



LUND UNIVERSITY

UNTOUCHED BY AN ANGEL:
A STUDY OF BUSINESS ANGEL REJECTION CRITERIA
DURING THE DEAL SCREENING PROCESS

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Abstract

This thesis investigates rejection criteria used by Swedish business angels (BAs) in the screening phase of their decision-making process. A verbal protocol analysis was conducted on a sample of ten local business angels as they evaluate two different investment proposals and were encouraged to vocalise their thought process. Results were then coded, analysed and presented accordingly.

The key finding is that the main BAs' reason for rejecting proposals during the screening phase of the proposal evaluation process is based on the product or market. Often, BAs refrain from investing in markets that are unfamiliar to them, a principle that allows them to quickly and easily discard a bulk of the proposals. Further, in contrast to earlier research, we find support for that BAs have compensatory criteria meaning that shortcomings in one area can be offset by strengths in other areas, even at the earlier phases of evaluation.

In practical terms, from an entrepreneur's point of view, the findings suggest that first, reasons for rejecting your proposal are often subjective to the BA and should not discourage you. Secondly, too little capital sought could also be a ground for rejection, as well as asking for too much capital. Think about how much of an investment you need and be ready to motivate it at the initial meeting with the BA. Thirdly, do not spend time on chasing BAs that are not into your industry as they are likely to deny you a meeting. Fourthly, highlight your relevant experience and achievements rather than academic merits and generic industry experience. Finally, do not overemphasize your team in the business proposal. Focus instead on your product and your market.

In the light of these findings, suggestions for future research are to delve deeper into the issue of compensatory factors of a proposal at the screening stage. An experimental setup is proposed. Also, it is found that methodology could be further developed to produce more valid results reflecting the grounds on which BAs reject investment proposals at the screening phase.

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Introduction

Starting a new venture is a daunting challenge with the odds stacked against the entrepreneur. Conventional wisdom has shown that between 80-90% of all startups eventually fail with one of the main reasons being the inability to raise sufficient capital (Wirtz et al., 2017). In order to increase their chances of success, an entrepreneur might decide to seek out informal risk capital from business angels (BAs), particularly during the early stages of a new venture.

In these early stages, entrepreneurs often experience a capital gap, as a majority are unable to fulfill the minimum criteria set out by mainstream financial service providers such as banks and venture capitalists (VCs). Banks usually decline funding a startup during the early stages due to their limited track record and VCs usually aim for larger scale investments (Murray, 1999). As such, BAs are often considered a crucial source of entrepreneurial finance and in most cases, act as a prerequisite for obtaining further investment from VCs (Madill et al., 2005). A study by Månsson och Landström (2006) also find higher frequencies of investment among BAs in general compared to VCs and banks.

However, our knowledge regarding the BA decision making process is fairly limited in comparison to other more formal sources of entrepreneurial financing (Croce et al., 2016). According to Landström (2017), these group of informal investors represent a wide variety of personal characteristics regarding their reasons for investment choices and documenting each one has proven difficult. Some of the key areas in literature that require further expansion include the BA decision making process, and the criteria that BAs utilise to assess proposals.

What are business angels?

The definition of a business angel (BA), as first coined by William Wetzel in 1983, is a high net worth individual who invests his or her own capital in a new venture, of which he or she has no family connection, and generally play an active role in (Mason and Harrison, 2008). According

to the European Business Angel Network (EBAN), BA investments remains the main financier of startups across Europe. Investments made by BAs has increased to 6.1 billion Euros in 2015 and the EBA community also showcases growing numbers with an estimated 303,650 investors who closed 32,940 deals in 2015 alone (EBAN, 2016). In Sweden, there are approximately 3,000-5,000 business angels who together have an investment volume estimated between 3.5 to 4 billion SEK (Månsson & Landström, 2006; Swedish Agency for Growth Policy Analysis, 2013). As such, these individuals stand for most of the funds that new growth-oriented business obtain in the form of risk capital (Mason and Harrison, 2015).

In addition to providing financial capital, there are other positive kickbacks from a BA investment. BAs tend to take on a “hands on” approach by being actively involved in the venture as mentors, advisors and other roles (Politis, 2016). This value adding action further stimulates and strengthens the venture as the BA facilitates the transfer of knowledge and at times acts as a guiding force. Furthermore, the entrepreneur is able to tap onto the BAs extensive and influential network to seek out additional resources when necessary (Johannisson, 1988). Financing and support from BAs can also lend credibility to the new venture which sends positive signals about the venture’s ability (Landström, 2017). Hence, the reasons for an entrepreneur to seek investments from business angels are manifold as these benefits are crucial to a new venture’s survivability.

Why do we need angel funds?

When we look at capital providers, we find that typically, BAs tend to invest during the earlier stages of a new venture’s life cycle (Mason and Harrison, 2015; Landström, 2017). This is primarily because mainstream financial providers such as VCs and banks commonly provide capital during the later stages of the financial life cycle where returns tend to be higher and less risky (Landström, 2017). These stages are based on the “life cycle approach” first presented by Berger and Udell (1998) who argued that the financing source of a new venture changes depending on the stage that a new venture is at. They presented that a typical full financial life

cycle of a new venture to maturity comprises of 4 stages; *seed*, *startup*, *initial growth* and *sustained growth*.

The *seed* stage of the venture is the point where the venture is going through the process of developing a concept into a business. The *startup* stage is where the venture has been established but has to demonstrate its commercial capabilities and generate earnings on its own (Landström, 2017). The trend of later stage investment by banks and VCs presents a problem for new ventures as the *seed* and *startup* stages typically require more capital than the entrepreneur and their network can provide. The venture might have, by this point, exhausted their bootstrapping sources and now have to turn to external capital sources to continue operations. This is a critical stage where an estimated 90% of new ventures are unable to tide through and end up shutting down due to the lack of funding (Gompers and Lerner, 2004). BA early stage funding is therefore instrumental in helping bridge high potential ventures to later stages (Berger and Udell, 1998) and thereby extending their survivability in the long term.

As such, for the parameters of this paper, we would like to focus on the *seed* and *startup* stages of a new venture and delve into the decision-making processes of BAs when assessing new ventures at these stages of development.

BA decision making processes

The first formal business angel decision-making model was theorized by Dal Cin, et al., (1993) which demonstrated a 9 stage pre to post interaction process. This model was further enhanced and studied by several scholars including Riding et al. (1997), Van Osnabrugge (2000), Paul et al. (2007) and Amatucci and Sohl (2004) amongst others. Due to the complexities surrounding the process and the desegregation of current literature on the business angel investment process, we decided to analyse the BA decision making process based on the 4-step framework of the BAs pre-investment approach as introduced by Landström (2017).

The BA investment process starts with *deal origination* where the BA becomes aware of the existence of a business proposal (typically in written form). This stage typically takes place informally, within the BAs personal and extended networks, but can also occur within formal BA networking groups. After the deal origination stage, the proposal quickly moves onto screening. During the *screening* stage, it is decided if the proposal is of sufficient interest for the BA to invest additional resources in evaluating it further. It is also during the *screening* phase most proposals are rejected by BAs (Mason et al., 2017). If a proposal is not eliminated during the screening stage, it moves into the *evaluation* stage. The evaluation stage is where the BA has a stronger interest in investing in the proposal and conducts appropriate due diligence. Once due diligence is done, the proposal moves onto the final step, *negotiation* and *contracting* (Landström, 2017).

Research purpose

By adhering to the model proposed by Landström (2017), this study attempts to isolate one segment of BA decision making process for further investigation; the *screening* phase. This is because 70-75% of all proposals appear to be discarded during screening (Riding et al., 1995; Mason and Harrison, 2015; Mitteness et al., 2012). Due to the high statistic, we adopted a more exploratory approach to find out what motivates a BA to reject a proposal at the *screening* stage. What is the go/no-go factor they are looking out for? Is there a specific rejection criteria or pattern to the decision making process? Could the criteria be personal? We felt that by shedding light on this, we could give entrepreneurs and BAs insights into the complexities involved during this specific stage of the decision-making process and how to best manage these concerns in the future.

Additionally, we found during the course of our research that the wealth of BA related studies today focuses on elements that motivate a BA to invest in rather than to decline a proposal. In other words, motivations for a “yes” decision rather than “no”. These studies also adopt an “input-output” model where one motivating factor leads to a specific outcome rather than

analysing the process leading to said outcome. Examples of these studies include looking at “inputs” such as aspects of market potential (Mason and Stark, 2004; Mason and Harrison, 1995), entrepreneur experience (Sudek, 2006; Politis, 2016) and adoption rate (Riding et al., 2007; Mason and Stark, 2004) that lead to a BA investment (i.e. “yes”) decision. Overall, these studies generally do not answer why or how BAs arrive at the decision they have made.

Furthermore, researchers have commonly analysed criteria of the BA decision making process as a whole instead of isolating specific stages and determining which factors affect it the most. This appears to be an oversight considering recent research proposes that BAs apply different set of criteria depending on the stage they are at with regards to the proposal (Landström, 2017). This temporal element is also supported by a study conducted by Maxwell et al., (2009) which helped establish that BAs do consider different motivating factors depending the stage they are at in the decision making process. Factors that were initially considered vital at the beginning of the decision process (e.g. screening) are not the same set of criteria applied to the final decision (e.g. negotiating, contracting) when choosing whether or not to finance the proposal (Maxwell et al., 2017). We further postulate that the high rejection rate can be better understood if we only analyse the stage where most rejections take place. This way, it would also provide us with a clearer picture of the BA criteria at that specific stage of the process.

Overall, our study contributes to the emerging field of knowledge surrounding BAs decision making processes in a number of ways. First, by focusing on rejection reasons, this study already stands out from majority of the literature on the BA decision making processes. Second, the study helps shed light on the rejection criteria that is specific to one phase of the financing process (i.e. screening). Third, it would enrich the limited data available on Swedish BA research. As differences between the different regions in Sweden are insignificant, we are able to extrapolate our findings to Sweden in general (Laufer, 2013). Finally, due to the diversity of BAs, this study investigates if the same rejection criteria motivate each BA in the same manner.

