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Business Angels' Investment Decisions: Exploring Entrepreneur's  
Competencies as Criteria

**Master Thesis**

(M.S.c) Entrepreneurship and Innovation

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## Abstract

This thesis aims to provide a deeper understanding of how Business Angels (BA) investment process and criteria are impacted by entrepreneurial competencies (EC) when assessing the founding team during the screening phase. This study reinforces the definition of entrepreneurial competencies by bringing a new perspective on how these competencies can be classified and enhances the implication of dynamism of the initial definition.

Additionally, this study dives into the Business Angel's investment process and their behaviour regarding the choice of the founding team by using a qualitative approach to contribute to unveiling the unclarity around the Business Angels' criteria and their relationship to trust regarding the entrepreneurs. The results presented in this paper is a new classification of entrepreneurial competencies named under Synergetic Entrepreneurial Competencies (SEC), highlighting the importance of the dimension of Execution, Teamwork, Trustworthiness and Risk-Taking in Business Angels criteria and investment decision. Secondly the study confirms the interconnected nature of the entrepreneurial competencies.

Through this result, this study contributes to bring new insights about Business Angels' behaviour when considering an investment, providing a new perspective on the role of entrepreneurial competencies in their decision and furnishing a detailed framework of essential competencies of the founding team.

**Keywords:** Business Angels, Investment Criteria, Investment Process, Entrepreneurial Competencies, Attitude, Skills, knowledge

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# 1. Introduction

Over the past years, the role of Business Angels (BAs) in fostering growth in entrepreneurship has gained significant recognition and attention from entrepreneurs (Harrison et al., 2015; Avdeitchikova & Landström, 2008). Business Angels are usually wealthy, non-institutional private equity Investors who invest a part of their assets in high-risk entrepreneurial ventures. In return for their investment, they acquire a stake in the company, which gives them voting control, a share of the company and the potential for capital gains (Politis, 2008). Prior studies on Business Angels (BAs) have highlighted the usefulness of non-financial benefits like networks and business expertise in addition to the significance of early financial support (De Clercq et al., 2006). According to Avdeitchikova and Landström (2008), BAs are regarded as one of the most significant sources of finance for early-stage businesses with great promise and high risk. Despite numerous studies and research efforts on Business Angel investing (Croce et al., 2023; Wesemann & Antretter, 2023; Lefèbvre et al., 2022), it still remains elusive and lacks of clarity about the key factors that influence their investment decisions, especially during the screening stage. To understand this phenomenon, we looked at what makes entrepreneurs who they are – entrepreneurial competencies. Entrepreneurial competencies are major component to the venture creation process as they assemble all the knowledge, skills and attitudes (KSA) related to entrepreneurial intentions and actions (Al-Tekreeti et al., 2023; Van Gelderen, 2020). Thus, this study aims to clarify and explore in more depth the team characteristics through entrepreneurial competencies to extensively comprehend the decision process of BA's when considering an investment.

## 1.1 Problem discussion

Business Angels are important actors in the field of entrepreneurial finance, helping to discover and support the development of new businesses. Despite their importance, the decision-making process during investments of Business Angels remains less understood compared to more formal sources of entrepreneurial finance (De Clercq et al., 2006). Landström (2017) notes that the decisions of these Investors are influenced by a variety of personal characteristics which makes documentation difficult. Furthermore, as we dive deeper into the analysis of the investment process, it becomes evident that certain terms need to be more specific and that the existing literature has not produced an in-depth analysis of



the factors influencing the decision to invest or not, particularly regarding the trust between fund requesters and Investors. Naturally, our focus shifted to the attributes of entrepreneurs, specifically their competencies. We recognized that this aspect had not been thoroughly investigated within the context of the Business Angel investment process. Consequently, this research aims to answer the following question:

*"How are Business Angels' investment decisions influenced by entrepreneurial competencies as attitude, knowledge and skills?"*

The first evidence we must investigate this question with, is the importance of the founding team in the investment process for Business Angels. In three-quarters of the cases, the initial impressions of the founding team generally lead to rejection before a deeper investigation into the business model (Riding et al.,1995). We also have numerous pieces of evidence from the literature about reasons for shortcuts during the investment process obtained through quantitative data collection, but we lack subsequent explanations about the essence of these reasons (White & Dumay, 2020). Furthermore and going back to the team, it is clear in literature that the competencies of the founding team are predictors of entrepreneurial actions and that some competencies are essential for an entrepreneur to grow and sustain a business (Van Gelderen, 2020). However, no research has gone far enough to explore the intertwined link between entrepreneurial competences and investment intentions for private Investors (BAs).

In contrast to most studies that focus on founding teams, this study attempts to provide insights from the perspective of Business Angels, offering a new contribution for the entrepreneurial finance field. By examining this under-researched aspect, the study aims to provide theoretical and practical implications and enrich the understanding of the dynamics of the BA financing investment process.

## 1.2 Thesis Outline

In this initial chapter, we lay out the assumptions that currently guide our work and delve into the origins of our research question. In Chapter 2, we will conduct a literature review of the main theories related to Business Angels and their investment criteria. This review will provide the findings of past research efforts and an overview of the criteria that significantly influence the outcomes of the investment process. We will also introduce a theoretical framework for entrepreneurial competences and providing a detailed literature review on these competencies. Thus, Chapter 4 will present the methodology, including the research design, framework, data sampling methodology, and data analysis. We will explain the interview guide's intricacies and provide a brief explanation of its structure and purpose. We will also outline the chosen data collection methods and present the limitations of the research approach. Chapter 4 will be also dedicated to the analysis of the data collected through a qualitative approach, achieved by conducting semi-structured interviews with Swedish Business Angels. In Chapter 5, we will present the results of our research and the dynamic framework we found to understand the perceptions of the Business Angels regarding the entrepreneurial competencies of fund seekers and their impact on the go/no-go after the review of the founding team. Finally, Chapter 6 will present our conclusions, including the results, the contribution to existing literature, theoretical and practical implications, and recommendations for future research.

## 2. Theoretical Framework

The theoretical framework of this thesis focuses on three main areas: the role of Business Angels, the influence of various factors on investment decisions and the impact of entrepreneurial competences for early Startup investments. It aims to provide a complete grasp of new venture financing by exploring Business Angels' motivations, investment criteria, and contributions to Startups, as well as the impact of entrepreneurs' knowledge, attitude, and skills on their investment decisions.

### 2.1. Business Angels and Early-Stage Startup Investment

This chapter focuses on the key role of Business Angels in investing in start-ups. It begins with a definition of the concept of Business Angels, explaining their specific characteristics and distinguishing them from other types of Investors. It then delves into the different types of Business Angels, considering differences in investment approaches, preferences and levels of involvement in the Startup. In addition, the chapter looks at the motivations that drive Business Angels to invest in early-stage companies, examining both financial and non-financial components. It also discusses the investment decision process and criteria used by Business Angels and highlights the factors that influence their decisions.

#### 2.1.1. Definition of Business Angel

Wetzel (1983) originated the term "Business Angel" and provided the first definition of the term, which is over 40 years old. There is still no universal definition of a Business Angel, even after all this time (Avdeitchikova et al., 2008). One of the main stumbling blocks to a common definition is the multitude of methods applied in the research, which, by their very nature, make it impossible to agree on static denominational terms, due to the ambivalence of the results obtained. A Business Angel is defined by Wetzel (1983) as "Investors who provide risk capital, excluding family, friends, and debt capital." De Clerq et al. (2006) defines Business Angels as private individuals, who invest in Startup projects. This capital can come from their previous experience as an entrepreneur, where they collected the capital from selling their own companies, or from their prior experience as an expert in larger corporations, where they accumulated both intellectual and financial capital. Mason and Harrison (2008) describe Business Angels as wealthy individuals who invest their own capital in a new business to which they have no family connection and generally play an

active role in the Startup. A similar definition comes from Politis (2016), in addition to the financial resources provided, a BA investment also has other positive effects such as they tend to take a 'hands-on' approach by actively participating in the business as mentors, advisors and in other roles. The lack of a generally agreed-definition for the term is shown by the range of definitions. Consequently, several definitions of Business Angels are applied in different studies. While some definitions explicitly state that relatives and friends of the entrepreneurs are not included, or even just highlight their background, others describe Business Angels as those who make their own financial investments.

The two primary criteria that the majority of the previously stated definitions used are, for the purposes of this study:

- Individuals that invest their own funds privately
- Provide expertise and experience in addition to funds

For this thesis, we define Business Angels as private investors who provide their own money to Startups they support in exchange for expertise and knowledge. Because of its broadness, this definition fits into the framework of this thesis. However, it also makes a clear distinction between Business Angels and other entrepreneurial financing organizations. Compared to venture capitalists, Business Angels have an important disadvantage in that they take on greater risk because they invest their own funds into the Startups. Another factor that sets apart Business Angels from other investors is their willingness to actively participate in the businesses they invest in, thereby contributing to the success of the venture.

### **2.1.2. Types of Business Angels**

After comparing the various sources that describe the types of Business Angels, we were able to collect a great number of Investor typologies. For instance, Gaston (1989) identifies ten, Evanson (1996) five types of Business Angels and, Mason (2006) three types. In this context, we outline the basic categories of Business Angels.

- “Active Angels”: Represents the individuals who have accumulated experience in investment and are seeking for a Startup that is willing to have an Investor who will participate in the decisions by taking a role on the board or by mentoring the founders.

- “Latent Angels”: These are Business Angels who have already made investments in the past but who have not been active for 3 years.
- “Virgin Angels”: These Investors have taken steps to become Business Angels but have not yet injected capital into a company.

Moreover, Sørheim and Landström (2001) categorized Business Angels based on investment activity and competencies into the following types:

- “Lotto Angels”: These are Investors with limited managerial and entrepreneurial experience, they invest small portions of their wealth in smaller companies. They typically rely on media for information and invest individually rather than collaborating with other Investors.
- "Trader Angels": These investors show a high degree of activity, with an average of four to five deals made over a three-year period. Despite limited managerial experience, they seek high returns and invest significantly in lesser-known companies. Their involvement in invested companies tends to be limited, with shorter investment durations.
- “Analyst Angels”: Possessing extensive managerial and entrepreneurial experience, these Investors engage in relatively fewer investments. They invest modest portions of their wealth in less-established companies and often rely on personal networks for investment opportunities. They frequently collaborate with other Investors, with a regional investment focus.

