monetary value; others use their fundamentals rather to give advice on a broader, more strategic level.

Experiential learning through the process of investing on the other hand was reported by all our participants. Over the past years as angel investors, all of them changed and developed their investment criteria and strategies based on the outcomes and the learning of previous – successful or unsuccessful – investments. Thus, we can answer our first research question in a way that most of the BAs' investment criteria and strategies (e.g. importance of team/entrepreneur, personal referral) are shaped by the outcome of experiential learning from investing, whereas fundamentals are often neglected during the first investments. Some investment criteria and strategies however (e.g. industry preferences), are influenced by fundamentals, as angels (often also through experiential learning) become aware that the active application of their previously gained knowledge can positively influence their investment outcomes.

Our second research question, whether the experiential learning process regarding investment criteria and strategies is completed as some point, exhibited no single answer that could be

derived from our findings. Instead we found three possible ways in which investment criteria and strategies can develop either endlessly or limitedly:

- a) The flexible path, which is characterized by steady change in the relevance and the application of an investment strategy or criterion. This path can mainly be found in the early stage of the investment process and is both influenced by fundamentals and experiential learning.
- b) The semi-flexible path, which is characterized by investment criteria and strategies that initially can be very volatile in their application, however that become increasingly anchored over time. This path applies mainly in the later stages of the investment process and is clearly shaped by experiential learning.
- c) The fixed path, which is initially proceeding comparable to the semi-fixed path, however investment criteria and strategies following this path become fixed at a certain point of time. This path, also predominantly shaped by experiential learning, was the most common one within our findings, occurring throughout the whole investment process.

5.1 Future Research and Practical Implications

To further strengthen our findings, future research should concentrate on a bigger sample group of BAs (possibly even outside of Scandinavia) and test how BAs, who disregard their fundamentals, compare to BAs making use of their fundamentals in different investment scenarios. To accomplish a more accurate result we would suggest using a verbal protocol analysis instead of retrospective interviews. This would allow researchers to accurately evaluate the influences of fundamentals and experiential learning on the investment process of BAs and compare their findings to ours. Conducting this research on a larger scale would insure that our practical implications for novice and experienced BAs, to consciously reflect on their fundamentals and previously gained investment experience, are valuable and re-occurring. However, our research results already provide BAs with guidelines they can follow to actively shape their investment process and become more successful investors.

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Chapter 7 Appendix

7.1 Interview Guide 1/2

(Introduction – we are only interested in your personal/solo investment experience)

How did you become a BA and what was your motivation?

How much experience do you have as a BA? How many investments?

Which industries are you focusing on and why?

What is your approach when it comes to an investment opportunity and what are the phases you usually go through?

(Briefing about our research topic)

Name the three most important investment criteria throughout the investment process.

Can you give one specific example for an investment made by you in your early years that eventually failed (either bankruptcy or no return as expected – either individual investment or maximum together with one other person)?

Have your investment criteria changed throughout the investment process of the process?

Did the investment process change in general (e.g. longer duration, more contractual obligations, more meeting to really get to know the entrepreneur etc.)?

In the investment process, and before a possible investment or rejection do you get a second opinion?

Do you think that our research could be helpful to improve/facilitate the relationship of BAs and entrepreneurs?

Interview Guide 2

Please tell us briefly about your studies and the most influential jobs that led you on the path of being a private investor.

Could you elaborate on your first investment and the strategy used?

How would you describe your overall development when it comes to your investment strategy and how strong would you say was the influence of your previous work?

Was there any particular moment that made you re-think your investment strategy?

Is it important for you to be involved in a venture you invest in and if yes, what kind of involvement are you looking for?

Was there an investment where you just contributed with money without being involved in the company?

According to your involvement, do you have different investment criteria (just monetary involvement vs. highly active business angel + monetary)?

Can you quickly tell us about both the smallest and largest investment you made. How long have they been apart and how many years ago were they?

Do you think that the scope of your investment influences your investment criteria or how you approach the investment process?

Would you say that you have reached your optimal investment process/strategy? If you had to put a percentage on it (0-100%) where would you see yourself?

Are there certain investment criteria for you that you would say are fixed and will not change in the course of your investment career?

On the other hand are there any criteria for you that are totally flexible and case dependent?