The remaining structure of the article is as follows; we will first introduce key frameworks surrounding the BA decision making process to provide an overarching view of BA risk

perception and outcomes. We will then present current literature on the BA decision making process, focusing more on rejection criteria and screening stage centric studies. Following this, we discuss the methodology used, present our data collection and provide a detailed analysis surrounding our results. The article concludes with a discussion including how to further improve our study as well as implications for further research in the field.

Literature review

In this section, we want to explore relevant theories that explain why BAs are forced to make decisions when assessing a proposal. Conventional wisdom assumes that all proposals presented to a BA show projections of positive return on investment. It is safe to assume that no entrepreneur in their right frame of mind would seek external financing whilst stating that their concept will not produce positive returns. The question then arises; why are so many proposals rejected during the screening stage?

This has to do with the element of risk which has the biggest influence on a BAs decision. Without these risks, BAs would have little issue investing in every proposal that passes their way. Hence, everything else equal, the higher the perceived risk by the BA, the more likely they will reject the proposal unless the new venture has ways to mitigate these perceived risks.

Theoretical framework

We choose to focus on 2 prominent frameworks that assess these risks and are deemed highly influential to the BA decision making process; market risk and the principal-agent dilemma (Fiet, 1995). These chosen frameworks are useful as they help us understand the fundamentals of why BAs make their decisions and could help us gain a better understanding of the elements they focus on to best mitigate these risks. We are able to utilise these frameworks as a roadmap to delve further into specific criteria that affect the BA decision making process, particularly at the screening stage. This is illustrated in Figure 1 below.

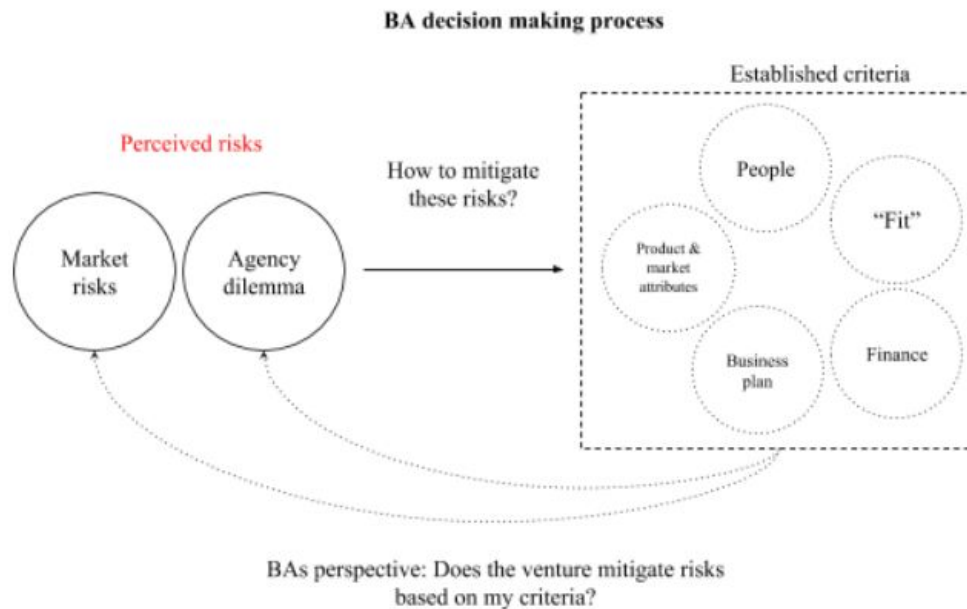


Figure 1

Market risks

This element is present for any service or product at any given time, regardless of a venture’s maturity. Market risks encompasses two scenarios; the first is a more macroeconomic approach. This involves the possibility of an investor experiencing financial losses due to factors that affect the overall performance of the markets in which the startups are involved (Staff, 2018). Macroeconomic market factors that may impact the new venture include consumption, inflation, savings, international trade and finance. These macroeconomic factors occur independently of the new venture and are virtually impossible to control. Timing of the startup is therefore crucial when looking for external funding. For example, an investor would be less likely to part with his or her money during a time of economic uncertainty compared to a more stable time, regardless of the earning potential of the startup.

The second and more applicable market risk scenario is a microeconomic perspective and relates to the performance of the new venture in the market; how the individual agents such as the BA and startups act within it. With early stage ventures, startups are attempting to prove themselves

in an already established industry and create legitimacy as entrepreneurs as well as for their organisations. The new product or service does not have a proven track record of success on the market, which increases this market risk factor from the BAs perspective. Additionally, there are a series of other issues that a BA has to consider when evaluating market risk. These include the reliability of the venture's financial projections, the size of equity required by the BA in exchanged for funding, the valuation of the company and potentially misleading market research (Landström, 2017).

All risks considered, there is still a higher probability of a BA losing their initial investment capital by investing in a new venture as compared to a more mature company. Mature companies have, over time, managed to establish more sophisticated operations which alleviates risk for investors. There is implicit trust from investors that mature companies have done their due diligence before making their next move. However, this due diligence process requires significant resources that most new ventures do not have. Startups typically operate under a very lean process with minimal employees and tight deadlines. Other unforeseen circumstances can also make it difficult for a new venture to meet milestones, such as, product development taking longer than expected or the market not being mature enough to accept the product or service. Therefore, if the perceived risk is too high in relation to mitigating factors, the proposal is more likely to be turned down.

This element of market risk could also provide support to studies that have shown that BAs often choose to participate in ventures operating in industries they have prior experience in (Van Osnabrugge, 2000; Sudek, 2006; Croce et al., 2017). BAs with prior or extensive industry experience would themselves be able to mitigate certain market related risks as they would be able to fill any gaps with their own expertise. They have a better understanding of the market size, how to engage customers, the growth potential of the new product/service and how to best distribute the product/service (Mason and Stark, 2004). They would have also built a more stable and reliable network within the operating market to assist the new venture when needed. Furthermore, since majority of BAs want to take on a more active role within the startup (Politis,

2016), choosing a venture in a foreign industry simply does not align with BAs interests. Knowledge transfer would be difficult, due diligence costlier, and chances of a failed investment would appear higher to the BA.

Given the above, the consideration that BAs would be more risk adverse to an unfamiliar industry is a possibility. We postulate that this observation can be especially applicable at the deal screening stage of the decision making process. This is because a BA has to base all his or her judgements on a business proposal before he or she has the chance to interact with the entrepreneur and team. This interactive process allows the startup to present elements and mitigating factors that are not easily conveyed through a hard copy proposal such as trust, commitment and sincerity. Thus, we assumed to observe through our study that the less comfortable the BA is with the market, the less inclined they would be to set a meeting up with the entrepreneur and team to take the concept further, leading to the discarding of the proposal at the screening stage.

Principal-agent dilemmas

The principal-agent dilemmas that arise are often defined by 2 elements; how the entrepreneur intends to use the investors' money and information asymmetries between the startup and the BA.

When it comes to a financial investment, this framework assumes a potential goal conflict between the BA (as the principal) and the entrepreneur (as the agent). Therein lies a moral hazard risk that the entrepreneur might display more reckless behaviour with the investors' money than he would be with his own, thereby damaging the BAs financial interest (Mason et al., 2017). This risk could be alleviated with increased trust built between the BA and the entrepreneur and team. How this trust is formed is a highly complex process and would depend on the BAs criteria and requirements when assessing the venture's potential. Assumably, the more trust the BA has in the entrepreneur and team or the more actively involved the BA is in the startup, the less likely this aspect of the moral hazard risk would be an issue.

Furthermore, within the context of agent dilemmas, there is also the issue of adverse selection that describes a situation that arises due to information asymmetries. Information asymmetry is associated with the decisions made during a transaction where one party has more detailed or better information than the other party. In most new ventures, the entrepreneur and team has more information than the BA, having done all the necessary research to ensure the success of their product or service. Furthermore, accurate and reliable information is both difficult and expensive for BAs to obtain. This creates an imbalance of power during the transaction which can influence the BAs decisions, leaving the BA at a significant disadvantage (Wilson, 2008).

Additionally, Fiet (1995) suggests that BAs do not have the capabilities to undertake detailed market and product research as opposed to VCs due to time and resource constraints. As such, there are limited means for a BA to identify “good” ventures from “bad” ones during the early stages of a venture’s life cycle (Landström, 2017). These factors increases the risk of adverse selection by the BA, influencing them to invest in a venture which could have misrepresented themselves. This could also provide an explanation for a BA to base his or her decision based on more tangible market risk elements. For example, if a BA has prior industry experience, the imbalance in information is not as wide compared to if he or she has zero experience in the industry. The BAs knowledge would imply less reliance on the entrepreneur’s and team’s research, less due diligence required on the BAs part and create a more equal balance of power.

When we analyse these principal-agent dilemmas, it can also be safe to assume that the information asymmetry factor appears to be more applicable during the BA early stage decision making process than the moral hazard aspect. Moral hazard issues that relate to the potential mishandling of the BAs investment appear to be more applicable during the later stages of the decision making process, or even after the BA has made a “yes” investment decision. It is often from this point onwards that the new venture has access to BA funds and not during the screening and startup stages. However, this stage of the BA decision making process falls outside the parameters of our study and will not be considered during our analysis.

Although these risks are not catch-all, they could help us understand why and what influences the BA decision making process and which mitigating forces are at play. However, there are many and different elements that a BA focuses on throughout the decision making process. This is where the BA would typically impose a certain set of criteria when screening the venture which decides whether or not the proposal is worthy of more in depth analysis. In the next section, we explore published research on the BA decision making process, focusing on rejection criteria to help us achieve a greater understanding of this phenomenon.