### **2.1.3. Business Angels motivation**

Individuals’ decision to become private Investor is often shaped by their previous experience as entrepreneurs where they experienced themselves seeking for funding and where they met individuals with similar interest for entrepreneurship (De Clerq et al., 2006). Thus, Business Angels are Investors whose motivations differentiate from what one can expect in terms of return on investment. A study conducted by Mason and Stark (2004) explored the differences between Venture Capital (VCs) and BAs. Firstly, VCs prioritise financial returns more than BAs. VCs aim to achieve high returns for their Investors, while BAs contribute with their own capital and prefer to focus on the impact of their contribution for the development of the Startup (Van Osnabrugge, 2000). It appears that the perception of

the financial return is less important for BAs as they instead prioritise subjective assessments and intuition when evaluating potential investments. This distinction in motivation influences their investment strategies.

Delving into BAs' motivations is complex and diverse as there is a large spectrum of reasons for them to invest, going from strategic or personal to philanthropic factors. These factors are illustrated by the role BAs take in the companies they invest in. Through their active involvement, they can provide not only capital but also valuable advice, mentorship and networking opportunities (Falcão et al., 2023). In addition, some Business Angels pursue philanthropic goals by seeking to make a positive impact on society and promote innovation in their communities (Roundy et al., 2017).

## 2.2. Investment Decision Process and Criteria

The Business Angels investment decision process is complex and influenced by a variety of different factors. Business Angels typically use a flexible approach to evaluate potential investment opportunities often highly influenced by their peers (Paul et al., 2007). This process often begins with deal sourcing, where Business Angels actively search for promising companies through personal networks, industry events and online platforms. This first step is quickly followed by a screening often done during the pitch. Once a potential investment opportunity has been identified, Business Angels carry out a thorough due diligence process (Riding et al., 2007; Landström, 1998) to assess the viability and potential of the business and the entrepreneurs. This includes evaluating factors such as market opportunities, competitive environment, business model and management team (Skalická et al., 2022; Trinh, 2019). While operating this process, Business Angels often favour companies that align with their areas of expertise and industry knowledge so that they can add value beyond the pure capital investment (Vasić & Gomezel, 2022). Furthermore, Business Angels may also consider intangible factors such as the passion, commitment and vision of the entrepreneur for the business. This holistic approach to the investment decision reflects the unique blend of financial acumen, industry experience and personal judgment that Business Angels bring to the table (Skalická et al., 2022).

*Table 1: Literature review of Business Angels' acceptance and rejection based on White and Dumay (2020) including their latest findings*

<b>Authors</b>	<b>Acceptance/Desirability</b>	<b>Rejection/shortcomings</b>
<i>Feeney et al. (1999)</i>	Good management experience, Realistic expectations, Integrity and openness of owners, Potential for high profit, Reasonable exit plan, Security on the investment, Involvement of the Investor	Lack of management knowledge, Lack of realistic expectations, Lacking some personal qualities (integrity, vision, commitment), Poor profit potential, Poor fit, Undercapitalised, Insufficient information
<i>Van Osnabrugge and Robinson (2000)</i>	Entrepreneur characteristics (expertise, likeability, enthusiasm, trustworthiness), Sales and growth potential, Financial rewards, Margins, Capital requirements, Investor contribution	
<i>Mason and Stark (2004)</i>	Financial position (structure, margins, valuation, rate of return, exit route), Market issues (potential, need, competition, etc.), Entrepreneur (experience, personal qualities, management team) Investor fit (match skills and knowledge), Investor preference	
<i>Sudek (2006)</i>	Trustworthiness and enthusiasm of the entrepreneur, Quality of the management team, Exit opportunities	
<i>Carpenter and Surek</i>		Poor strategy and business

(2015)		model, Lack of competitive advantage and entrenched competition, Unrealistic expectations, Market characteristics (size, clarity, etc.), Lack of management experience, Poor valuation
<i>White and Dumay</i> (2020)	Personal experience (references), Trustworthiness (integrity and competences), Being able to contribute, Realistic expectations (flexibility)	

According to their respective papers, the authors confirm how Business Angels (BAs) impression of entrepreneurs can affect their investment decisions - simply having a good idea is not enough to secure funding. Overall, this table has shown a certain pattern and recurring criteria that Business Angels use when evaluating business opportunities regarding the qualities of the founding team.

Interestingly, understanding the decision-making process of Business Angels involves considering trustworthiness as a criterion. It is common in published papers to come across references to the factors of "trust" and "competencies" (Sudek, 2006; Mason & Stark, 2004; Van Osnabrugge & Robinson, 2000). However, it is challenging to find a clear explanation of their impact and influence in the process.

### 2.3. Entrepreneurial's Competencies Framework

In this chapter, we will delve into the concept of entrepreneurial competencies and their importance for Business Angels' investment decisions. The theoretical framework of entrepreneurial competencies for this thesis is based on the literature by Van Gelderen (2020). While the Knowledge, Skills and Attitude (KSA) framework provides a solid



foundation, it does not cover all aspects of the theory. Therefore, we have used additional literature to cover the entire range of entrepreneurial competencies in this study. We explored the different dimensions of entrepreneurial competencies and their importance for new venture creation and business growth. By integrating multiple sources to the KSA framework, this chapter aims to provide a new perspective on the competencies required for entrepreneurial success and how these influence the investment decisions of Business Angels.

### **2.3.1 Definition of Entrepreneurs' competencies**

Entrepreneurs are individuals who take calculated financial risks to establish, oversee, and expand a business that introduces innovation (Baron and Tang, 2011) and drives economic growth by entering the market in a transformative manner. They play an important role in the development of new products, services, and business models that disrupt traditional industries (Estrin et al., 2020; O'Reilly & Binns, 2019; Utoyo et al., 2019). The success of entrepreneurs is attributed to their ability to navigate uncertainty, manage risk (Knight, 1916) and learn from their experiences (Politis, 2008), particularly their failures. Their unique combination of characteristics, such as creativity, problem-solving, adaptability, resourcefulness, resilience, leadership, passion, tenacity, and vision, enables them to recognize and seize opportunities (Baron, 2006; Baum & Locke, 2004; Ward, 2004). These competencies are commonly referred to as entrepreneurial competencies (EC). Previous literature has extensively studied them, striving to uncover the secrets of a successful entrepreneurial journey and especially to understand entrepreneurial intentions (EI) and actions (EA). The entrepreneurial competencies have been analysed and developed to propose a framework to understand what influences entrepreneurial actions (EA). According to Al-Tekreeti et al. (2023), entrepreneurial intention is a process which guides entrepreneurs in planning and directing entrepreneurial actions towards creating a new business. Entrepreneurial intentions are what define the behaviour of entrepreneurs and entrepreneurial action is the practical application as the outcome of the behaviour.

In the quest to understand EI and EA, Van Gelderen (2021) identifies key competencies for entrepreneurial success, which include "idea generation, taking action, perseverance, teamwork, networking, and persuasion". These "combined and integrated" competencies are organized into themes referred to as Attitude, Skills, and Knowledge.

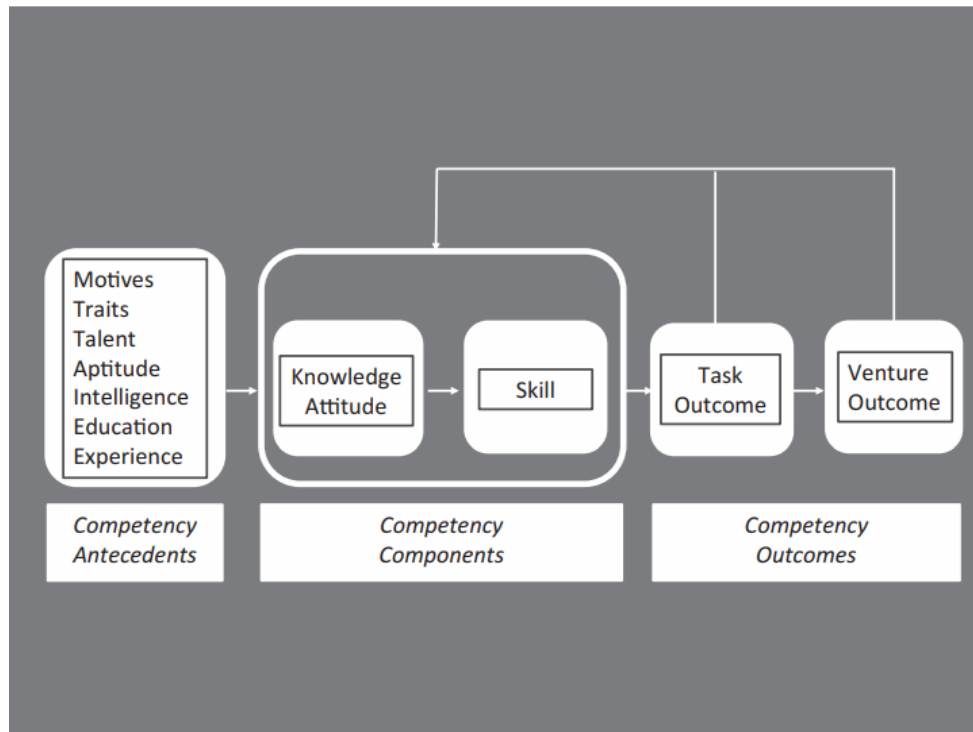


Figure 1: Scheme of competencies: antecedents, components, outcomes from Marco Van Gelderen (2020) in the chapter entrepreneurs' competencies in *The Psychology of Entrepreneurship; New Perspectives*

ECs are a set of fundamental attributes that are essential to effectively navigate an entrepreneurial journey. The importance and uniqueness of an entrepreneur's "know-how" is the central concept in venture creation and growth. However, and despite the previous research in entrepreneurial finance, its influence on Business Angels' investment decisions remains unclear and, if one must say mystical.