7.2 Participant Data for Analysis

	Fundamentals - Corporate, Entrepreneurial or Both	First Investment - Application of Fundamentals	Early stage investment criteria/strategy	Later Stage investment criteria/strategy	Development of investment criteria/strategy through experiential learning
Mike	<ul style="list-style-type: none"> Studied econometrics and engineering at Lund University Started his own IT-consultancy at Uni After graduation spent two-three years at McKinsey (Lean operations/Investment strategy) After which he joined a private investment bank as a partner Started Sequent "I always wanted to be in a position, where I can work on a high level" "I formulated my investment strategy at the Investment Bank" "I think my previous two work experiences are necessary to do what I am doing now, at least for me" "I was actively looking to learn certain business and investment tools" Working at the "dedicated team" (each week a different opportunity, we had to come up with market opportunities), helped me to really grasp what investing means 	<ul style="list-style-type: none"> "I knew where I wanted to go with my investing" "McKinsey and the Investment Bank, presented me with the tools for the right investment strategy and I knew how to actively use them" "I had a twofold investment strategy; firstly, I wanted make a name for myself and get on the radar in the investment world, secondly, I wanted to invest in some niche market product" 	<ul style="list-style-type: none"> "I am open to investing in basically anything, as long as it is not immoral, like cluster bombs" "I am getting approached more often now, I used to approach people as well, I would say it is a mix of both" "Yet most of the time it is business angels approaching me and not entrepreneurs" "Yearly I see around 40-50 opportunities, which I almost all reject" "It happens quite often that I say no at an early stage, to become an investor later, because the team has matured or they had some sales" "It is not always important for me to be involved, depending on the risk and attention needed by the venture" "I do not have specific criteria at the beginning, I would like to see a referral, as well as the idea peaking my interest" 	<ul style="list-style-type: none"> "I even rejected one excellent opportunity, with a great product, okay team, and good valuation, yet they couldn't get someone to invest who had industry knowledge" "At later stages, I want someone vouching for the team, or someone else with the necessary market knowledge tell me that the opportunity is excellent" "Another Angel investing, and wanting to be on the advisory board" "All three pillars need to be good, the team, the idea/ business model, and market opportunity" 	<ul style="list-style-type: none"> "It is easier to change the entrepreneur, than the idea" "The innovators are seldomly the best entrepreneur" "And the entrepreneur should seldomly be the business leader, they are most of the time two very different characters" "For me the team, on a larger scale matters more now" He experienced that the team that is involved in investing and helping the venture to succeed is more important than the actual team running the business Learning to step back "I learned that general knowledge needs to be replaced by specific knowledge" "I developed my scope to making good financial investments" "I had good fundamentals from McKinsey and the Investment Bank, which gave me a headstart, yet making the investments really shaped my investment strategy and criteria in the long run" "I think that I reached around 10% of my optimal investment strategy. I would like to think that I still have a lot to learn and potential to improve" "Knowing what you know is good, but knowing what you don't know is even better"