Empirical findings

Factors influencing the investment and rejection criteria are not mirror images of each other. Specific factors that would influence an investment decision are typically not the same factors that influence a rejection decision (Feeney, 1999). The established rejection criteria consist of factors that eliminate proposals at the *screening* phase onwards. On the other hand, the investment criteria consists of attributes that qualify a proposal for investment at the *evaluation* phase onwards. This section will now present results from research surrounding these specific characteristics that influence the BA decision making process.

Investment criteria

Although not a key focus of our study, we want to briefly introduce BA investment criteria studies to provide an overarching view of the current state of BA decision making research. Compared to BA rejection criteria, the investment side decision making criteria of capital providers is better documented. Existing literature on BA decision making has observed a variety of categories that BAs consider when making an investment decision which includes but is not limited to aspects of the product, market, entrepreneur, financial and investment conditions (Maxwell et al., 2011).

When a BA is evaluating a proposal for an investment, most studies have shown that the team/entrepreneur is consistently the most emphasised element that motivates a “yes” decision (Feeney et al., 1999; Sudek, 2006). This includes categories such as industry experience of the entrepreneur, prior entrepreneurial track record and industry knowledge (Guild and Bachler, 1996; Van Osnabrugge, 2000), all of which mitigates principal-agent problems. Market risk related issues with categories such as market size and growth potential of the product/service within the current market is generally ranked second. Finally, the viability and innovativeness of the actual product falls behind in third place (Brettel, 2003; Hindle and Wenban, 1999; Mason and Harrison, 1994; Stedler and Peters, 2003).

When we look specifically at the entrepreneur/team, other qualitative studies have analysed specific aspects of this category (i.e. subcategories) to find out which characteristics of the entrepreneur/team matter most to BAs. They present that more subjective elements such as competence, trustworthiness, passion and commitment of the entrepreneur are crucial factors that BAs consider before making the decision to invest (Lumme et al., 1998; Harrison et al., 1997; Maxwell et al., 2014). Additional characteristics that have been mapped out include the entrepreneurs’ honesty, integrity and how realistic he/she is with regards to the venture’s potential (Haines et al., 2003).

Overall, it is interesting to note the strong support highlighting the importance of the entrepreneur/team when it comes to a BAs “yes” decision. Market risk issues are also influential but secondary to human capital based elements. Applying the risk theory frameworks, this would imply that principal agency issues hold more weight over market risks when it comes to an investment decision. As mentioned earlier, the investment criteria qualify a proposal for investment at a later stage of the decision making process (i.e. evaluation phase) which falls beyond the scope of our research.

Rejection criteria

As the key area of our research, we realised that in comparison to investment criteria, there are fewer studies within the BA decision making field that focus on rejection criteria and the strength of their influence.

When assessing rejection criteria as a whole, a recent keynote study by Mason et al. (2017) of 30 UK BAs appears to support the main findings from BA investment criteria research. They present that factors relating to human capital (i.e. characteristics of the entrepreneur and team) were the primary reasons for rejection of a proposal. Additionally, the study goes a step further to look at specific rejection subcategories related to the entrepreneur/team and found that it was the character of the entrepreneur that was the most significant motivator. Specific human capital attributes that were highlighted during the interview process, included the lack of straightforwardness, honesty, openness and trustworthiness from the entrepreneur/team which influenced the “no” decision from the BA. BAs also nominated the lack of knowledge and unrealistic attitudes of the entrepreneur/team regarding valuation and equity share to be reasons for rejection.

This study assesses why BA say “no” over the entire decision-making process and has shown support that elements team/entrepreneurial characteristics appear to have the most influence. However, does this observation hold true when applied to a specific stage in the decision-making process?

As earlier suggested by Landström (2017), BAs are influenced by different elements and utilise a different set of decision making criteria depending on the stage that the proposal is at. Results from Maxwell et al. (2011) in a study of TV reality show “Dragon’s Den” confirms this finding and goes a step further by demonstrating that rejection criteria during the screening phase is often due to a “fatal flaw” and is non-compensatory in nature. However, the study does not delve

further into the possible rejection factors and the strength of their influence on the BAs rejection decision.

The implications of these studies are manifold. First, it would be an oversight to study the BA decision making process as a whole. Elements that might be the most influential rejection factor at one stage of the decision making process might not hold true in another. As such, we need to narrow down our scope of analysis to the screening stage. Secondly, the study implies that the presence of a significant flaw during the screening phase is unable to be offset by strengths in other areas and would prevent the proposal from proceeding to the next round of evaluation. We assume during the course of our study that this observation would also hold true.

Screening phase

When analysing the rejection criteria at the screening phase, some contention in literature arises. There appears to be mixed support between human capital factors and product/market elements as being the most influential rejection factors during the screening stage of the BA decision making process.

For human capital related factors, Paul et al. (2007) collected data from 30 interviews conducted with BAs based in Scotland. Results of this study showed that the key factor that motivated a proposal to move to the next stage of evaluation, was the impression that the BA had of the entrepreneur at the initial screening phase. Mitteness et al. (2012) examined the evaluations of BAs during the screening process in one of the biggest angel investment groups in the US over a period of three years (2007-2010). This study too confirmed that it was the entrepreneur/team element that was given the most consideration when deciding whether the deal should proceed past the screening stage. Finally, a study conducted by Croce et al. (2017) of 1942 ventures that sought BA investments from the members of an Italian angel network, also confirms that during the screening phase, proposals are rejected more often due to factors concerning the entrepreneur and management team.

On the other hand, studies have provided observations that product and market related elements carry more weight than human capital factors. Findings by Brush et al. (2012) suggested more tangible measures such as strategic and technological readiness were more influential during the first stage of decision making (i.e. screening) but moves on to more intangible subjective measures such as passion and commitment of the entrepreneur/team thereafter. Carpentier and Suret (2015) also present interesting results when they performed a longitudinal analysis of the entire decision-making process of Canadian BA groups of 636 proposals from submission to the final “yes” or “no” decision.

What was enlightening from both the Carpentier and Suret (2015) and Brush et al. (2012) studies supported that during the screening stage, more tangible market related factors were more influential. Further in the Carpentier and Suret (2015) study, the main reason for rejection during the screening stage was related to the product and business model. This factor included strategic and competitiveness issues which signified that the members of the BA group were not convinced of the viability of the product or service. The second common rejection at the screening stage was noted to be the lack of a ready market for the product/service. Subcategories of these reasons were associated with a highly competitive and already crowded market.

Furthermore, the richness of available data has also allowed us to extrapolate that BA rejection criteria share commonalities across numerous geographical contexts. When we look specifically at the screening stage of the BA decision making process, studies typically show that only 3-4 % of investment proposals pitched to BAs manage to make it through to an investment offer. As mentioned in the introduction, these studies were also consistent in pointing out that 70-75% of all proposals presented to BAs appear to be discarded screening (Table A). Thus, we find it more appealing to focus on the screening stage where proposals are commonly rejected before the entrepreneur/team has the opportunity to make a pitch/presentation before the BAs.

Table A. Summary of results on investment proposals surviving the screening stage

Market	Share that passed screening phase	Share that attracted funding	References
Canada	27 %	3 %	Riding et al., 1995
UK	30 %	3 %	Mason and Harrison, 2015
Canada	N/A	2,4 %	Carpentier and Suret, 2015
Italy	N/A	4 %	Croce et al., 2016
USA	24%	4 %	Mitteness et al., 2012

Armed with this information, we are now aware that rejection factors are mostly related to 2 common areas during the decision making process: market related issues and entrepreneur/team issues. During the screening stage, market issues appear to weigh more heavily than human capital factors but a shift in balance occurs during following rounds of the decision making process.

Faced with this, we were intrigued to find out if a similar outcome would hold true in the context of Sweden or if the team or entrepreneur would matter more to BAs during the screening process as generalisation of results to a different geographical context might prove challenging. Elements that strongly influence UK and Canadian BAs respectively may or may not be the same factors that affect Swedish BAs. In the next section, we look into the BA decision making research field in Sweden in an attempt to draw a comparison with existing research. However, we find there is a lack of published studies that focus on this “invisible” population.

State of BA research in Sweden

Studies regarding BAs and their investments in Sweden is largely diffused. Statistic data and information is difficult to obtain particularly due to the ad-hoc nature of BA investments and that they often occur “off the radar”, without public registration. This heterogenous group of informal investors tend to act dynamically and are motivated to do so by myriad of reasons (Landström, 2016), further complicating the understanding of the BA investment process. Additionally, studies surrounding BAs in Sweden are limited and a significant amount of time has passed since they were conducted. It is difficult to determine if the results from these early studies remain

reliable as investors' behaviours and the market conditions tend to evolve over time (Månsson & Landström, 2006; Avdeitchikova, 2008).

Furthermore, we propose that in the informal capital market, culture and values might play a role in a BAs decision as financial markets have different characteristics in different countries, which could influence how a BA makes a decision (Landström, 2017). Hence, there is a potential that BAs prioritize different values and criteria from studies that we introduced in the literature review. Research conducted in recent years by BA networks in Sweden show some interesting trends that provide some support to these cultural implications.

In a study conducted by Laufer et al. (2013), members of a BA network in Sweden were asked to rank 5 factors which thought were "most important to look at in an investment". In line with international investment criteria studies (Mason and Harrison, 1994; Stedler and Peters, 2003; Sudek, 2006), the entrepreneur and team were pointed out as the most important factors for investing. This was followed by business model/idea and finally, issues surrounding the product/service. Thus, for investment motivations, Swedish BAs appears to fall in line and share similar priorities.

On the contrary, when looking at rejection criteria, a report published by a local startup community based on a survey of 73 respondents regarding reasons to turn down a proposal present a different set of motivating criteria. When the results were analysed, top 3 rejection categories related to: 1) valuation of the company 2) business model of the product/service 3) information provided by the entrepreneur/team. In line with Feeney et al. (1999), it appears that financial factors might play a larger role in the Swedish BA context than market related factors.