### 2.3.2 Entrepreneurial Competencies in Venture Creation

This chapter explores the types of entrepreneurial competencies, their importance in business creation and their impact on BAs investment decision. By examining these competencies, we aim to provide a framework for understanding the components that contribute to entrepreneurial intentions and actions.

#### 2.3.2.1. Attitude

The attitude commonly referred as entrepreneurial mindset in the entrepreneurship field is defined by the entrepreneur's state of mind and the way of acting and reacting. This mindset is shaped by dispositional beliefs including the values, individual traits and the opportunity beliefs (Pidduck et al., 2021).

When we explore the attitude component and its influence on Business Angels, we realise that it is a key element in the selection of entrepreneurs. The different aspects of the founders' attitude give BA a first feeling which will manage to a clear reaction leading to a go/no-go decision in  $\frac{3}{4}$  of the cases (Riding et al., 1995). Moreover, a study conducted by Harrison et al. (2015) analyses the relationship between the duration of the decision-making process and the experience of Business Angels. It highlights that the most crucial criterion during this first phase, whether being experienced or not, is the characteristics of the entrepreneurs. The experienced only has an impact of the time needed to take the decision.

### **Risk-taking**

Entrepreneurship is often associated with the willingness to take entrepreneurial risks. Risk-taking is defined as the inclination to accept a certain level of uncertainty in the pursuit of a desirable outcome (Knight, 1916). However, it is important to mention, that not all risks taken by entrepreneurs are equal and with the same consequences. Moreover, the level of confidence of entrepreneurs might differ regarding the categories of risk. Entrepreneurs tend to take risks which are calculated when it comes to their ability to create, develop and sell the suitable offer to respond to market demands (Wu & Knott, 2006). This means that entrepreneurs mostly have strong beliefs in what they can achieve and are more presumably to take risk. Despite this, entrepreneurs are still susceptible to losses as they may become blinded by this characteristic of their behaviour and fail to accurately interpret emotional cues from themselves and others. This can lead to poor decision-making and ultimately more losses as compared to non-entrepreneurs (Muehlfeld et al., 2017; Seloni et al., 2023).

### **Resilience**

The concept of resilience has garnered significant attention from academics, particularly after the global financial crisis of 2009. This characteristic, which refers to the ability to recover from challenging circumstances, has remained a popular topic of research as negative factors impacting the economy continue to multiply (Nautiyal & Pathak, 2023). The importance of resilience is seen by its positive impact on small business performance and survival (Santoro et al., 2020). Nevertheless, the measurement of resilience remains a vexing issue. After a disruptive event, the degree to which it has affected the entrepreneur can be challenging to discern (Ahmed et al., 2022).

## **Enthusiasm and Passion**

Entrepreneurs often display a high level of enthusiasm, which is an emotional expression of their passion and a key driver of their success. When individuals possess a strong passion for a particular field of interest, they tend to derive a sense of fulfilment and contentment from their work, resulting in positive emotions. This, in turn, cultivates a sense of self-confidence, leading to an increased sense of ambition and persistence, and ultimately, the development of self-efficacy. Self-efficacy is the term used to describe an individual's positive belief in their ability to execute behaviours, in order to achieve different performance goals (Bandura, 1997). The development of passion and self-efficacy is rooted in a feedback and loop system, whereby entrepreneurs enhance and grow these elements through their work within new venture creation (Lex et al., 2020). As a strong predictor of self-efficacy and entrepreneurial intention, passion is a crucial factor that influences an entrepreneur's success (Liao et al., 2022). Moreover, as an extension of enthusiasm, an individual's natural inclination to experience positive emotions such as joy and optimism is referred in psychology literature as Dispositional Positive Affect (DPA). This trait can offer many advantages for entrepreneurs, however, excessive amounts of DPA can have negative consequences on their decision-making abilities, opportunity recognition, and innovation development. According to Baron et al. (2012), having a high level of DPA can lead to overconfidence and unrealistic optimism, which can cloud an entrepreneur's judgment and negatively impact their success and as mentioned earlier, their risk-taking behaviour. In addition, Investors' perception of an entrepreneur's enthusiasm can play a critical role in their funding decision. While enthusiasm is generally seen as a positive trait, Investors may interpret an entrepreneur's enthusiasm as an attempt to manipulate their perception, leading to a decrease in funding interest. This situation tends to occur more likely when the entrepreneur has less experience in a particular field (Jiang et al., 2022).

### **2.3.2.2 Knowledge**

This subchapter defines the knowledge that entrepreneurs must have to effectively manage the complexities of new venture creation. This includes mastering the different aspects of knowledge necessary to grow a business (Van Gelderen, 2020). Entrepreneurs must be familiar with business models, financial principles, legal regulations and technological advances relevant to their ventures. Additionally, entrepreneurial education (EE) has been

identified as a key element in predicting entrepreneurial behaviour (Kyndt & Baert, 2015; Liao et al., 2022). It is noteworthy that educated entrepreneurs, with their extensive knowledge and experience, play a major role in breakthrough innovation, particularly in the particularly disruptive technology sector (Marvel & Lumpkin, 2007).

Despite the link between education and innovation within the entrepreneurial field, the current literature lacks a clear understanding of the impact of education on entrepreneurial finance, especially regarding Business Angels' investment decision. Nonetheless, as a base assumption, it is observed that individuals who graduate from higher ranked universities often ask for higher valuations of their Startup projects during Business Angels' rounds (Boulton et al., 2019). The reason for this finding is not clear, as a higher valuation may reflect a list of non-exhaustive motives - the cost of studies borne by students, a more qualitative network and/or a more extensive knowledge acquired through education - which remain underexplored in the literature. However, a non-accurate valuation of the enterprise is generally seen as a shortcoming by Business Angels (Feeney et al., 1999; Carpentier & Surek, 2015). Business Angels want to invest in promising ventures, and a low valuation may indicate that the entrepreneur lacks confidence in their venture, or that they have not done enough market research to support their valuation. Besides, a too high valuation can be a sign of a too optimistic vision that is not reflecting reality.

Lastly, education and experience do not necessarily result in advanced competencies in entrepreneurship and do not create trust among investors (Bottazzi et al., 2016). While education can provide a foundation of knowledge and skills, it is the application of these competencies that is decisive to success in entrepreneurship. The acquired competencies must be applied by the individual to be fully assimilated, and it is only through trial and error that entrepreneurs can develop the competencies necessary to succeed. Therefore, it can be argued that education alone may not be seen as a higher level of competency for Business Angels, but rather it is the ability to apply learned competencies that determines success of the entrepreneurs (Unger et al., 2011).

## **Understanding of Team diversity**

Pursuing on clarifying the entrepreneurial competencies that knowledge is, understanding how team dynamics work together appears to be thoroughly discussed by current literature. Firstly, it is argued that effective teams require a thoughtful and strategic approach to the selection and configuration of team members (Boss et al., 2021; Milliken & Martins, 1996), with careful consideration given to factors such as experience, skill sets, and personality traits. Secondly, multicultural background in groups tend to generate a wider range of ideas and criteria for evaluating alternatives, which often leads to better decision-making outcomes compared to homogeneous groups (Maznevski, 1994). Moreover, Jones et al. (2020) argues that diversity in teams leads to better innovation performance. The study also highlighted the importance of managing tensions, which are more common in homogeneous teams, and that leaders should use tools and strategies such as cultural assessment, team dynamics and transparent working principles.

As developed above, team composition is a multi-faceted concept that emphasises the strategic importance of assembling a diverse team capable of meeting the dynamic and volatile demands of the Startup environment (Milliken & Martins, 1996). Diversity is of great importance for Startup teams as it enables them to use a wide range of skills to tackle numerous challenges and effectively exploit opportunities. To that extend, it is crucial to have enough knowledge regarding the team composition and to understand the different skills and expertise needed to improve the team performance.

Introduced by the need of roles, frames and effectiveness, task-related diversity covers the range of expertise and knowledge within a team that are directly relevant to the accomplishment of specific tasks and objectives related to the company's strategic goals (Simons et al., 1999). However, in contrast to demographic diversity, which focuses on inherent characteristics such as age, gender and ethnicity (Joshi & Roh, 2009; Chatman & Flynn, 2001), task-related diversity defines the functional and domain-specific competencies that team members bring to the table (Milliken & Martins, 1996). For example, in a beverage Startup, task-related diversity may include expertise in product development, marketing, sales and distribution.

Lastly, the team in Startups' organisation can have a profound impact on investment decisions, especially from the perspective of Business Angels. Investors favour teams with

diverse skills and expertise relevant to the company's core missions, as they are seen as better equipped to execute the business model and achieve key milestones (Hanák, 2020). Thus, this diversity reduces the risks associated with resource constraints and uncertainties by enhancing the team's ability to capitalise on opportunities and overcome obstacles (Vogel et al., 2014).

### **2.3.2.3. Skills**

The last component of Van Gelderen's research is dedicated to the skills giving rise to entrepreneurial intentions and actions. As developed by the authors, as well as the other component of the KSA framework, there is no clear-cut list of skills as it may differ from individuals and situations. Nevertheless, reviewing the literature allowed us to identify recurring elements, especially skills that were mentioned in the criteria of Business Angels. As explored in the chapter about Business Angel's decision criteria, having realistic expectations and strong decision-making skills are needed to show reliability to BA (Feeney et al., 1999; Van Osnabrugge and Robinson, 2000; Mason and Stark, 2004; Carpenter and Surek, 2015; White and Dumay, 2020), particularly in the face of uncertainty.