Marie	<ul style="list-style-type: none"> • She studied Economics in Lund • Mostly corporate life in the billing and industrial automation industries • After this joined a start-up and got into contact with BAs • Started her own consultancy that helps companies seeking financing in combination with BA investments • Co-founder of Queen Invest • "My corporate career showed me that I wanted to do something else and not be limited to specific tasks" 	<ul style="list-style-type: none"> • "I got to know the other side of Angel investing as an entrepreneur searching for money, which helped me a lot at the beginning" • "My first investment was into a company that had something to do with billing automation, so I had a good idea of what I had to look for" • "I could offer two things, my commercial and financial knowledge" • "My background made it easier to ask the right questions" 	<ul style="list-style-type: none"> • Is approached at least once a week with an investment opportunity • "I am talking to other potential BAs, potential customers and other market players to get an understanding of the opportunity and if the company really has a valuable product" • "Most importantly, I need to understand the entrepreneur, does he or the team have the driving force to make it the whole way" • "I normally would like to invest into a B2B business within industrial or billing automation, yet if an opportunity sounds interesting I will investigate further" • Also the geographical location plays a role for her, she would like to stay within Sweden 	<ul style="list-style-type: none"> • Mostly the valuation made by the entrepreneurs can be a "show stopper" • "The entrepreneur needs to have a certain coachability" • It makes no sense for her to invest in a company, if she can't teach the entrepreneur or team something, by them simply refusing to learn • "Time to market, time to exit, becomes also important for me" • "The trust basis with the entrepreneur gets more important than before" • "Second opinions get more important, I would like to see that someone with more specific knowledge confirms my thoughts" • Investment scope in terms of industry depends on if she is active or not, if she is active she has to have industry knowledge 	<ul style="list-style-type: none"> • "I learned the lesson of not falling to love with the product and forgetting the entrepreneurs" • "I am now more concerned about the people than the product, and if these people are capable of taking the necessary steps to make the company successful" • "Investing more time in the entrepreneur and really finding out if they are commercially driven became very important for me" • "I want a team that I can complete and where I can add more than just my money" • "I learned that I don't want to invest in "flip or flop" companies, but really in companies where I can add my knowledge and support the growth" • "I think I reached around 50 % of my optimal investment strategy. Still learning. Time-horizons tend to be very long. In other aspects, I believe I have a good risk balance in my portfolio"
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Walter	<ul style="list-style-type: none"> • He was running his own tech company and exited • studied natural sciences at high school level in Sweden • he studied at Linköping University: Physics and Applied Engineering (focus on mathematics, analytical subjects, problem solving) • he never really had an actual job → in second year of university he started onlinepizza.se • he was in a political organization at the university → learned web development skills → led him later to start the company • he met his co-founder in the organization • “The work experience is only running onlinepizza, that’s my only work experience to date” • initially he did everything: marketing, sales, book keeping • later he became CEO, being responsible for all the internal stuff → technology, product, financing • he gained internationalization experience affecting him a lot in his business angel work • he sees similar problems regarding the internationalization topic, no matter which industry 	<ul style="list-style-type: none"> • “I’m sure all those experiences from onlinepizza, not only from internationalization , but also from building the service from scratch, bootstrapping for several years, not having any funding the first four years, definitely affected me on how I work with entrepreneurs compared to some other business angels who don’t have the same experience from the very early days” → not consciously used, his first investment he did not even realize he became a BA • “I thought this could work and I invested without any strategy” 	<ul style="list-style-type: none"> • a recommendation from someone in his network is crucial for further consideration • “The best way is either if it’s someone I have co-invested with or an entrepreneur that I have invested in” • “To go past the opportunity stage (important to him) is definitely a good referral from someone I trust” • “I’m quite broad, so it could be more or less any industry” • “I need to understand how they create value” • “Out of 500 last year, maybe, more than 400 were rejected on the first mail, because it wasn’t a good fit or I wasn’t excited at all about the business model or something” • “I just didn’t get a good feeling about the team by just reading the e-mail” 	<ul style="list-style-type: none"> • in most cases he asks other people in his network (other investors or industry experts) for their general opinion about an opportunity (always when he is not totally familiar with the industry) • a lot of his later stage rejection in the end of screening or due diligence phase • I realized stuff that I should have realized before - like about the market, how the market works - I should have realized that before going that far with the company” • “I realized that there will be a new technology that will disrupt the market” → making the business model of the company to potentially invest in worthless • “The more time you spend with the team, you in the end realize that your first gut feeling was wrong, that you don’t actually think the team is that strong anymore” • “It’s hard to get the deal specifics in place” • “It could be that there are old shareholders in the company that own 	<ul style="list-style-type: none"> • from his first investment, which