However, it is also important to point out that these Swedish interviews and surveys were carried out *post hoc* which could contain biases. Furthermore, we have to consider that these studies and results are unpublished and have not undergone any peer review.

Current research limitations

In summary, varying results from this literature review has demonstrated that a BA's decision-making process is highly personal and influenced by a myriad of subjective and objective elements. This has enabled us to establish two factors. In the general area of BA decision making studies, there is room for research into specific reasons why a BA rejects a proposal during the screening phase. Secondly, studies remain to be developed that are specifically related to BAs in Sweden (context specific), given that these rejection reasons could be partly based on culture specific factors.

Through the literature review, there is also a consistent theme; the lack of rejection criteria related research within the field of the BA decision making process. Maxwell et al. (2011) attributes this lack of research to the fact that most investors are not entirely forthcoming when asked about reasons for rejecting a proposal, thus making the process unique but difficult to examine. By focusing solely on the screening stage, we are also able to break down the complex decision-making process and focus on a specific point to determine if there are specific factors that influence a BA to turn down a proposal. With this comprehensive approach based on a data set of real interactions (as opposed to *post hoc* recollection), we believe that our findings will enrich the current body of research on BAs in Sweden.

Additionally, reasons for why a BA rejects a proposal are not exhaustive due to the broad range of influencing factors that can affect the decision making process (Bachher and Guild, 1996; Feeney et al., 1999; Haar et al., 1998; Haines et al., 2003; Paul, 2007). Therefore, there is still room within this research sphere to explore additional criteria and establish if a correlation exists between the chosen element and the BA decision making process. To further investigate this, we outlined a simple case study interview and "think out loud" sessions with BAs that operated within the Skåne region to determine if they voiced the same concerns. This will be further elaborated in the next few chapters.

Ultimately, as stated in our research purpose, we wanted to investigate the overarching theme of following: How do Swedish BAs decide to reject investments proposals during the screening stage of their evaluation process? Specifically, is there a specific go/no-go factor that influences a rejection decision during the screening stage?

In line with our second question, the literature review emphasised the human capital element as an influencing factor in a BA rejection decision during the screening stage. Since human capital encompasses a variety of different subjective elements such as passion, trustworthiness, integrity and so on, we wanted to investigate a more objective element. Thus, we designed a study to analyse how the communication of academic merits might affect the BA decision making process at the screening stage. This was not only fuelled by our own curiosities but felt that this was a more tangible, standardized screening element and easier attainable than more permanent differentiating factors such as gender.

Methodology

Within the literature reviewed, a common methodological issue in BA decision-making studies is that researchers rely on the BA to provide answers to retrospective questions (Harrison et al, 2015; Mason et al., 2017). This has drawbacks and is particularly vulnerable to interviewer bias, memory biases and cognitive biases (Nisbett & Wilson, 1977). To best overcome these problems, we used real-time data gathering techniques (Hall and Hofer, 1993). This allows us to analyse respondents' immediate considerations of a proposal as they study the case, instead of reflecting on it afterwards where information might already be subjected to the aforementioned biases. One such real-time data gathering technique, which we applied to our study, is known as a verbal protocol analysis (VPA).

VPA is a method used to collect data on decision-making processes (Carroll & Johnson, 1990). It is a think-aloud method of eliciting cognitive and process descriptions from a candidate. These process descriptions are performed by the candidate when completing a specific task and their verbalisations recorded and transcribed. This process of collecting data is regarded to be particularly useful in understanding the “how” and “why” of the decision-making process rather than merely analysing the outcomes of a decision. Once interviews have been transcribed, researchers (usually independently) code phrases or words to determine factors influencing the decision. The results of these protocols are then analysed in order to support or reject observations.

Validity of the VPA results mainly depends on two issues. First, that the respondents articulate their full and honest opinions on each case. Secondly, the cases should be as realistic as possible to obtain a real-world response from the BAs.

The first issue is commonly caused by the interviewer effect (also called interviewer variance/error) and deserved attention before the start of our case studies. The distortion of response from the interviewee commonly stems from the style and presentation of questions

from the interviewer (Lavrakas, 2008). As such, we attempted to avoid this error by not posing direct questions to the BA during the experiment but instead letting respondents speak freely. There were times we had to encourage our respondents to continue providing their comments but held back when asked for an opinion or further discussion regarding their responses. To overcome the second issue, both cases we chose for the quasi-experiment were real life ventures currently undergoing the startup process in the Skåne region that were providing web-based applications. We then interviewed both entrepreneurs/teams behind the startups and explained our intentions to obtain full permission to continue with the case study.

To present the cases as neutrally as possible, we applied a one-page template used by MINC, an incubator based in Malmö. This template is used by many MINC incubatees inspired by a workshop organised internally. In addition, to make the cases more realistic, we gave BAs the option to meet the startup to discuss the concept further should they be interested in getting more information or potentially investing in the venture itself.

Research design

As mentioned, the setup of our study took the form of a quasi-experiment. The study contained elements of experimental designs but do not fulfill all the internal validity requirements (Bryman and Bell, 2015). Our quasi-experiment was conducted in a more social setting, taking place either at Ideon Barista or meeting rooms at Ideon Open. Moreover, no control group was present during the course of the study. Despite this, Bryman and Bell (2015), argue that results of such studies are still compelling as their “ecological validity” is still highly relevant.

The cases presented to the BAs were based on 2 new ventures currently trying to obtain risk capital to fund their ventures. The template by MINC was formulated in-house to encourage startups to consolidate their entire business plan into one page when applying for risk capital. These 2 ventures also fit a number of general criteria that we set out for the purposes of the study. We ensured they were selected as appropriate candidates. Both ventures were at the same stages of the financial lifetime cycle, provided similar services and were willing to accept BA

risk capital. As such, both BetterWealth and Crowdbrewing were at the same life cycle stage of their financial lifetime cycle (i.e. seed stage). The ventures were also at the same stages of operation (pre-launch), operated within the context of Skåne, provided web-based services and were open to BA risk capital to fund their ventures.

Initial study intention

As earlier mentioned, at the time we began constructing our study, we had sufficient observations from literature to understand that human capital factors played a key role in the BA rejection decision. However, there were still many subcategories within the entrepreneur/team that were worth exploring. We not only wanted to study how Swedish BAs make rejection decisions at the screening stage but if there was a determining ‘X’ factor that would greater determine a no-go situation. For the intentions of our case study interviews, we set our factor ‘X’ to be the communication of academic merits within the entrepreneur/team.

As such, when we were writing the cases for the study, an experimental variable was introduced to one version of each case (refer to Appendix A). This was done so in an attempt to answer the question of whether the presentation of academic merits within the team description would influence the BAs decision making process. 5 of the 10 respondents were presented with cases where the teams’ academic merits were revealed in case B but not in case C. The other 5 got the reversed setup with academic merits revealed in case C but not in case B as illustrated in Table B. For the purposes of our study, academic merits were determined as a Bachelor’s degree, Masters and/or a Ph. D. held by the entrepreneur or members of the new venture team.

Table B. Case interview set-up

	BetterWealth (Case B)	Crowd brewing (Case C)
BA group 1	With academic information	Without academic information
BA group 2	Without academic information	With academic information

This set-up potentially allowed us to capture effects of communicating academic merits and how it could correlate to the BAs' decision making process. We envisioned that such effects would be supported if BAs across groups systematically vocalised fewer negative statements about the venture, when they evaluated a case in which academic merits were included compared to when they evaluated where such information was intentionally left out. We also wanted to understand if academic merits acted as a compensatory factor if the venture was lacking in other merits such as the entrepreneur/team lacking industry experience, or a small market size.

Data source and sample

This study draws on interviews undertaken with 10 BAs based in the Skåne region of Sweden in March-April of 2018. The BA recruitment process was conducted via email and facilitated by various sources. We reached out to BAs within the mentor group of the Masters of Entrepreneurship and Innovation mentorship program at Lund University, the researcher's private networks and through snowballing by respondents of our study. The snowballing method is the way to "contact one participant via the other" (Biernacki and Waldorf, 1981) and is particularly helpful in research contacts with hidden populations such as those of BAs (Browne, 2005; Macmillan and Katz, 1992). As a result, 5 respondents were obtained through the Masters of Entrepreneurship and Innovation mentor program at Lund University, 3 from our personal networks and the final 2 from snowballing.

The respondents in our interview case studies were Swedish, middle-aged (average of 50 years old) with 8 male respondents out of 10. Furthermore, of 10 respondents, 8 had personally been involved in starting a new venture. On average, respondents had 8.1 years of prior investment experience as a BA and had invested in an average of 6.4 deals. However, the range of the number of investments made by individual BAs showed a large variation between 1 to 25 investments. To guarantee anonymity of the respondents, we refrained from revealing all data on the individual level. However, some key descriptive variables of our sample are found in Table C below.

Table C. Overview of respondent characteristics

Respondent	Gender	Age	Number of investments	Years as BA
1	F	30-40	4	3
2	M	40-50	1	1
3	M	65+	5	5
4	F	50-60	1	2
5	M	40-50	5	10
6	M	50-60	25	20
7	M	65+	10	15
8	M	50-60	5	10
9	M	50-60	5	5
10	M	50-60	3	10
Average	0,8	50	6,4	8,1

It is well established in BA literature that because the population of BAs is unknown, samples cannot be assessed for their representativeness (Wetzel, 1983). However, our sample is largely in line with samples from other empirical studies on the Swedish BA community. Regarding average age, Månsson och Landström (2006) and Laufer et al. (2013) both have an average age of 55 years in their samples while Avdeitchikova (2008) has an average age of 46. Our average age of 50 does not deviate from those samples in a way that warrants any further analysis.