However, the management skills remain the core competency that entrepreneurs should have alongside with excellent time management skills to effectively deliver and prioritize tasks to meet deadlines as well as strong financial management skills to ensure the sustainability of business operations and growth (Kyndt & Baert, 2015; Sambasivan, et al., 2009). While trying to understand the link between this combination of skills, Lazear (2005) suggests that entrepreneurs are generalists. Entrepreneurs do not need to be bright in a particular skill, but they have enough experience in different areas to bring together the different components necessary to build a successful business. The concept of being generalist is intertwined with a great sense of curiosity and adaptability that is essential to respond to dynamic market conditions (Tolentino et al., 2014).

### **Decision making skills**

Entrepreneurs should possess a mix of decision-making skills that provide them the ability to evaluate the potential returns of financial decisions (Man et al., 2002). This skill allows them to assess the factors that contribute to potential gains or losses and thus effectively influence their strategic decisions. Decisiveness is also a characteristic trait of successful entrepreneurs

are recognised for as they can take straightforward decision in the most crucial moments (Man et al., 2002; Wagener et al., 2010). Despite uncertainty and differing opinions, entrepreneurs should have the courage to make clear decisions, often relying on various sources of information and recommendations from experts, advisors and colleagues. In addition, entrepreneurs should have a sense of independence that enables them to act autonomously and trust their own judgment (Wagener et al., 2010). This independence enables entrepreneurs to make decisions confidently, even when there is no unanimous agreement or complete predictability of outcomes. Finally, they should take responsibility for their actions and the consequences of their decisions while managing their company and make themselves accountable for the result (Kyndt & Baert, 2015).

### **Leadership skills**

The success of a business highly depends on the effective entrepreneurial and leadership skills of its owners and managers (Mitchelmore & Rowley, 2013). According to Alvarez and Barney (2002), entrepreneurial leadership encompasses a range of actions, including establishing a business on a individual level, introducing innovation at the organizational stage, and exploiting opportunities at the market level. This concept of entrepreneurial leadership has been viewed as essential for entrepreneurs to remain competitive in a dynamic business environment (Fernald et al., 2005).

Hence, Cogliser and Brigham (2004) conducted an analysis between entrepreneurship and leadership and found that they converged in areas such as influence, vision, innovation, creativity and planning. However, despite this recognition, they did not provide a clear definition of entrepreneurial leadership (Roomi & Harrison, 2011), nor did they address its effective measurement (Renko et al., 2015).

Previously, Lippitt (1987) outlined six key characteristics of entrepreneurial leaders, including: “risk-taking, divergent thinking, sharp focus, personal responsibility, business orientation and learning from experience”. Similarly, Fernald et al. (2005) identified eight characteristics that successful entrepreneurs and leaders have in common, including: “motivational ability, achievement orientation, creativity, flexibility, patience, persistence, risk-taking, vision”. Despite these different types of the characterization of entrepreneurial



leadership, it still remains largely descriptive and requires more theoretical elaboration. (Roomi & Harrison, 2011).

### **Management skills**

Entrepreneurs require a variety of management skills to grow their businesses effectively. Management skills that need attention include developing new products or services, possessing leadership abilities like distributing tasks, expanding into new markets, growing the customer of the venture, and pinpointing the most effective strategies. Personal qualities and training also have a important role in shaping the entrepreneur's management skills and competencies (Sambasivan, et al., 2009).

Furthermore, managerial tasks reflect activities such as planning, organizing, directing and controlling various resources in organization. These functions are said to be goal-directed, interrelated and interdependent (Chandler & Hanks, 1994).

## 4. Methodology

This chapter is dedicated to the methodology of this thesis and describes our approach to find evidences to answer our research question. This chapter will present the research design, research strategy, the selection and criteria of the sample, the method of the data collection and will ultimately present the analysis we went through to obtain our results.

### 4.1 Research Design

This study aims to answer the following questions "How does Business Angels' investment decisions is influenced by entrepreneurial competencies as attitude, knowledge and skills?". To proceed so and according to the problem in current literature we have identified, we opted for a qualitative approach based on semi-structured interviews with Business Angels. This method was chosen to enable an in-depth examination of the role of entrepreneurial competencies in investment decisions as we identified a lack of deep understanding for Business Angels' decisions regarding the founding team. The interviews are conducted with different types of Business Angels to capture a variety of perspectives and experiences. A purposive sampling strategy will be used to select participants who have significant experience of angel investing and who have diverse backgrounds and investment portfolios. The interviews will be semi-structured, allowing for flexibility in questioning while ensuring that the most important topics related to entrepreneurial competencies and investment decisions are addressed. Finally, the data analysis will include thematic coding based on Gioia (2012) to identify patterns, themes and aggregated dimensions within the interview data.

### 4.2 Research strategy

For this thesis, we choose a qualitative method using interviews with Business Angels. This decision is based on several factors aligned with the research question and research gaps identified in Chapter 1. Qualitative methods, particularly interviews, allow for a deeper exploration and observation of the underlying reasons, motivations, and decision-making processes of Business Angels. Through open-ended questions and exploration, we can gain rich insights into the complex relationship between entrepreneurial competencies and investment decisions, capturing different perspectives and experiences that may not be fully captured by quantitative approaches. By engaging directly with participants in interviews, we

can tailor questions to obtain detailed narratives and reflections, facilitating the investigation of the topic. In comparison to case studies, interviews offer the opportunity to directly engage with Business Angels and examine their perspectives, experiences, and decision-making processes in depth.

### 4.3 Selection and Criteria of the Sample

The methodology for selecting the interview informants was based on our definition, which was based on our own interpretation and synthesis of the used literature on Business Angels in this Thesis. Despite the length of time that the term "Business Angel" has existed, there is still no standardised definition in academic discourse (Avdeitchikova et al., 2008). One of the first academic definitions comes from Wetzel (1983), who describes Business Angels as Investors who provide risk capital independently of traditional financial institutions such as venture capital firms and have a high net worth and financial acumen. However, later definitions by scholars such as De Clercq et al. (2006), Mason and Harrison (2008) and Politis (2016) introduce additional nuances and emphasize the role of Business Angels as private individuals who invest in Startup projects and often use their entrepreneurial or business expertise to take an active stake in the companies they fund.

Given the different interpretations of the term "Business Angel", we summarised the common themes of these definitions to create our own definition. This definition focused on two main criteria: First, Business Angels are individuals who invest their own funds privately, distinguishing them from formal venture capitalists who act as financial intermediaries. Secondly, Business Angels contribute not only financial resources but also knowledge and experience to the companies they support, which distinguishes them from other informal Investors.

The geographical limitation of the search covered different regions across Sweden, using a theoretically derived approach to select the interview informants (Bryman & Bell, 2011). The selected Business Angels represent a wide range of number of investment and duration of practicing this activity. To be qualified for the sample, BAs had to have at least three years of experience with individual investments and had to have made at least three investments. During the initial interviews, all BAs were asked about their investment processes and criteria as well as their involvement in the invested company to ensure that they matched the criteria

of the sample participants. In addition, the requirement for a minimum number of investments also signals a certain level of commitment and dedication on the part of the Business Angel.

We believe that the diversity and collective experience of the selected participants increases the credibility and representativeness of the interviews. To delve into detail for the selection of the sample, we started to reach out to Business Angels by being connected through the online platform LinkedIn and the Mentor Network of Lund University. This yielded a list of 23 BAs contacted. The number of investments and time of being a Business Angel was assessed through their LinkedIn profile and confirmed during the interviews. 5 BAs who met the criteria responded. Following the interviews, BAs were willing to introduce us to further Business Angels in their network. This facilitated interviews with 3 additional BAs who also met the research needs. This approach, known as "snowballing," involves contacting one participant through another. It is particularly useful for reaching BAs, who often form a large but hidden population (Biernacki & Waldorf, 1981). As previously noted, most BAs prefer to maintain a low profile, making it challenging to identify and contact them. While there are a few "Star Business Angels" well-known in entrepreneurial circles, they are exceptions rather than the norm. Nonetheless, the "snowballing" methods can provide bias regarding the diversity within the sample. We took great care to vary the sample and not choose Business Angels who all came from the same university, experience, network or gender.

Table 2: Overview of interview participants

<b>ID</b>	<b>Gender</b>	<b>Occupation</b>	<b>Industry Expertise</b>	<b>Investment Portfolio Focus</b>	<b>Years of Investment Experience</b>	<b>Number of Investments</b>	<b>Involvement in the Company</b>
#1	Male	Business Angel/Fund Partner/ Board Member	Physics/Nuclear physics	Deeptech / Life Science	6 years	15	Board member
#2	Male	Business Angel/Board Member	Life science/ Medtech sales	Life Science mainly but no specific focus	4 years	3	Mostly active
#3	Male	Business Angel/Board Member/Mentoring	Food industry	Food industry/Tech	6 years	6	Board member
#4	Male	Business Angel/Board Member	Management	No specific focus	19 years	9	Mostly active
#5	Female	Business Angel/Fund director	Sales / Industrial automation	Female founder companies B2B	14 years	15	Mostly active
#6	Male	Business Angel/Board member	Telecommunication	No specific focus	9 years	13	Mostly active

#7	Male	Business Angel/Board member	Management	Consumer goods and services	4 years	3	Mostly active
#8	Male	Business Angel/Board member	IT Background Digital Sales	Software	16 years	20	Board member

The table above provides a detailed overview of the angels interviewed and lists some key characteristics that are essential for participation in the interviews as Gender, Occupation, Industry Expertise, Investment Portfolio Focus, Years of Investment Experience, Number of Investments and Involvement in the Company.

#### 4.4 Method of Data collection

To gather the necessary data, we opted for a qualitative approach and conducted semi-structured interviews. These type of interviews enabled us to collect a diverse range of experiences, investment process methodology and opinions on the entrepreneurial competencies of the founding team. As explained earlier, interviews are valued for their ability to provide credible insights from informants and capture diverse perspectives that may not be accessible through quantitative research alone (Bryman & Bell, 2011).

The interviews, conducted between April 8, 2024, and May 5, 2024, typically lasted for approximately one hour per Business Angel, although some extended beyond the one-hour mark. These interviews provided us a large range of responses, enabling us to compare and analyse a high volume of raw data. Regarding the format of the data collection, some interviews were conducted via the online conference tools Teams and Google Meets and others in-person. To maintain objectivity, both researchers independently took notes during the interviews, which were later combined and analysed.