was a failure, he learned that he needs some kind of strategy to be a successful BA • he did not feel like he had time to figure out the best strategy for him → “I just made investments and saw it as some kind of learning experience” • experience gained from onlinepizza was easier to apply for him in his first investments → so he (unconsciously) made use of them; • he feels like he loses a lot of that entrepreneurial experience everyday • “I don’t remember as clearly how it felt not knowing if you can pay the salaries next month or not” • “I learned a lot about the business of investment and I think that overall I am a better investor now” • he can help in a much more time efficient way than before, due to his better network, he can more easily connect the right people → he rather helps on strategic level • “When I compare the first five companies I invested into the last five, it definitely feels like the last five have a bigger probability of being successful” • “In the early days I focussed a lot on: Do I think the product is interesting? Did I see that the world needed this product?” → he was aware that he also needed a good team and market but he admits that he was not able to fully understand/examine these factors • in the later investments: “I still don’t want to invest in stuff I’m not excited about, I rather have much stricter criteria”
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				<p>too much and the founders own too little” → formal conflicts with existing shareholders make the opportunity less interesting.</p> <ul style="list-style-type: none"> • It's important to him that entrepreneurs are willing to build a relationship with the investor → it's like dating • show the investor that you are serious about raising money, have the investor as your number 1 priority, answer quickly • very important factor is the CEO and the team, are they not only strong enough to build the business but also to recruit top talents? • can the business be protected in terms of lock-in effects/network effects • future funding risk through VC 	<ul style="list-style-type: none"> • very important factor is the CEO and the team, are they not only strong enough to build the business but also to recruit top talents? → something he didn't think much about in the beginning • can the business be protected in terms of lock-in effects/network effects → he learned from experience • his experience taught him about future funding risk → “If I don't think that the major European VC investors will be interested in this case then I probably should not invest because then I would have a very hard time in two years when no one wants to invest in them and help them further” • He did not change much on the criteria that he initially thought were important, he's just generally much stricter now with more criteria now • “I've been spending so much time on being an angel that it feels like I'm learning something everyday and improving everyday” • the few failures he had did not influence him as an investor because he mentions that he is always prepared to lose all his money from each particular investment • he realized that he invested too much money per investment in the beginning • “the more I know, the more cynical I get about how the business works” • he added the criteria to his strategy that in general he has to think that other investors (BA/VC) also have to be interested in this company (now or later on) • so he reflects that nowadays there are
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					<p>many companies that he would not invest in anymore, which he would have invested in earlier</p> <ul style="list-style-type: none"> • “Based on my development I would say I have reached 80% of my optimal investment strategy” • “I also developed a more structured approach when it comes to helping companies I invested in” • just as his own start-up, from the very first investment on, he only gave money to companies/products that he was excited about • he would have liked to have the corporate experience as well, “but I think it is even more important to have my very entrepreneurial experience” • if he had to choose, he would always choose his kind of experience prior of being an investor • he admits that ideally he also could have had some sort of business management experience → then he would have been able to avoid some mistakes with his own company and during the first investments • but that is what he learns now (business experience)
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Jim	<ul style="list-style-type: none"> • “I define myself as a self-made person” • only elementary school (9 grades) • he dropped out of high school - too academic • he started to engage in social projects in an organization • he worked his way up there, sitting in the board at the age of 25, very close to founder • started to become more confident in himself and had the dream to start something on his own • the job as sales rep, have a fresh start and get more experience (one year) → while working he was conceiving his first business idea • Cotton Candy company 2003 • <u>Godisprinsen</u> 2005 → sold 2008 to Private Equity company/Candyking for SEK 100 Mio. • 2008-2013 VP of CandyKing • during that time he started investing • 2013 he left CK, comeback in 2016, now interim Group CEO 	<ul style="list-style-type: none"> • “My experience working at the social sector, I mean that had been very very good for me when I do business with people” → made him good in analyzing people when investing • but most important for him is his entrepreneurial career, he got in touch with lots of people and he is “aware of the market” • however, his first investment: “It was more a gut feeling investment to be honest, most of my investments are a little bit like that” 	<ul style="list-style-type: none"> • SMCG niche focus nowadays • company should not be in the startup phase anymore, at least a few sales, proof of concept • team should have taken some risks already • “I see a product, it does not attract me at all, even if there’s potential in it, I don’t feel any connection with the product or the idea at all” → quick rejection • “For me it’s more important that I feel kind of emotional connection to the product and I feel that it’s something I can identify myself with” 	<ul style="list-style-type: none"> • he wants to