Regarding gender representativeness, similar to the 20% female respondents in our study, Avdeitchikova (2008) had 19% while Månsson and Landström (2006) had only 4%. The sample of Laufer et al. (2013) consisted of 30% women, but they had also specifically included exclusively female BA networks in their sample. Gender diversity in the sample has also been proposed to be unimportant for validity as the informal risk capital market is not based on gender lines (Harrison and Mason, 2007).

Data collection

The interview case studies were conducted face-to-face as well as via Skype (1 BA). At the start of the interview, BAs were presented with 2 one-page investment proposals. For our Skype respondent, these cases were emailed to her only at the start of the interview to mimic the conditions of face to face respondents who received the cases only when the study began. We attempted to provide similar controlled environments as best possible for the duration of the experiment although this proved challenging for the interview conducted via Skype.

At the start of the experiment, the BAs were made aware of the research intent. Respondents were given the option to remain anonymous and given assurance that data collected would be handled appropriately and within academic boundaries. They were also assured that none of the quotes would be directly attributed to them and at the completion of this thesis, provided a copy for their records. Verbal and written instructions were given to the respondent and they were given the opportunity to ask any questions before the start of the interview.

Respondents were also encouraged not to interact with the researchers to prevent any form of bias. Each respondent was encouraged to discuss both cases for as long as they felt comfortable. Respondents were encouraged to be as spontaneous as possible and not “hold back” or filter their thoughts. Respondents were also asked to evaluate each case one at a time while “thinking out loud” so that we could capture the entire decision-making process.

Just before we started voice recording, we asked them one key question: to consider whether they, based on information provided in the one-pager, would be willing to go to a meeting with the startup to continue the evaluation process. Once the experiment began, the process was recorded for follow up analysis and transcription. On average, each session lasted 45 minutes. To obtain reliable results, it was also vital not to unintendedly prime the respondents by asking questions that would not normally be asked in the decision-making context under study (Ericsson & Simon, 1984). Hence, background variables and follow up questions were asked after the

decision-making exercise was concluded. These were not recorded but extensively noted down by the researcher at hand.

These background variables included age, gender, number of investments, amount invested as a BA, how long the respondent has been a BA for and their investment strategies as a BA. As for follow up questions, this included the variation of the following questions:

- *What are your thoughts on the team when you evaluate a proposal?*
- *What is your investment strategy as a BA?*
- *How much have you invested on average as a BA?*
- *Does academic merit play a role for your decision?*

Coding

Once the interviews were transcribed, the data was coded. Given the content and context of our quasi-experiment, the unit of analysis we chose were phrases and statements. Rather than adopting a relatively straightforward word categorisation, we decided to adopt a more interpretative approach by looking for themes and subjects present in the transcription as presented in Bryman & Bell (2015). Using these themes and subjects, first level categories were developed and further linked with subcategories (Strauss and Corbin, 1998: 143). The first level categories used by our study were primarily adopted from Mason et al. (2017) in their study of reasons for BA rejection, referred to as “deal killers”¹. This reflected the failure of an opportunity to reach a minimum standard in any one of the non-compensatory critical elements which leads to rejection of the opportunity, thus the term “deal killer”. These first level categories are represented in Table D together with a few examples of second level subcategories found in Mason et al (2017).

¹ We disregard the “business plan” category since the full business plans are not included in the cases presented

Table D. Categories separation of decision criteria

First level categories	Examples of second level categories (non exhaustive)
Investor fit	Not interested in industry, time horizon too long
Financial attributes	Inflated valuation, unrealistic projections
Product/market	Market size too small, IP problems, scalability issues
People	Character issues, lack of knowledge, attitude

Source: Based on Mason et al. (2017)

From 50 pages of transcriptions, together we extracted all statements containing any sort of evaluative quality. Statements omitted include elements of storytelling and analogies that were unrelated to the 2 cases at hand. Those statements were first divided into 3 categories; a positive statement, a negative statement or a request for more information. The set of statements that were coded as negative evaluations are defined for the purposes of this study as rejection statements and are assumed to reflect the BAs' "no" criteria.

In total, 67 evaluative statements were deemed to have evaluative quality. These 67 statements were then analysed independently by both authors who determined which of the 3 categories it fell into. These judgement calls were based on a series of reasons. First, statements containing blatant negative connotations such as "*the team has nothing that really pops out*" or "*no one has superior experience*" were associated with rejection. On the other hand, positive statements included (but were not limited) to statements such as "*they have relevant experience*", "*there is potential*" or "*I see a use for this service*". Statements that we had conflicted observations about were then left to the judgement of the researcher who was present at the time of the interview. He/she then took into account tone, body language and general reactions of the BA's response to determine which category the statement belonged to.

Once all 67 statements were divided into positive, negative or requests for more information, the statements were further sorted into Mason's (2017) 4 suggested categories, investor fit, financial attributes, product/market and people. Once all 67 statements were sorted into a category, they

were then re-analysed and sorted into 15 different second level factors. These 15 subcategories have been inspired by prior research (Feeney et al., 1999; Haines et al., 2003; Sudek, 2006; Mason et al., 2017) but ultimately constructed by us during the course of the study. These categories and subcategories are reflected in Table E below.

Table E. Level 1 and 2 categories of decision criteria based on our study

Category level 1	Level 2
Product/Market	Competition, market size, innovation/quality, regulation, margins
People	Prior experience, track record, diversity
Investor fit	BA market knowledge, stage in lifecycle, size of investment, BA network
Financial attributes	Profitability, valuation, exit strategy

This coding process was primarily carried out by one researcher who again, utilised common word association and logic to group the statements into the respective categories. Some of the subcategories were more objective such as relevant industry experience, entrepreneurial experience or patentability of the product/service. Examples of objective statements included *“the product looks very interesting”* and *“feels like timing is good”*. Other statements were more subjective and required a higher degree of assessment such as *“I need to see whether they can pull it off or not”* and *“here you have more meat on the bone than in the other case”*.

When it comes to level 1 and 2 category distinctions, earlier statements such as: *“the team has nothing that really pops out”*, *“no one has superior experience”*, *“at least [as opposed to the other case] they have relevant experience”* were deemed to belong to the level 2 category (subcategory) *“experience”*. The level 2 *“experience”* category in turn was sorted under the level 1 *“people”* category.

Results

As mentioned in our coding section, we divided the statements into three categories. Positive comments included those that strengthened the BAs interest in meeting the startup, negative comments were those that weakened or dissolved the BAs interest in meeting the startup and finally, a category of comments requesting additional information. Statements in the additional information category is deemed an evaluative but neutral statement that is neither a rejection nor a confirmation. This final “additional information” category include statements such as:

“before meeting them I would like to know their exit strategy”

“I want to know if (the team) are willing to put in the effort”

“I need to know the valuation before I can decide”.

Within this chapter, we will first present our general observations across both level 1 and level 2 categories. Thereafter, as per the original intentions of the study, we take a closer look at the communication of academic merits and its influence. We will also take this a step further to analyse if the presentation of academic merits within a case study had an impact on “yes” and “no” outcomes. Finally, with our rich data set, we present our results of other elements that influence the BA rejection decision process during the screening stage and relate it back to the theoretical risk frameworks.

General observations

When we look at the overall number of statements, it is interesting to note that Case B recieved the larger share of the evaluative statements with a count of 40 compared to 27 for case C. On further analysis, Case B actually received more statements in 3 of 4 level 1 categories (financial attributes, product/market and people) as displayed in Table E.

Table E. General statements per level 1 category and case

Category	Case B	Case C	Total
Investor fit	5	7	12
Financial Attributes	8	6	14
Product/Market	15	6	21
People	12	8	20
Total	40	27	67

Case B = BetterWealth, Case C = Crowdbrewing

As presented in Table F below, when we look at the total number of statements made across all 3 categories (positive, negative and neutral), it is noteworthy that the highest number of statements made belong to the level 1 category of product/market with 21 BA statements relating to this. presented. Some of the statements regarding product/market included:

“The product looks very interesting and it feels like timing is good”

“This is a product I would consider using myself”

This is closely followed by the people category with 20 BA statements. Majority of the statements made about the team can be divided into two camps. One group of notions relating to the teams’ experiences (Landström, 1998; Mason, Harrison, 2002 and another group of statements, relating to team dynamics (Van Osnabrugge, 2000; Maxwell et al., 2011). Trailing further behind are the categories of “financial attributes” and “investor fit” respectively. Some illustrative quotes regarding team experience and dynamics include:

“The team has nothing that really pops out...no one has superior experience”

“...more focused on what they have done. At least they have relevant experience”

“Looks like a bunch of young guns who have added a silverback gorilla to the team, which does not have to be a bad thing”

“The team needs a balance”

“I look for one visionary and one accountant type team member to balance. A good team needs both” [post-experiment comment]

“There is nice diversity in the team, different experiences and different ages.”

“Five guys but no women on the team, that’s a warning sign for me”

For the product/market category, there twice more negative than positive statements (14 negative compared to 7 positive). Results were opposite under the “people” section where statements made about the team were largely positive (10 positive compared to 4 negative statements). We could interpret the larger number of negative statements to the increased likelihood that the proposal would be rejected by the BA. As for positive statements, this indicates that the BAs are paying attention the team but is not considered a significant rejection motivator at this point.

Furthermore, although regarded as neutral statements for the purposes of our study, it was interesting to observe that “more information” type statements in both the “people” and “financial attributes” categories leaned more towards passing the proposal onto the next stage of evaluation rather than an outright rejection. These need for more information statements appeared to function as a precursor before setting up the face to face meeting for further discussion of the venture potentials.

Table F. Statements per category

Category	Positive	Negative	Need more info	Total number of statements
Product/Market	7	14		21
People	10	4	6	20
Financial attributes	5	6	3	14
Investor fit	7	5		12
Total	29	29	9	67

When analysing level 2 categories as reflected in Table G, the highest number of statements fall into a subcategory of the “investor fit” category. BA comments largely related to issues surrounding their degree of knowledge within the specific market/industry that the startup was operating in. Examples included the following statements:

“I have been working with this before and...it works well”

“I think that a person from another industry wouldn’t find it as interesting [as I do].”