The interviews followed a semi-structured approach, ensuring consistency in questioning while allowing for flexibility to investigate deeper into specific topics as needed (Bryman & Bell, 2011). To mitigate biases and ensure the collection of relevant and valid data, precise

measures were implemented, open-ended questions were used in conjunction with slight guidance provided for the interviews (Ericsson, 1993). This approach aimed to prevent leading questions that could potentially steer the informants towards contradicting their own thought processes.

#### 4.5 Interview Guide

An interview guide was created based on findings from the literature, with focus on the chapters Business Angels Investment Criteria and Entrepreneurial Competencies. This extensive interview guide was divided into three different segments, each designed to provide a new exploration of the topics covered.

The first part of the interview served to explore the angel's background. Through targeted questions, we sought to lay the foundation of the discussion by asking for a detail overview of the angel's career, experience and expertise in the investment landscape. The second part of the interview then focused on trying to understand the investment process of the Business Angel as well as the focus on the founders. This segment was about finding out how Business Angels evaluate the investment opportunities and how it guides their investment decision-making processes.

The third section of the interview focuses on entrepreneurial competencies. In this section, the informants are asked with a series of questions that are designed to evaluate their understanding of the core concepts of the research to then explore the terms they used. These questions probe their knowledge on various entrepreneurial competencies and their applications. Additionally, the informants were crossed-questioned to provide examples of past experiences that have helped them assessing entrepreneurial competencies. These experiences could include anything from the different screening ways of their investment but, a focus is accorded on the three core concepts of the entrepreneurial competency framework used in this thesis - knowledge, skills and attitude. Finally, they were inquired to rate the significance of these competencies in their own investment criteria and in the broader context of entrepreneurship.

The interview then wrapped up with the conclusion of the interview, where the informant were asked to share their final thoughts and insights as well if the Investors have a change in

the investment process over the past. This final part of the interview served as a valuable opportunity for the informant to recap their perspective and ensure that all key points were fully understood and interpreted correctly.

By structuring the interview in this way, the aim was to gain insights into the relationship between entrepreneurial's competencies and investment decision-making processes among Business Angels. A more detailed overview of the interview guide, including the specific questions asked in each section, can be found in the Appendix.

## 4.6 Data Analysis

The data collection method described above enabled an in-depth analysis of the key factors relevant to the research. These factors were examined using an inductive approach and a qualitative data collection method to create a model that describes the underlying structure of the processes embedded in the text data - a data collection method that has received little attention in the entrepreneurial finance field to date. Each interview transcript was assessed using the coding approach based on Gioia et al. (2012), where the different codes were grouped into categories and themes corresponding to concepts based on the theoretical framework in the literature review in order to obtain aggregated dimensions.

### **1st-order analysis**

During the research, each interview has been recorded and transcribed using an audio-to-written transcription software called RevAI. To ensure the quality of the transcripts, we cross-checked each transcript with the notes taken during the interview. After the quality was verified, the transcripts were analysed and pooled regarding the terms used by the informants from the notes taken during the interviews. Through this process, we have identified 81 codes including 7 new codes discovered during the analyse that were shared by the informants during the interviews. The list of codes served as an important base for the analysis, allowing us to identify patterns and repetitions in the qualitative data from the interviewed Business Angels. These recurring themes were indicative of a consensus between interviewees and highlighted key areas of similarity and importance within the data set.

### **2nd-order analysis**



After the initial coding and categorization, the second-order analysis is about examining the relationships between these categories and themes. Using the qualitative text data analysis tool MAXQDA to facilitate second-order analysis, we were able to explore the relationships between the different data sets from the interviews in more depth, highlighting the presence of recurring codes and link between some codes.

In the second phase of analysis, the focus shifted to examining the relationships between the identified quotes and patterns to uncover deeper connections and insights in the qualitative data. To facilitate this exploration, a graphical representation was generated to illustrate the interplay between the different thematic elements. This visualisation can be found in the appendix A2. The resulting graph highlighted four key themes that emerged as important influencing factors on Business Angels' decision-making processes: Execution, Gut Feeling, (Team) work together and risk-taking. These overarching themes were represented as the largest nodes in the diagram, highlighting their importance within the dataset. On closer inspection, these main themes were linked to further sub-categories, forming a web of relationships that reflected the complex and different expectations within the Business Angels.

#### 4.7 Aggregated dimensions

In this thesis, the aggregate dimensions derived from the approach after Gioia et al. (2012) have been used as a systematic framework for organizing and interpreting the qualitative data from our research. This framework offers a structured approach to analysing complex data sets, with the specific aim of identifying overarching dimensions through clusters that group related themes and concepts in the data. The process involves identifying key themes and concepts, and then aggregating them into these dimensions. By doing so, we have successfully identified the entrepreneurial competencies that a Business Angel needs to trust the founders and pass the screening stage.

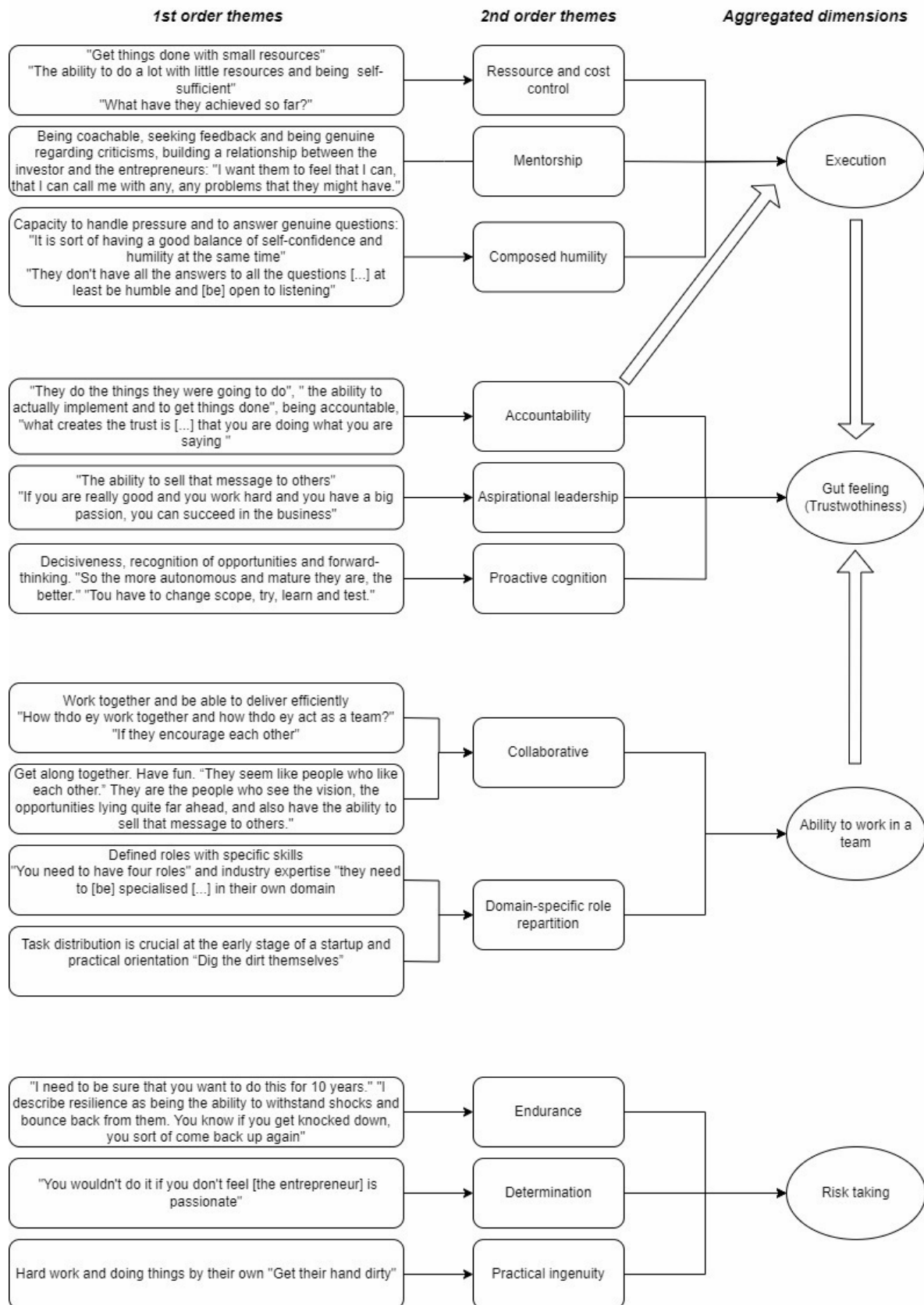


Figure 2: Diagram representing the core elements of the synergistic entrepreneurial competencies (SEC) by Business Angels when screening the founding team

The aggregate dimensions are represented by the diagram above; through our data collection and analysis, we have been able to examine, with more profound attention, the entrepreneurial competencies and their dynamics to portray the decision making process of Business Angels. To contribute to the need of the entrepreneurial finance field to comprehend at a more complex level the criteria and the choices of the Investors, we developed in the diagram and below the concepts to provide the readers with a more precise, more profound and more concrete approach to analyse Business Angel investment decision.

**Execution:** This dimension covers the importance of effective execution strategies, the ability to handle pressure and the importance of teamwork dynamics for new venture creation success and growth. In essence, entrepreneurship needs to turn ideas into action and overcome challenges with resilience and agility. Accordingly, entrepreneurs should possess three main competences to demonstrate execution intention: resource and cost control, a willingness to seek mentorship, and composed humility. Resource and cost control refers to the ability to efficiently execute tasks using minimal resources. This skill is highly valued by private Investors who are more cautious with their investments than other Investors like VCs for instance. The willingness to seek mentorship, also known as coachability, reflects the entrepreneur's attitude towards receiving feedback and implementing it to enhance their capabilities. Lastly, the attitude of humility and composure in the face of various situations, particularly those involving pressure, is seen as a key competence for entrepreneurs. BAs look for entrepreneurs who remain clear-minded, engaged, and rigorous in challenging situations.