see the ability in the team/entrepreneur that they can take something from an idea to final product • he does kind of a personal due diligence → needs to see “drive” in entrepreneurs, also the right abilities • in the negotiations he tries to get a bonus (in terms of shares) for his involvement in the company/his broad network • “most of the time in my case it’s that I start to feel a kind of uncertainty regarding the person actually” → get to know them better after couple of meeting; not always knowledgeable, not always honest • numbers and forecasts have to match reality → if he feels he’s cheated on, he rejects • biggest deal breaker for him: totally wrong valuation of company by entrepreneurs, mainly overvalued → entrepreneurs have to be realistic • usually he gets what he wants in the end • he relies a lot on feedback from potential 	<ul style="list-style-type: none"> • he is now focussed on the food niche/ SMCG whereas in the beginning he did not have a favourite particular niche • from his experience: “if the entrepreneurs are good, you have always a good team” • in the beginning he mainly trusted his gut feeling when making investments, now he does more research (due diligence), since he now only wants companies that have a recognition in the market already, not start ups • he is much more comfortable in reading the numbers and forecasts nowadays and he knows a lot of the customers that the startups want to sell to → brings him in a good position • “I’m not going in in anything I don’t understand” (therefore his niche focus nowadays) • “I don’t feel that I have the time and the resources even, to go in in a startup level” → based on his experience: too time consuming for usually too little outcome • he wants to put time into his investments but only if he believes the outcome is worth it • he agrees he learned much more from investing than from previous work experience • he emphasizes again that he does not go into anything else than SMCG, e.g. the tech industry → “I don’t feel that I can contribute” • “I principally right now say ‘no’ to everything (except his niche), even if they’re coming with a great idea” • he now looks if the companies can build barriers/are unique to fight off competition
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				<p>co-investors or other people from his network(who know the industry); even if he likes the idea but a person he trusts does not: "most of the time I think I'm not investing"</p> <ul style="list-style-type: none"> • when evaluating the entrepreneur he's wondering: "could this person actually make a commercial breakthrough because of his energy, his abilities and so on." → most focussed on that because numbers are always so small that they don't offer much value for him to judge • he still looks at market potential • he does not like many previous investors in general when he comes into the company (especially such that do not contribute except money - FFF) • he believes the team is much more important than the idea to be successful • product uniqueness is important 	
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Karl	<ul style="list-style-type: none"> Has a Bachelor in economics and a Master in business "After my studies I worked as a management consultant at McKinsey" "After three years at McKinsey I cofounded a company" "After a couple of years, a merger between the my company and five other companies happened and I became part of the executive team" "One of my jobs in this company was taking the company to the IPO" "I started investing around 2012, from 2000 until 2012 I had three entrepreneurial jobs and one corporate job" 	<ul style="list-style-type: none"> → no fundamentals used really "I had not strategy for the first investment, I decided on my gut feeling" "When I started investing, I knew I needed a strategy, but I didn't know what strategy this was" 	<ul style="list-style-type: none"> very focussed on tech industry referenced first approach is a huge advantage only angel and seed stage investments (when he is the lead); Otherwise also A/B rounds if he can follow someone only business models that he knows (online marketplace, SAS workflow platforms) "I normally only invest in my three Hubs: London, Greater Copenhagen area and Paris, but if it is a great idea why not Vladivostok" "Phase 2 investment criteria, I prefer national companies with an international outlook and scalability" 	<ul style="list-style-type: none"> always got second opinions from a few friends he trusted about the opportunity in general "If it's an area that you know quite intimately, then you are willing to place a bet on the company just based on the idea and the team; if you don't know the area that well, you also prefer to have some metrics" Quality of the CEO - working and leading skills should resemble him Honesty of Entrepreneur → otherwise he's out "I am looking for an entreprofessional, someone who has the traits of the entrepreneurial way, with the mindset of business people" "With this I mean, I am looking for the forward thinking people with the strategical skills of business people" "If they do not possess both trades, I will invest in the entrepreneur, yet the needs to be able to evolve and be coachable to become the entreprofessional" 	<ul style="list-style-type: none"> after his many, small investments to learn from during the first year he says he came out with a clear learning, which he followed since Learning was: only trust and follow people with knowledge regarding the quality of an opportunity → "I followed too many people that just said: This is great, you should really invest" "My previously gained working fundamentals influence my investment strategy today, but not in the beginning" "I went through three phases in my investment career, Phase 1: following money and without a strategy, Phase 2: I had developed a strategy and took my fundamentals into consideration, with a view dimensions, Phase 3 I recognized during my Phase 2; Phase 3 where I teamed up with a group of people." "After these years I think I have reached around 60% of my optimal investment strategy" he invested small amounts, in different startups from various industries, following other people's money "The first year, I started with small investments, on a trial and error basis"
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