“I worked in the industry for a short period time and have many friends [in the industry]”

“I don’t invest in products I don’t understand”

Table G. All statements, level 1 and 2 categories. Statements requesting information removed

Category level 1	Frequency Level 1	Level 2	Frequency Level 2
Product/Market	21	Competition	6
		Market size	5
		Innovation/quality	5
		Regulation	3
		Margins	2
People	14	Prior experience	7
		Track record	5
		Diversity	5
Investor fit	12	BA market knowledge	8
		Stage in lifecycle	2
		Size of investment	2
		BA network	1
Financial Attributes	11	Profitability	6
		Valuation	3
		Exit strategy	2
Total	58		58

Presenting academic merits

This quasi-experiment was designed to observe the possibility that the inclusion of information about the teams’ academic merits would make the BAs less prone to pinpointing negative people-related factors as a type of “compensation”. We also assumed that could reflect some sort of feeling of safety and implicit trust in the team’s capabilities when academic accomplishments were presented as a mitigating risk factor. We expected to observe that including information about academic merits would make the BAs less inclined to make negative statements. A broader observation beyond the parameters of our study, could be that BAs would less likely reject the investment proposal at the screening stage when they were presented with an entrepreneur/team with academic merits.

In contrast, when we look at our results, the opposite occurs as set out in Table H. 9 negative statements were made in Case B where academic merits were included in the description. In comparison, only 7 negative statements were noted when the academic merits were removed. Thus, more negative statements were made about the cases when academic merits were included. Case C, similarly, receives 7 negative statements when academic merits are included in the description, but only 6 when these merits are removed. Thus, we were unable to confirm our assumptions that higher academic merits would warrant less negative statements from BAs at the screening stage.

Table H. Number of rejection statements per category across all case scenarios

Category	Group 1 – Case B (w. academic merits)	Group 1 – Case C	Group 2 – Case B	Group 2 – Case C (w. academic merits)	Total
Investor fit	2	1	1	1	5
Financial attributes	1	3		2	6
Product/Market	4	2	5	3	14
People	2		1	1	4
Total	9	6	7	7	29

Note: Case B = BetterWealth, Case C = CrowdBrewing

Note: Even if a respondent state two reasons within one category it is only counted once

Given that BA Group 1 and 2 were similar regarding their age, number of investments as well as experience, as shown in Table I, this suggests that differences in decision making between the two groups should not be attributed to differences in these background factors. Additionally, the total number of rejection statements recorded is reflected in Table F. We could assume that the BAs in the two groups have a similar rejection decision making process and reasoning. This is based on the fact that the two groups make almost the same number of negative statements (15 for BA Group 1 and 14 for BA Group 2) with a similar distribution pattern over the 4 level 1 categories.

We also conclude that within the same group, the case with information on academic merits is rejected as much as, or more, than the cases without such information. Group 1 rejected the case with academic merits with 9 rejection statements while we recorded only 6 such statements for the case without any indication of academic merit. In group 2, we found the same number of rejection statements in each case scenario (7 each). In conclusion, we present that neither the variation within or between the BA groups supports the assumption that presenting the teams academic merits would decrease the possibility of the proposal being rejecting during the screening phase.

Table I. Comparison of BA group 1 and group 2

Background variable	Group 1	Group 2
Average age	49	59
Average number of investments	4,3	4,4
Average years as BA	7	6,6

Note: n=9, One outlier removed (25 investments in 20 years)

An explanation for this non-finding is that the BAs simply do not take the academic merits of the venture team into account. This differs from the first assumption as it is based on the fact that the BA is aware of the academic merits of the entrepreneur/team but it does not factor in the decision. This explanation has further support in some of the responses we obtained from the

follow-up questions that were asked our respondents after the case study interview was concluded. Again, as we wanted to ascertain if there was a correlation between academic merits and likelihood of obtaining risk capital from BAs, we posed follow up questions surrounding this issue to all 10 of the respondents. Six of the ten respondents replied that academic merits *per se* does not matter during the course of their decision making process. Examples of such statements include:

“...I would rather invest in people without...since I know they are hungrier”

“Does not matter at all”

“No...not something I care about”

“It doesn’t matter, but experience is a must”

However, our intention to investigate and observe academic merit as a determining rejection factor during the screening stage of the BA decision making process proved to be statistically insignificant. However, the richness of our data has presented us with additional and deeper insights into the BA decision making process during the screening stage, which we will now present in the next section.

Rejection criteria analysis

In 4 out of 20 decisions made, the BAs actually agreed to a follow up meeting with the startup, hence we had to remove this sample from our rejection study. We limited this section of our study to the analyses of the remaining 16 “no” decisions. This rejection frequency of 80% (16 “no” decisions out of 20 decisions made) is in line with current BA decision making research (Riding et al., 1995; Mason and Harrison, 2015; Mitteness et al., 2012). Additionally, a total of 29 rejection statements were recorded across the 16 rejections decisions made (Table I). This entails an average of 1.8 statements per rejection decision, a slightly higher number than the 1.6 found by Mason et al (2017).

When only looking at rejection criteria, we observe that these statements shift to focus more on the product/market and investor fit while “people” related comments receive the least number of negative statements from the BAs. In total, there were 14 negative statements made under the product/market category followed by 6 negative statements related to investment fit. Only 4 negative statements made by BAs were targeted at the entrepreneur/team. Hence, almost half of the reasons for rejecting a follow-up meeting at the deal screening stage are related to product/market. Full results are reflected in Table K below.

Table K. Rejection specific criteria, level 1 and level 2

Level 1	Frequency lvl 1	Level 2	Frequency lvl 2
Product/Market	14	Competition	4
		Market size	4
		Product	4
		Regulation	2
Investor fit	6	BA market knowledge	3
		Too risky	3
Financial Attributes	5	Exit	3
		Risk, too little capital sought	2
People	4	Inexperience	3
		Diversity	1
Total	29		29

Product/market

With regards to this, our results fell in line with the results presented in a study by Carpentier and Suret (2015). During the screening process, they found that the strongest reason for the rejection of a proposal was related to the product and business model. This included reasons such as a lack of strategy and business model and lack of competitive advantage. Rejection reasons relating to

strategy include unrealistic expectations, unclear of how to reach the target market and the need to define a new market. Some statements made during our study regarding strategy include:

“(This) has been around since the 80s and it didn’t succeed then, why will it now?”

“(they) don’t understand how expensive it still is”

“Who is going to use this service? No one. You think banks care about (the service)? No!”

From the results of our study, we also find that the BA not believing in the business model was also frequent grounds for rejecting the proposal. Often it seems that the investor judged the product as being unfeasible. Some statements made include:

“Feels like Betterwealth are more up in the blue and dreaming”

“I am not so keen in this since I don’t believe in it really”

“I would argue that AI for that purpose is not advanced enough”

Other than product-based rejection reasons, issues pertaining to the market were also strongly emphasized during the study. Both cases also were rejected due to the BAs’ perceived level of competition in their respective markets. Again, this follows the results presented by Carpentier and Suret (2015) that the second most common rejection reasons for BAs at the screening stage is “the lack of an interesting potential market” which pertained to the size of the market as well as competitiveness. Some quotes from our study to support this include:

“This (market) might be too small, meaning it is only Sweden”

“Small but fun, not enough potential for me as an investor though”

“I would not go to a meeting because of fierce competition and a lot of risk”

“There are a lot of microbreweries and it’s a tough market”

Interestingly, we found BAs that had prior industry experience in either or both cases did not refer to the level of competition as negatively impacting their interest in the venture. Rather, this

line of reasoning was used only by BAs who did not have experience from the industry or market that the startup operated in. This observation is again in line with our earlier market risk mitigation observation.

Investor fit

During the study, unbeknownst to the BAs, more than half of the respondents made comments that revealed their investment strategy and goals. This adopted strategy appeared to dictate which venture the BA was more or less likely to continue evaluation. In other words, if the venture currently fell in line with their strategy, the proposal was more likely to move on from the screening phase. We observed that statements in this category belonged in two camps. The first related more to the principal agent theory of information asymmetry whilst the other set of statement leaned more towards risk affinity (i.e. how risk adverse or inclined they were).

For the first set of comments, we relate our findings to mitigation of risk and information asymmetry. These statements support the observation that the BA would be more likely to reject the proposal at the screening phase if he/she has no experience within the industry. Again, this is because the BA has no knowledge of industry trends and know-how which increases the potential risk of adverse selection. Hence, BAs with this investment strategy that do not have industry knowledge or experience can thus very quickly discard investment proposals at the screening stage. We noticed this in statements such as:

“This is not my industry, so, I’m not sure”

“This, I would just throw in the garbage”

“I don’t know much about beer, other than to drink it”

“I don’t invest in products I don’t understand”

The other set of comments had to do with the risk profile of a BA. We noticed that some of them shy away from high risk investments although they recognize a substantial potential. As such,

this pattern shows that they do not operate on an expected value principle but let their risk preferences or their current portfolio mix influence their decisions. Statements supporting this include:

“Could become worth a lot, but the risk of this is too high”

“There’s potential but not for me at the moment...”

“I am not sure when I get my money back...”

However, when we look at rejection statements in this category, although significant, it is less than half of negative inferences made in the product/market category. This could imply that although a contributing element, should not directly result in a go/no go situation unlike more influential faults in the product/market category.

Financial attributes

In this category, we looked for negative statements relating to issues such as ROI, valuation, profitability, cash flow, and size of investment. Several respondents made comments regarding the capitalization of the venture as well as the valuation of the startup. These included comments such as:

“I think it's underfunded and therefore highly risky”

“The capital sought is too little with four people working on it”

“Capital need and valuation is important. I want to buy cheap not expensive”

“Sometimes (the startup) is priced as if they were running and successful...”