**Gut feeling:** Within this dimension, intuition, vision and drive prove to be decisive factors that influence Investors investment decisions. Through the data collection, the role of accountability, aspirational leadership, and proactive cognition appeared clear to us as major component of attention for Business Angels. The concept of accountability involves delivering on commitments and taking responsibility, as well as demonstrating ownership. Following that, aspirational leadership is defined by combining leadership skills with the ability to articulate a vision and federate people around the vision – this can be also explain as the physical translation of the traction which a team need to effectively go in the same direction. Finally, entrepreneurs should possess strong decision-making abilities and a clear thought process, which is referred to as proactive cognition in the diagram above.

**Teamwork:** The collaborative nature of entrepreneurship stresses the importance of cohesive teamwork and effective tasks distribution. Within our framework, we identified two entrepreneurial competencies under the dimension of teamwork: collaboration and understanding domain-specific task distribution. On the one hand, collaboration requires soft skills such as communication, active listening, conflict resolution, and the willingness to share knowledge and resources, contributing to a dynamic and efficient team environment. On the other hand, understanding domain-specific task distribution is the accumulation of knowledge about task-related diversity and its benefits to team performance.

**Risk:** With our research, we have been able to observe the importance of entrepreneur's capacity to act with thoughtfulness and courage when making crucial decisions for both them and others. This dimension highlights the significance of standing behind these decisions and persisting in the pursuit of chosen goals, even when met with challenges and uncertainty. Composed of endurance, determination, and practical ingenuity this dimension cut up the decisive factors of risk-taking intention. The first component is endurance, and it describes the ability of entrepreneurs to perform in the long run. It portrays their capacity to effectively manage their time, resources, and efforts in supporting the venture's growth. The second component is determination, and it shed lights on the willingness of the entrepreneurs to accomplish their goals while being driven by their passion and showing significant enthusiasm. The third and last component is practical ingenuity. We decided to define it as the hands-on approach that entrepreneurs need to demonstrate. This definition illustrates the appetite of entrepreneurs to get one's hands dirty in the process of innovation and task execution.

## 5. Results and Discussion

The findings will be presented and discussed in this chapter. These findings will provide insight into the responses of the interviewed Business Angels and will be interpreted regarding the theoretical framework that we used as a base for our research. This chapter will present the entrepreneurial competencies aggregated into a new classification referred as Execution, Working Together, Trustworthiness and Risk-taking. We qualified the following dimensions as synergistic entrepreneurial competencies to underline their interconnection.

### 5.1. To execute

#### **Resource control**

Our research has revealed that successful execution depends on careful planning. This finding was exemplified by a scenario in which an Investor had invested in a Startup led by a highly skilled founder with exceptional fundraising abilities. Despite the founder's visionary approach and fundraising skills, the company struggled due to operational inefficiencies. Similarly, Investor 8 mentioned “the team didn't really deliver in the end” and Investor 2 mentioned that it is part of the investment process to ask, “what have they achieve so far?”. These two statements revealed a lack of cost-effectiveness and suboptimal resource utilisation exposing a critical gap in management proficiency. This gap illustrates how important it is for entrepreneurs to have solid management skills in addition to their visionary qualities. Furthermore, Investor 5 pointed out the necessity for founders to have "the ability to get things done with small resources" and "the ability to do a lot with little resources". These findings demonstrate a key insight: the ability to manage limited resources effectively is of great importance for entrepreneurs to execute.

The theory supports this observation, noting that entrepreneurs require a range of management skills to grow their businesses effectively. These skills involve the ability to plan, organize, direct, and control resources within an organization (Chandler & Hanks, 1994). Thus, the Investors' focus on resource management is coherent with this theoretical framework. Accordingly, Investor 5's comments about the need to achieve a lot with limited resources reflect the importance of efficient resource utilization, which is a fundamental aspect of planning and organization. These competencies enable entrepreneurs to maximize output.

Finally, by referring to question about achievements, Investor 2's highlighted the importance of demonstrating that results are achieved by the entrepreneur. The theoretical perspective shows that effective management involves not just planning and organizing but also delivering results. The ability to show what has been achieved with the available resources provides a clear indication of an entrepreneur's capability in resource control and management. The theoretical literature also highlights that management skills can be developed and refined over time, with personal qualities and training playing a significant role (Sambasivan et al., 2009). This suggests that some entrepreneurs naturally possess excellent resource management skills, while others can develop these skills through experience and training.

### **Mentorship**

The interviewees mentioned the importance of entrepreneurs demonstrating their ability to achieve results and learn from their experiences. Investor 4 stated, "They can deliver what they're saying, and if they don't deliver, I want to have a good explanation of why. So, have they learned something about that? Or have they done something else that was better?" Further Investor 3 mentioned, "We gave [to the entrepreneur] some feedback, and she was really interested in the feedback. She was just really absorbing the feedback. And, she just had that vibe of being somebody like I would just trust her. She knows what she's talking about. She understands her customer." These insights highlight the importance Business Angels place on adaptability and a growth mindset in entrepreneurs. Entrepreneurs who actively seek and absorb feedback demonstrate a willingness to improve and adapt their approach, which is essential for long-term success. This ability to both, deliver results and learn from failures can be viewed as a key attribute for entrepreneurial success. Bottazzi et al., 2016 found that these skills cannot be guaranteed by education and experience alone. Instead, practical application and continuous learning from experience are more relevant for Business Angels (Unger et al., 2011). By valuing these traits, Business Angels look for entrepreneurs who not only have the necessary skills and knowledge, but also the ability to grow and adapt to ensure that their ventures are more likely to succeed in a dynamic business environment.

### **Composed humility**

Entrepreneurs are expected to have skills that enable them to handle pressure and deliver results regardless of the challenges they face. Investors look for strong founders with an authentic and considerate approach. As Business Angel 4 mentioned, "Either answer it genuinely or not but, not it in a defensive way. And if they answer it in a defensive way, that's a red flag." Humility is crucial for Business Angels as they seek a founding team that can provide a vision to employees and attract talent in the future. Business Angel 7 defined this attitude as "It is sort of having a good balance of self-confidence and humility at the same time": To that extent, humility serves as an indicator for Business Angels that the entrepreneurs will be willing to be transparent, accept feedback, and unite team members. This traits is import for leader as team members are more likely to actively learn from them if they show humility (Rigolizzo et al., 2022). Besides, humility should be paired with resilience as the entrepreneurs "need to handle this chaos" declared Business Angel 6. To assess this resilience, the entrepreneurs undergo several tests carried out by Business Angels to measure their ability to demonstrate these qualities. Business Angel 5 concluded that "what creates trust is really that you are doing what you are saying and have good transparency".

## 5.2. To work together

### **Collaboration**

As shown in the diagram above, the importance of a collaborative workplace, where team members not only perform their tasks but also enjoy working together, communicate openly, and support each other, was illustrated by Investor 3 answers. The informant stated, "They should enjoy working together. They should be happy when they meet in the morning." Another point made by Investor 6 was, "How they talk to each other. When they argue, when they help each other, when they encourage each other." This highlights that the way team members interact and support each other, even during disagreements, is crucial in assessing the team's cohesion and potential for success. Milliken and Martins (1996) confirmed that collaboration and effective communication is of huge importance for managing team dynamics and promoting transparent working principles. The same statement has been confirmed in another study conducted by Boss et al. (2021).

### **Domain-specific role repartition**

Regarding the role of team member and their tasks, Investor 4 mentioned the importance of having specific roles within the team, stating, "I think you need four roles. You need a

salesperson, a banker[...] a producer[...] a project manager, one person to make sure all four work together in an efficient way." This highlights the necessity for diverse skills and expertise relevant to the core missions of the Startup. Interestingly, Investor 5 pointed out the importance of gender-based diversity, saying, "I can trust the female founders more in a way," and further elaborated, "It may be men and women, it may be different cultural backgrounds, it may be different ages. So, I think a mix is in many aspects better, but I think we would not invest in like an all-male team." These Investors' insights reflect the practical application of the theoretical concept of role-specific diversity. The emphasis on specific roles such as salesperson, banker, producer and project manager are also mentioned in the literature, which suggests assembling a diverse team with different skills and expertise relevant to the core tasks of the organization (Milliken & Martins, 1996). Additionally, the emphasis on gender-based diversity from the Investors is supported by additional authors, who suggest that diverse team compositions, especially gender diversity, can be beneficial for a Startup team (Chatman & Flynn, 2001; Joshi & Roh, 2009). These studies combined with the practical insights of Investors highlight the importance of a diverse approach to team composition, which can increase the potential for success of entrepreneurial ventures.

### 5.3. To build trust

#### **Accountability**

We discovered that trust was typically established based on emotional perception rather than rational input, particularly in relation to the overall impression conveyed by entrepreneurs. The key factors identified for building trust were primarily connected to attitude, consistent with findings in previous studies. The study, aligning with previous research also revealed that Investors were not particularly responsive to experience and knowledge (Bottazzi et al., 2016) and were heavily influenced by their peers when it came to the availability of investment opportunities (Paul et al., 2007). The term "gut feeling" has traditionally been utilized to depict the emergence of emotional perceptions. This sensation can be regarded as the physical embodiment of intuition, denoting the capacity to promptly comprehend or discern something based on emotions rather than empirical evidence. Investor 7 articulated this sentiment as follows: "If it doesn't feel right in the stomach, then you have the ability to check them out. If you have that feeling, you usually do not even take it to that next step."