Relating this back to element of risk, statements regarding financial attributes appear to be associated with market risk. As most respondents emphasized the low chances of the new ventures’ survival over the long term rather than issues associated with the principal agent dilemmas. However, we should not discount the principal agent dilemma entirely. We also

received a couple of comments regarding potential BA fund usage and accountability issues which could lead to a moral hazard issue in the future. Examples of comments made include:

“...if they get salary they don’t take risks, only my money is at risk”

“What are they going to do with the money they are requesting for”

People

Although all 10 BAs in our study made statements associated with human capital behind the venture when assessing both rejection and investment criteria, our results appear to show that during the screening phase, human capital issues seem to matter the least. As described in previous chapters, this seemed to run contrary to empirical studies on BA decision-making have generally found the people to be the most important factor for startups to get external funding (Lumme et al., 1998; Haines et al., 2003; Harrison et al., 1997; Mason et al 2017; Maxwell et al., 2014).

However, Carpentier and Suret (2015) found that at the screening phase of the evaluation process, i.e. before BAs invest significant time and effort, the people category did not get much attention at all. This finding is confirmed by our study as only 4 instances of rejection based on people were recorded. Three of those four rejections were due to lack of experience and one due to missing (gender) diversity on the team. Interestingly, the reasons stated in this domain were also typically not principal-agent problems. Instead the criticisms were directed towards the team’s relative inexperience:

“I don’t see anyone with a stated experience in F&B nor logistics nor mechanics required”

“The team has nothing that really pops out”

“No one (within the team) has superior experience”

“(The venture) claims to have specific experience from the industry”

Again, when we factor risk mitigation into this finding, it could suggest that rejection statements were made due to fear of the business not surviving in the market due to a lack of competence and capabilities in the entrepreneur/team rather than fear of moral hazard especially during the screening phase. Thus, the perceived risks would be too high for a BA to continue the evaluation process.

Conclusions

Our study was first set up to investigate if communicating academic merits influenced the rejection decision making process of a BA which resulted in a non-finding. Instead, the study provided further confirmation that Swedish BAs reject investments proposals during the screening stage of their evaluation process for a variety of different reasons (Landström, 2017). Our results also presented that rejections based on market risks were more prevalent than rejections based on principal agency risks. In the theoretical section of this paper, we made the assumption that during the deal screening stage, it would be easier for a BA to base his or her decision based on factors that help alleviate potential market risks. Our study seems to support this observation as it appears to be of great importance to many BAs that they know or have prior experience in the industry/market.

At the screening stage, as presented in Brush et al. (2012) and Carpentier and Surets' (2015) studies, our results supported one of their key findings that the team is not the most critical element. At this point, the BAs knowledge of the product and market where the startup operates received the most comments (both positive and negative). Issues surrounding viability of the product within the market were also highlighted most often when it came to the “no” decision from the BA. This is reflected in figure 2 below. This result does not come as a surprise since the due diligence process is a costly and lengthy process for a BA to undertake in relation to the typical size of investments during the seed stage. Quicker judgements could also be easier to make when the BA already has relevant experience in the field.

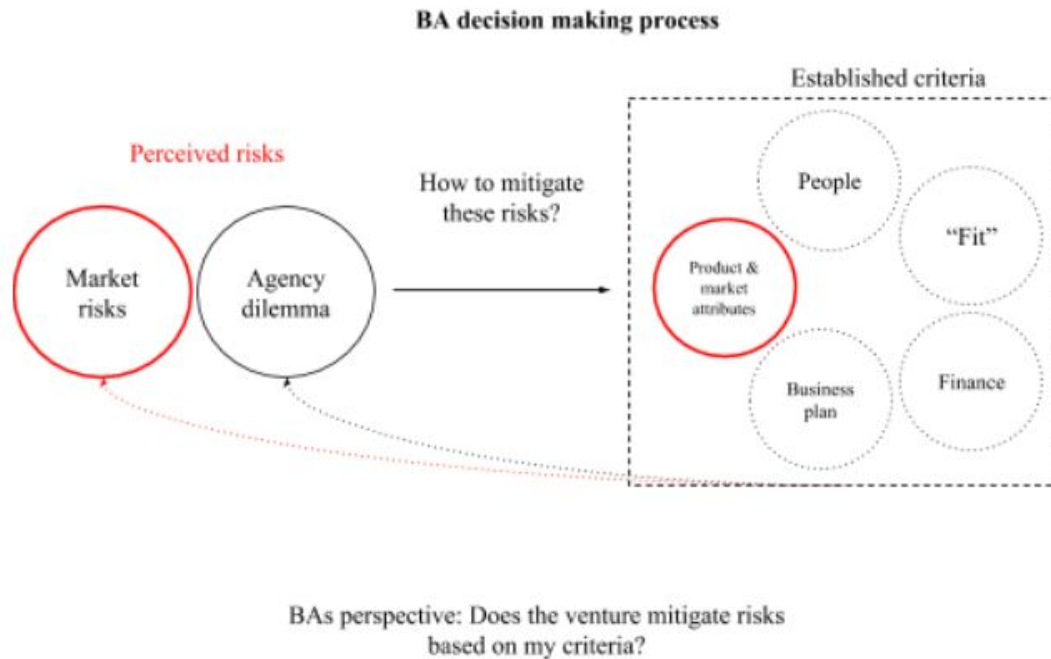


Figure 2

When we isolate the reasons for rejection, the entrepreneur/team characteristics mattered even less. In contrast to that, the BAs highlighted that human capital characteristics are most important when it boils down to the decision to invest. Based on these observations, we suggest that the importance of the team increases the further you get in the evaluation and decision making process. Furthermore, rejections associated with the entrepreneur/team were based on lack of experience rather than on academic merits. We can therefore deduce from the results that the communication of the entrepreneur’s/team’s academic background is not a significant influencing factor in the BAs rejection decision.

Additionally, our results reflect a common pattern that occurs across categories is that the BAs base their judgements on their own interests and opinions rather than objective variables. Since BAs typically will be involved in the startups they invest in (Landström, 2017) they often look for products that overlap with their own interest or appear “fun” and “nostalgic”. There appears to be a collection of influencing factors from the BAs prior experience and background.

Finally, we find contrasting results to a study conducted by Maxwell et al. (2011). The study argued that early stage rejection is non-compensatory (e.g. a lack of industry experience is unable to be compensated by prior entrepreneurial experience). In our study, we find evidence for some degree of compensation between factors that influence the BAs decision. First, during the case study, there were some comparisons of academic merits to experience suggesting there is potential for a trade-off between the 2 elements. Furthermore, *“low risk but little money”* and *“high risk but big potential”* are quotes that indicate some degree of trade-off between potential value growth and risk increasing factors.

This could mean two things, first that BAs could turn down a seemingly perfect proposal if returns are too low or, BAs might be willing to invest more if returns are significantly higher even if there might be questionable elements in the proposal. Finally, quotes such as *“here there are no patents. Team is key”* suggests that the team could mitigate risk in the absence of immaterial rights. Our data also presents an average of 1.8 rejection reasons per “no” decision given by the BAs. We draw the conclusion that if there was no possibility to compensate for a shortcoming in one area, the BA should have rejected the case as soon as they encountered the first basis for rejection.

Discussion

The practical implications of our results are that often, rejection reasons are personal to the BA and an entrepreneur should not be discouraged by rejection from one individual BA. A single opinion from a BA or reasons for rejection is not at all representative of the entire BA pool. His/her reasons for rejecting a proposal are typically subjective and not based on objective flaws of a product/service. It is about finding the BA(s) that are suited to the entrepreneur/team’s personality as well as for venture goals. From our findings, we encourage entrepreneurs to already at an early stage pay close attention to the amount of capital requested from a BA and how much equity one is willing to give up for it. Since even at the deal screening stage, too little

capital sought could also be a reason for rejection, likewise, too much capital could also lead to a “no” decision.

We determine that as entrepreneur, time is a scarce resource. The entrepreneur should be selective and screen BAs in the same way that BAs screen business proposals. The entrepreneur should look into the industry the BA has experience in, ask around about their investment strategy and question if these are in line with the new venture. An entrepreneur/team should neither the most prominent or wealthiest BA in the room nor spend time approaching every BA available as they are unlikely to be the best fit for both the entrepreneur and the venture. They would also most likely deny you a meeting which can be highly discouraging in an entrepreneur’s quest for external funding.

Our results also present that the formal qualifications and experience of the entrepreneur/team in written form (proposal/presentation) matter less than the content that you communicate to the BA in a face to face meeting. BAs appear to want to get a “feel” of the entrepreneur/team behind the venture to determine if they *“have what it takes to work extremely hard for the venture to succeed”* instead of merely *“sitting there and using my (BA) investment as a full salary”*.

Study shortfalls

Although it provided us with an extremely rich data set, the initial setup of our study was to ascertain if communicating academic merits within the entrepreneur/team would affect the rejection decision of a BA during the screening process. This study proved to be unsuccessful in finding any concrete confirmation or rejection that indicating academic merit on a proposal is an influencing factor during the BA decision making process. We acknowledge that there were minute differences but nothing statistically significant as we realised our study was not the most instrumental part of our dataset.

With regards to our methodology, firstly, our results are based of a study that only included 2 cases, BetterWealth and CrowdBrewing. Hence, data collected may reflect attributes of the cases rather than decision criteria of the BAs. A closer look at the distribution of rejection statements per case indicates such an effect. Case B was rejected due to product/market issues to a much larger extent than case C. Reversely, case C was rejected due to financial attributes to a much larger extent that case B was as reflect in Table L.

Table L. Rejections per category and case

Category	Case B	Case C	Total
Investor fit	3	2	5
Financial Attributes	1	5	6
Product/Market	9	5	14
People	2	2	4
Total	15	14	29

Furthermore, although these cases shared similar traits such as stage of development and region of operation, they ultimately operated in completely different industries. BetterWealth within the banking and finance industry whilst CrowdBrewing, within food and beverage. To increase the validity of our study, it would have been more optimal if we had utilised cases within the same or similar industries. As such, using a higher number of cases and ventures within the same industry would enable both researchers to better attribute comments to specific categories with a higher degree of certainty than in our study.