Accountability is the ability to fulfil obligations and keep promises. Accountability is of great importance in entrepreneurship as it can be the deciding factor between the conception of an idea and its realization. Investors place a high value on accountability because they need assurance that they are working with individuals who can deliver on their commitments. As a form of being accountant, the statements "When things go wrong, speak up" and "speak up when a problem occurs" (Investor 8) explained the importance of transparency and honesty between Investors and entrepreneurs. Furthermore, Investor 3 elaborated on the risks of an overpromising attitude: "I think that's a very good way of losing books, friends, and businesses. If you think you're too cool or too high, or you think you can do everything. I mean, if you are a 55-year-old CEO, you probably prove yourself as quite a good business leader. But, if you come to me as a 25-year-old who thinks he knows everything, that won't work. Not for me at least". The literature confirms these findings and shows that transparency and honesty are fundamental in the Investor-entrepreneur relationship. Previous research indicates that an overpromising attitude is perceived with scepticism by Business Angels, who consider it overly as an overly risky behaviour (Muehlfeld et al., 2017; Seloni et al., 2023). This reinforces the importance for entrepreneurs to have a balanced approach, where confidence is paired with realistic commitments and clear communication.

### **Proactive cognition**

Entrepreneurs need to be proficient in various areas including answering diverse questions related to technology, business development, or customer insights. This proficiency supports their ability to make informed decisions that are needed to the success of their business. The Investors mentioned during the interview: "This is one of the toughest things for entrepreneurs—having a good process for making decisions." "Having clear answers, being able to answer all different kinds of questions, both technology questions and business development questions, customer questions, knowledge about customers and everything. The need for a robust decision-making process corresponds with the characteristics and skills that Man et al. (2002) and Wagener et al. (2010) identify as crucial for entrepreneurs. These researchers argue that successful entrepreneurs possess a unique set of decision-making skills that enable them to evaluate the potential returns of business decisions, considering both the benefits and risks. In the world of uncertainty and growing complexity, having a clear decision-making process is a hard criterion for Business Angels.

### **Aspirational leadership**

Entrepreneurs must not only demonstrate strong leadership qualities but also strive to earn the respect and admiration of potential Investors. "The founders must have the ambition to become the best in the world", "I want to be impressed and I want to feel that I can contribute to their company or to them as entrepreneurs", these quotes from Investor 3 emphasises that the ambition of the founders to be the best demonstrates an important characteristic of entrepreneurial leadership: vision. The vision, as noted by Cogliser & Brigham (2004), is a convergence point between entrepreneurship and leadership. This vision not only sets the strategic direction of the company but also inspires stakeholders and attracts potential Investors or partners who wish to contribute meaningfully to the venture. However, the quotes also highlight the ongoing challenges in defining and effectively measuring entrepreneurial leadership. As pointed out by Roomi and Harrison (2011) and Renko et al. (2015), the lack of a clear definition and effective measurement tools makes it difficult to precisely assess the impact of entrepreneurial leadership on business success. Furthermore, the quote shows the characteristics that entrepreneurial leaders need to possess. These include not only the vision and ability to influence but also the ability to take risks, think divergently, and learn from experience as outlined by Lippitt (1987) and further supported by Fernald et al. (2005). Each of these traits contributes to forming a resilient, adaptable, and forward-thinking leader capable of navigating the complex landscapes of modern markets.

#### **5.4. To take risk**

##### **Endurance**

Widely defined in the literature on entrepreneurship, the entrepreneur is an individual who takes risks and acts under uncertainty in order to make changes in the market. This appetite for risk is therefore inevitably present in our results. Taking risks is a dimension that is made up of precise characteristics defined by Business Angels, notably endurance, determination and practical ingenuity. Firstly, when it comes to endurance and developing stamina, Business Angel 1 declared "you're a little naive when you start a company, because no one really knows, especially when they start the first company, they don't know how much effort, and how difficult it is to start a company. The attitude is very important - not to give up". These findings are aligned with the current literature on the topic as endurance is mentioned by Rigolizzo, Zhu and Harvey (2022) under the term "persistence" in key leadership skills.

## **Determination**

The authors found in their research that it was important for Investors to sense and see in entrepreneurs what drives them. The perception of the entrepreneur's drive was described by Investor 6 as "you get a feeling when you're in the room with them. I mean, again, are you prepared? Are you without prestige or are you humble or are you hungry or are you a winner? You have a winning attitude". It is very important for Investors to know that the entrepreneurs are going to have a role in pulling the project along sufficiently for it to be a success. The key words we have identified around this attitude are "passion", "drive" and "enthusiastic". This statement has also been described in the literature where we can read that entrepreneurs are often enthusiasts and passionate people. Nevertheless, an over-optimistic attitude towards their capabilities can be an obstacle and a deal-breaker, as they may be perceived as unrealistic (Baron et al., 2012).

## **Practical ingenuity**

As mentioned earlier, in our definition of risk-taking, the ability of entrepreneurs to take risks can be predicted by their willingness to personally undertake difficult tasks. For instance, some entrepreneurs are not the type to delegate tasks to others, preferring to get their hands dirty themselves as explained by Investor 3 "They are not the ones that are putting tasks on someone else. They want to dig in the dirt themselves" or as mentioned by Investor 7 "They might need actual hands on the ground to do something for them". This shows the entrepreneurs strong inclination towards taking-action regardless of the challenges and risks involved. Furthermore, successful entrepreneurs often have a history of hands-on entrepreneurial activities from a young age. Business Angel 3 highlighted the importance of these early-life experiences as predictors of entrepreneurial actions by mentioning "Did they do anything before they were doing entrepreneurial things? Did they sell things in the youth? Did they sell lottery tickets or magazines? Did they handle a big event? Did they sort of envision something and then go for it?". Taking-action and taking risks are key competencies developed by Van Gelderen (2020) in his framework to explain entrepreneurial competencies. Nonetheless, as highlighted by the Investors, this trait should be "balanced" as it can also alter entrepreneurs' decision-making and lead to more significant loss (Muehlfeld et al., 2017; Seloni et al., 2023). Furthermore, taking-action, having done entrepreneurial activities in early-life stage, shows the Investors, that this person already has an entrepreneurial intention.

## 5.5. Connection of the dimensions

One of the most important outputs of our framework is its dynamic dimension. By showing the synergetic nature of the dimensions and the dynamism of the entrepreneurial competencies, our research help to better understand the meaning of “combined and integrated components” introduced by Van Gelderen (2021) in his most recent writing. This research also contributed to provide a clearer definition of trust in the investment process of Business Angels. Interestingly, these competencies are not isolated; instead, they interact synergistically to create a positive overall impression in the eyes of the Investor. We thus noted that the ability to execute and work in a team strongly contributed to increasing the ability of entrepreneurs to create trust. We also observed that it was difficult to place specific themes in dimensions and maintain a static model because themes such as "accountability" generate a sense of trust.

Thus, we first find that accountability was an important factor of trust as by endorsing responsibility, the entrepreneurs were trustful. In essence, being accountable transforms projections into tangible results. This accountability also aligns with the execution dimension, signifying the fulfilment of commitments made.

Similarly, we have observed that the aspects of execution and teamwork are significant contributors to the establishment of trust. Rather than being predictors to trust, these dimensions should be regarded as entrepreneurial competencies that also serve to amplify the emergence of trust.

## 6. Conclusion

This chapter summarises all the results we found, showcasing the contribution, highlighting the research limitations, giving recommendations for future research and implementations into practical cases.

### 6.1 Summary of the results

This study showed the importance of specific entrepreneurial competencies for Business Angels while considering an investment in an early-stage Startup. Answering the following research questions: "How are Business Angels' investment decisions influenced by entrepreneurial competencies as attitude, knowledge and skills?" We have been able to dive into four synergistic entrepreneurial competencies (SEC) central to Business Angels' selection criteria resulting in providing a new high-level classification of entrepreneurial competencies. Our research has revealed that there is an increased likelihood of securing funding when possessing the following competencies: entrepreneurs should have strong execution skills, work effectively in teams, showcase reliability and trustworthiness, and have a balanced risk-taking attitude.

Firstly, we found that Business Angels were most likely to invest when being in front of entrepreneurs who successfully proved their ability to deliver. By diving into the Business Angels' investment process, criteria selection and decision-making, we observed that they were commonly positively influenced by three components of entrepreneurial competencies that were a clear sign of execution intention. To show their ability to deliver results, entrepreneurs must prove a resource and cost control ability, an inclination to be coachable, and composed humility regardless of the situation. We also found that accountability, which is part of another synergistic entrepreneurial competency, has a positive impact on the perception of execution for Business Angels.

Secondly, our study revealed the team's importance on two levels. On the one hand, the team dynamic is perceivable by the Business Angels. As described in the results, the team must have clear communication and a collaborative approach. It is essential for the team to have the competencies for a long-term collaboration and to ease the challenges the team can encounter, such as conflicts. On the other hand, the static part of this dimension is the team's

approach to task distribution. In early-stage Startups, it is of great importance to have domain-specific qualifications and to ensure diversity in the team. Aligning our results with the previous literature, we confirmed previous findings and added to them this dichotomy between the dynamic and static dimensions of a team.

Thirdly, the creation of trust between investors and entrepreneurs is one of the key issues that has not yet been investigated in the literature on entrepreneurial finance. To be trustful was found to be the result of entrepreneurial skills such as the ability of entrepreneurs to commit to their actions, to have a way of thinking that enables them to overcome complex situations, to be proactive in this process and finally by being a leader who goes further than managerial skills but by projecting a clear and ambitious vision that attracts talent as well as potential other Investors. Moreover, this synergy also lies in the intertwined link between entrepreneurs being able to work in a team and to be trustful as well as to be able to execute and to be trustful.

Fourthly, as a well-known entrepreneurial competency, taking risks was also identified as a criterion in the BA's investment decision process. Our study found that individual traits such as endurance, determination and practical ingenuity often predict risk-taking intentions. Additionally, these dimensions were found to be a reason to perceive risk-taking behaviours and assess the control entrepreneurs have over this behaviour. Hence, we observed that determination was seen as a form of traction but requires moderate enthusiasm; perseverance was a form of risk-taking, and the use of resilience and practical ingenuity is important for entrepreneurs to be perceived as down-to-earth and working willingly.

Finally, our study explored these competencies through a dynamic approach, which revealed their intertwining and co-influence. This approach also suggests that each of the synergistic entrepreneurial competencies needs to be part of the entrepreneurial team as the overall gut feeling of the Investors depends on the harmony of these competencies.