Another key issue with our study was coding of the results. Due to our lack of experience in research methodology, we did not come up with a coding manual to remind ourselves of clear rules and instructions when coding statements (Bryman and Bell, 2015). As such, there were times where level 2 categories did not seem to be mutually exclusive. For example, the line between investor fit and exits strategy seemed to overlap with statements like *“I cannot see a big upside for me as an investor here”* possibly placed in either category. As such, this uncertainty in coding has to be taken into account.

Furthermore, as one researcher was primarily in charge of coding 50 pages of transcripts, intercoder reliability was not established. Since coding entails some personal interpretation from the coder, having only one primary coder would again skew the results since he/she is the only person interpreting the BA statements. There are also shortcomings of presenting the statements made by the BAs within the study as it is akin to “plucking chunks of text out of the context within which they appeared” Bryman and Bell (2015). Comments made by the BAs were analysed and categorised based on themes present and as such the background and setting of which these comments were made could have been lost in the presentation. Perhaps a video recording of the decision making process would provide a more accurate and reliable picture of the statements since we would be able to observe other nonverbal clues such as body language.

There were also issues we faced regarding the one-page presentation template for the case studies. Although this was a real-life template used by MINC, an incubator in Malmö, information presented in the sheet seemed insufficient to aid the decision making process. We recorded several requests (9 statements) for more information and at times, the BAs themselves would outrightly criticize the lack of information available in the presentation method with statements like *“this summary is not really selling the company”* and *“I would need more information to get the picture.”*

Finally, when we look at our data sample, there was clearly an overrepresentation of respondents who were BAs from the mentor pool of the Sten K Johnson School of Economics (5 of 10 respondents). This somewhat personal and close connection to the BAs might have influenced the type of statements they made during the study. Since we were also the ones conducting the interviews, we are aware that the BAs might have felt an obligation to help us with our thesis instead of remaining as impartial and objective as possible. Case interview sessions were also punctuated with stories and anecdotes that were not related to the cases and this would more likely be avoided if we interviewed BAs who were unfamiliar with us and the program. However, as the average number of stated rejection reasons did not differ significantly between

the BAs in mentor pool and the others we do not see any direct effect on our results of such biases.

Implications for future research

Whether or not aspects in a business proposal are mutually compensatory in the screening phase is still up for debate. A more controlled experimental approach could be used to investigate this issue further. For instance, during a live case evaluation, if a BA gives a product or market based reason to reject the proposal, the interviewer could tweak other parameters in an attempt to change the mind of the BA. If the tweaking of parameters leads to a successful change of mind, that would indicate that other factors could compensate for lackluster product/market strategy.

Methodologically, it also would be interesting to control the results of this thesis by running similar interviews but with a multitude of cases. For example, present the BAs a higher number of cases. Such an approach would alleviate the impact of the cases as such and at the same time keep the benefit of avoiding potential memory biases.

Finally, since our study has some limitations, there are potential avenues for future research. The linking of individual BA individual characteristics such as investment strategy and experience could be further investigated to clarify to which extent this influenced their analysis of the cases. We hope that our study will spur on future research in the understanding of BA rejection criteria during the different stages of the decision making process using a larger dataset.

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Appendix



<p>Financial Information</p> <ul style="list-style-type: none">• Company Stage: Pre-Launch• Previous Capital: 1,3M EUR• Monthly Net Burn: ~ 25K EUR• Months of runway 18• Capital Seeking: -• Valuation : - <p>Team</p> <ul style="list-style-type: none">• Founder: David, 5 years' experience advisory and private banking industry• Co Founder: Henrik, 4 years' experience banking industry and risk management• CEO: Lennart, 40+ years' experience banking industry• CTO: Andreas , 10 years' experience as a developer. Startup experience• Developer: Erik, 10 years' experience as a developer• Analyst: Dr. Martin, 3 years' experience banking industry. Oxford university (finance and Machine learning) <p>Partnerships/Advisors</p> <ul style="list-style-type: none">• Compliance: DLA-Piper Stockholm• External audit: Leif Lüsich• Internal audit: Änglamark konsult• Risk: Omeo Stockholm <p>Market</p> <p>The market for financial advice are growing fast. In Sweden the market for investment advice is roughly 3 800 BN SEK and expected to double in the next 10 years.</p> <p>BetterWealth is the first Robo advisor in the Nordic area, aiming at high end clients. The biggest competitor in Sweden today is Lysa. Lysa have a less sophisticated model and aim for the lower segment of the market. Outside of Sweden bigger robo-advisors like Betterment are growing fast and taking market share from traditional advisors.</p>	<p>Summary</p> <p>With modern technology and self-learning algorithms betterwealt will transform risk management for private investors, and private wealth management. BetterWealth use machine learning to be able to better forecast risk and to better handle stressful market scenarios. This type of risk management have previously only been available for the most wealthy private clients and institutions. BetterWealth goal is to provide a service for independent digital personal investment advice and portfolio management. BetterWealth is built on the latest research within wealth management (factor investing) and use new technology (Ai and Machine learning) to provide a highly efficient and cost minimizing solution for investments.</p> <p>BetterWealth will target private individuals in the high net worth segment, pension, and businesses customers</p> <p>Revenue Model</p> <p>Primary revenue model: BetterWealth will charge a percentage fee of 0,59 % of the customer's asset under management on a yearly basis. BetterWealth total fee will be on average half of market average today.</p> <p>Secondary revenue model: BetterWealth will also generate revenue through third party integration with existing banks and independent wealth management firms.</p> <p>This is what we have done so far</p> <ul style="list-style-type: none">• An online platform for digital investment advice• An cloud based portfolio management system• Discretionary portfolio management algorithm, built on machine learning• Signed investments - NFT och Collector bank• Agreement with Danske Bank as Custody Bank• Integration with Bank for automatic trading solution• Third party collaborations setup• Necessary agreements with - auditor, internal audit, risk control, compliance, to comply with FSA <p>Current state of company</p> <ul style="list-style-type: none">• The platform is in beta mode and is being tested• We have a proven track record of our investment process• We have successfully integrated with custody bank• We have 2 third party integrations in the pipeline• Application submitted and approved to the FSA <p>Go to market</p> <p>BetterWealth will go to market through advertising in traditional media and third party integration. We are currently in discussion with two major independent banks in Sweden.</p> <p>Marketing Plan – 24 months (Build brand, advertisements in newspapers and digital channels content marketing, social network, Video) is expected to start in April 2018.</p> <p><u>Contact: David@BetterWealth.se</u></p>
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Financial Information

- Company Stage: Pre-Launch
- Previous Capital: 250' sek
- Monthly Net Burn: -
- Months of runway: -
- Capital Seeking: 1 msek
- Valuation: 3 msek pre-investment

Team

- **Founder, CEO:** Erik, 7 years industry experience. Multiple startup experience
- **Administration:** Rikard, 7 years industry experience. Startup experience
- **Sales:** Carolin, 5 years industry experience
- **Marketing:** Lovisa, Master of Entrepreneurship (Lund). Experience in F&B Marketing. Startup experience.

Partnerships/Advisors

- Third party logistics: Hillebrand Distribution
- HoReCa sales: AMKA group/Beer Enthusiast

Market

The market for craft beer is growing fast at the same time as prices are increasing. This trend is projected to continue for the coming years. In 2016, the Swedish market was worth more than 2 bn sek of which 80% was consumed in another location than it was bought. The Norwegian and Finnish markets for craft beer are very similar to the Swedish.

The Scandinavian monopoly markets are characterized by a supply of craft beer equal to everyone. Although prices are kept low and the range quite broad, the system as such makes it difficult to be unique and to find novel beers close to release. Foreign web shops are drawing some attention and make up about 0,5 % of the market today. However, they typically either have high prices, high minimum purchases or only stock best sellers.

Summary

Crowdbrewing is the first platform that directly matches brewers' experimental project ideas with the demand from beer enthusiasts. In a classic crowdfunding manner, the beer will only be brewed only if enough demand has been proven beforehand. This approach allows us to directly match brewers' experimental project ideas, with the demand from beer enthusiasts. This helps satisfy beer enthusiasts' curiosity and need for novelty while craft brewers are able to test their creative ideas whilst reducing their own risk of brewing an unpopular beer.

Our target customers are beer enthusiasts who are active in online brewing communities. These individuals are possible to reach in a very cost-effective manner, especially via social media. In Sweden, we have identified 30 000 such individuals. Our potential user base however is much larger and includes also all beer enthusiasts that are not active in social media communities.

Revenue Model

Primary revenue model: Crowdbrewing will retain 10 % of retail sales price as margin to cover fixed costs. Compared to a regular beer in Systembolaget's fixed range, our products will be about 20 % more expensive.

Secondary revenue model: Once our user base has grown, our Facebook page as well as promotional activities on our platform will generate revenue.

This is what we have done so far

- A prototype platform to host crowdfunding service
- Customer research and primary data collection
- Market feasibility tests with craft brewing community
- Agreement for production of the live platform
- Agreement with brewer for pilot tests
- Agreement with partner in HoReCa sector

Current state of company

- Platform will be fully developed and marketing scheme tested at the time of investment. If pre-defined criteria are not met, investors have the option to cancel the investment.
- Registered supplier to Systembolaget
- Member of all relevant logistics, recycling and excise tax movement organizations.

Go to market

Crowdbrewing will go to market through advertising in social media. In particular, we will initially pay for marketing through our brewers' social media channels in order to reach their dedicated fans in a trustworthy and well accepted manner.

Through a partnership our beers will also be offered to more than 200 recurring customers in the pub and restaurant sector in Sweden including high profile craft beer bars.