## 6.2 Contribution

This thesis contributes to the field of entrepreneurial finance by addressing the research gap in understanding Business Angels' decision-making processes and providing a new classification of entrepreneurial competencies. Our study focuses on the previously under

researched aspects of entrepreneurial competencies - attitude, knowledge and skills - and how these factors influence investment decisions. While previous literature has explored the importance of founding teams, our research provides qualitative insights into how these competencies align with the expectations and criteria of Business Angels. Through interviews with different Business Angels, we found that the fund seekers should execute, work collaboratively in a team, be trustworthy and willing to take risk as it is critical to the evaluation process. Our research also highlights the importance of trust and first impression and shows that Business Angels often make quick decisions based on the founders' competencies and chemistry between them. Our findings also underscore the need for entrepreneurs to demonstrate deep competencies from the screening phase to secure investments. By providing empirical evidence and deeper insights, our research adds to the theoretical understanding of entrepreneurial finance and offers practical implications for both entrepreneurs and Investors and improves the understanding of the dynamics of Business Angel financing.

### 6.3 Research Limitations

This study has several limitations primarily attributed to our approach to data collection, the criteria and sample selection process, and the unconventional framework employed to tailor our interview questions.

The data collected represents only a momentary sample, reflecting a small subset of Investors also relying on participants' recollection of past investments which may introduce inaccuracies. Thus, drawing broad generalisations from this data may be unrealistic due to the narrow focus on specific topics and industries, which can vary among Business Angels based on their preferred investment sectors. Moreover, our research was constrained within specific parameters, including geographical location, investment scope, and investment experience which reduce the possibility to generalise the findings. Additionally, the method of contacting Business Angels through their LinkedIn networks and personal acquaintances resulted in a very small number of women being reached. Therefore, it is not possible to draw general conclusions that are applicable to all genders based on this limited sample size.

Subsequently, we were also confronted with the effects of language change observed in connection with the terms attitude/skills/knowledge. Most of the time we had to clarify the difference between these terms in the sense in which it is understood in the literature.

Although the results may not be universal, they provide initial insights into how Business Angels' investment strategies and criteria are influenced by fundamentals and experiential learning from previous investments.

#### 6.4 Future research

As the specificity of defining the Business Angels investment approach was complex and concerns the study of individual behaviours, future research on the investment decisions of Business Angels should take different paths to deepen understanding and improve practical applications. The first recommendation is to extend the research on the impact of SEC in the investment process for another type of BA. As mentioned in the methodology section, we chose a sample based on our understanding of the definition of a BA. This recommendation also applies to the geographical choice of the sample as we decided to focus on Sweden – the results might differ from one country to another. The second recommendation we have for academics is the design of the data collection, as we decided to lay our theoretical background around a specific framework known as KSA by Van Gelderen (2020), a different classification of entrepreneurial competencies might produce new findings. Lastly, the results, in essence, deviate from the method of data collection; it might be of great contribution for the field to use different methods of data collection, such as verbal protocol or case studies.

#### 6.5 Practical implications

The results found in this study have solid practical implications for entrepreneurs and Business Angels. For entrepreneurs, understanding the significance of attitude, skills, and knowledge can assist them in refining their approach to attracting investments. By revealing the importance of synergetic entrepreneurial competencies, our framework highlighted the need for entrepreneurs to create an environment of trust by mastering specific knowledge, skills, and attitudes that predict entrepreneurial actions. Furthermore, to address the issue of trust perception and underscore the significance of the founding teams during the investment process in an Angel Round, we advise Business Angels to recognize patterns and behaviours



that contribute to these synergistic aspects. It is important to note that the intuition and experience of BA's should be used to look through our framework, as one perception of a situation differs from individual to individual. Lastly, our research demonstrates the value of Business Angels investing time in observing and engaging with entrepreneurs prior to making investment decisions. Through different tests, communication, and observation, Business Angels can unearth key indicators of entrepreneurial actions. By incorporating these practical insights, entrepreneurs and Investors can better navigate the complex investment landscape.

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## Appendix

### A1

#### Interview Guide:

##### Introduction:

1. Greeting of the informant and expression of gratitude for their participation.
2. The purpose of the interview is to analyse the decision process of BA regarding the. We are scheduling an interview that is anticipated to last approximately 45 minutes. Does this align with your availability?
3. This thesis is conducted with a commitment to respect the confidentiality and privacy of all participants. Participation is voluntary, with informed consent obtained from all individuals involved. Data will only be used for this research and related academic outputs, ensuring ethical standards and legal requirements are met.

##### Background Information:

1. Can you please provide some background information about yourself, such as your age, occupation, experience as a Business Angel, your investment portfolio, and your industry expertise?
2. How many investments have you done in Startups as a Business Angel?
3. How do you take action with the companies you invest in? For example, do you take on board roles or assist with networking?
4. Can you describe the types of ventures or industries you invest in, and what motivates your focus on these areas?

##### Topic Questions:

1. Before going into the detail of your criteria can you explain us, how does investment opportunities come to you?
2. Can you describe us the funnel these opportunities goes through before you take the decision to invest or not?
3. What are the criteria you are assessing during these steps?

4. In [the step regarding entrepreneurs], what are the criteria regarding the entrepreneurs you have when considering investment opportunities?
  - a. *Do you have certain criteria you use to assess the individual characteristic?*
  - b. *What does it mean to you? And what do you include?*
5. Could you share which personality traits you prioritize in the founding team when assessing investment opportunities, and explain your reasons for focusing on these traits?
  - a. Additionally, could you explain how these traits influence the outcomes you anticipate for the Startups?
6. Do you prioritize certain skills (experience, practical) in the founding team when evaluating investment opportunities? And why?
  - a. Additionally, could you explain how these factors influence the outcomes you anticipate for the Startups?
7. Do you prioritize certain knowledge (linked to education, theoretical) in the founding team when evaluating investment opportunities? And why?
  - a. Additionally, could you explain how these factors influence the outcomes you anticipate for the Startups?
8. Do you prioritize different competencies based on the sector in which the Startup operates? If so, how do these preferences influence your investment choices
9. How important is an entrepreneur's ability to learn and adapt in your investment decision-making process?"
10. In which situation, did you have to ask for more details regarding the founders?
11. What factors can create doubt in you regarding the team?
12. What factors can create trust?
13. What are the deal-breakers regarding founders that would deter you from investing in a Startup?

In your experience, which competencies have the strongest impact on the success of a Startup, and hence, your decision to invest?

Reflecting on this interview and more generally on your overall experience as a BA, how does your criteria regarding entrepreneurial competences evolved over time?

Conclusion:

1. Summarize key points discussed during the interview. Do you have any additional insights or comments to mentioned regarding these points?
2. Express gratitude for their participation and willingness to share their expertise.
3. Confirm the informant's contact information for any follow-up questions or clarifications.

Closing:

1. Reiterate confidentiality and assure the informant that their input will be valuable for the research.
2. Thank the informant once again for their time and contribution to the study.

# A2

## Data Analysis



Figure 3: List and occurrences of codes in interviews

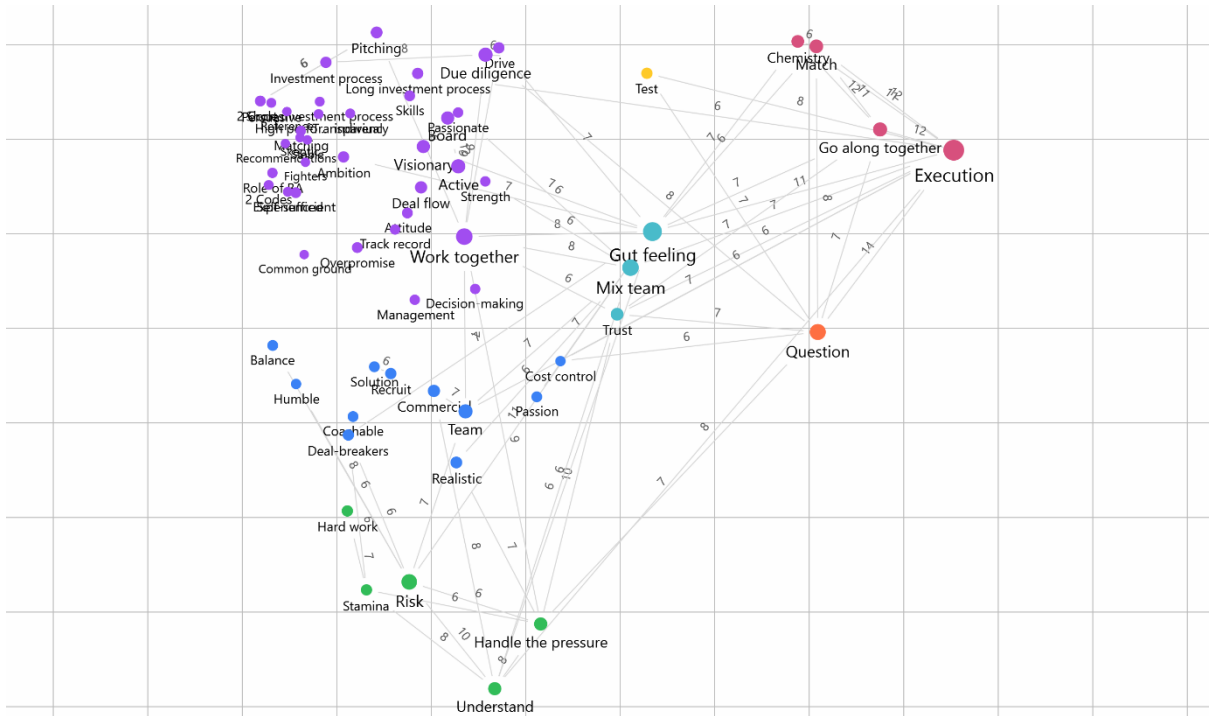


Figure 4: Links between codes and identification of nodes



Figure 5: Visualization of the most recurring codes