



# LUNDS UNIVERSITET

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## **From Funding to Flourishing – Startups Partnership with Business Angels**

A qualitative multiple case study that investigates what factors influence startups ability to utilize the resources provided by Business Angels, and how these factors affect the utilization.

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# Sammanfattning

**Examensarbetets titel:** Från Finansiering till Framgång – Startups Samarbete med Affärsänglar

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**Ämne/ kurs:** FEKH99, Examensarbete i entreprenörskap och innovation på kandidatnivå, 15 högskolepoäng.

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**Handledare:** Joakim Winborg

**Fem nyckelord:** Affärsänglar, Startup, Faktorer, Resurser & Utnyttjar

**Forskningsfråga:** Vilka faktorer påverkar hur startup-grundare utnyttjar de resurser som tillhandahålls av Affärsänglar, och hur påverkar dessa faktorer utnyttjandet?

**Syfte:** Att undersöka vilka faktorer som påverkar startups förmåga att tolka och utnyttja de resurser som tillhandahålls av Affärsänglar, och hur dessa faktorer påverkar utnyttjande.

**Metod:** Kvalitativ flerfallsstudie med semistrukturerade intervjuer, där empirin analyseras med hjälp av det teoretiska ramverket.

**Teoretiska perspektiv:** Det teoretiska ramverket består av komponenterna: Affärsänglars värdeadderande, Agentteori, Initialt Humankapital, Absorberande kapacitet.

**Resultat:** Resultatet från studien identifierar sex avgörande faktorer som påverkar hur startups utnyttjar resurser samt hur dessa resurser påverkar utnyttjandet. Dessa faktorer är: *Tidigare kunskap och initialt mänskligt kapital, Styrelseengagemang, Överensstämmelse mellan mål och intressen, Snabb kulturell och strukturell anpassning, Öppenhet och Förtroende, Social integration och kommunikation.*

**Slutsats:** De sex faktorerna påverkar alla startupgrundares förmåga att utnyttja de resurser som Business Angels tillhandahåller, var och en på ett speciellt sätt. Vissa av faktorerna har dock liknande egenskaper när det gäller påverkan på utnyttjandet, men uppvisar ändå vissa skillnader och bör därför presenteras separat.

# Abstract

**Title:** From Funding to Flourishing – Startups Partnership with Business Angels

**Seminar date:** May 30th, 2024

**Course:** FEKH99, Bachelor Degree Project in Entrepreneurship and Innovation Management, Business administration, Undergraduate level, 15 University Credit Points

**Authors:** Daniel Milde, Moltas Rydén, Fabian Larsson

**Advisor/s:** Joakim Winborg

**Key words:** Business Angels, Startups, Factors, Resources & Utilize

**Research question:** What factors affect how Startup founders utilize the resources provided by Business Angels, and how do these factors affect the utilization?

**Purpose:** To examine which factors affect startups' ability to interpret and utilize the resources provided by business angels, and how these factors affect the utilization.

**Methodology:** A qualitative multiple-case study with semi-structured interviews, where the empirical data are analyzed with help of the theoretical framework.

**Theoretical perspectives:** The theoretical framework consists of the components: Business angels value adding, Agency theory, Initial human capital, Absorptive capacity.

**Result:** The result from the study identifies six crucial factors that influence how startups utilize resources and how these resources affect their utilization. These factors are: *Previous knowledge and initial human capital, Board engagement, Alignment between goals and interests, Rapid cultural and structural adaptation, Openness and trust, Social integration and communication.*

**Conclusions:** The factors all affect startup founders' ability to utilize the resources provided by Business Angels, each in a particular way. However, some of the factors share similar characteristics in terms of the affect on the utilization, but still present some differences and should therefore be presented separately.

# Acknowledgement

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Lastly, the researchers would like to direct a big thanks to the supervisor of this thesis, Joakim Winborg. Your guidance and feedback, but especially, your engagement as a supervisor deserves all gratitude, and was definitely a major contribution to this thesis.

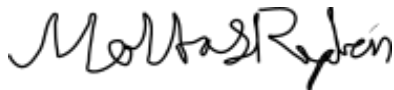
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# 1. Introduction

*In this chapter, the background of the study is presented to the reader, whilst linking it to contemporary developments in the entrepreneurial landscape. The background leads to a problematization, where the current study is connected to previous literature and theory, identifying gaps in the existing research. Following this, the purpose of the study and the associated research question are articulated, aiming to explore the specific factors that influence how startups utilize the resources provided by BAs and how these affect the utilization. Lastly, four main areas within the study are explicitly described.*

## 1.1 Background

Starting a new business is complex and entails a lot of pivoting around the varied encountered tasks, dealing with a wide range of different stakeholders. In the development phase, a new business is simply a commercial experiment, involving a number of hypotheses or assumptions regarding market needs, resource availability, product specifications and organizational competencies that needs to be put to test (Block and MacMillan, 1985). In order to put these assumptions into practice, financial muscles are often a necessary component, both for the survival and growth for the new venture. For new ventures, acquiring capital from external sources is, however, not an easy task, which is connected to the “liability of newness” (Aldrich and Auster, 1986). As new ventures lack in track record and other justifications for their credibility of future performance and advancement, according to Aldrich and Auster (1986) external actors have little reasons to back their fundings. Indicated by Star and MacMillan (1990), liability of newness is referred to as the challenge new businesses face in terms of convincing external stakeholders such as investors and customers because of their absences of performance history.

Drawing from the difficulties tied to the liability of newness, a lot of startups and new ventures face difficulties in acquiring long-term finances through more traditional channels such as banks and venture capitalist firms (Storey, 1994). Instead of turning to larger institutions for capital,



founding startups can take an internal route and rely on personal funds to finance their operations, normally coming from the three Fs', i.e., friends, family and fools (Colombo and Grilli, 2007). However, personal funding is often limited and can put a constraint on the future growth of the new business (Carpenter and Petersen, 2002), and as mentioned earlier, convincing larger external capital providers is arguably one of the most difficult tasks for new businesses. Here business angels usually come in, also referred to as ("BAs"), and position themselves between the big institutions like venture capitalist firms or banks, and the internal measurements for financing the early growth stages for startups (Berger and Udell, 1998). By offering financial support in a less formal way, in contrast to other alternatives, BAs allow startups to secure vital resources for future advancement and offer additional consultancy services. Business Angels support and nurture startups in their early stages, and by time making them more attractive in the eyes of institutional capital providers (Berger and Udell, 1998).

According to prior research, Grilli (2019), Mason and Harrison (2004, 2008) there is a growing presence and activity of business angels backing startups in their early stages. Furthermore, in terms of the significant role of acquiring capital for entrepreneurial activity to prosper, business angels, according to Mason and Harrison (2000) finance a substantially greater number of startups compared to e.g., venture capital funds. Mason and Harrison (2000) continues to highlight the fact that BAs invested amount also is higher in startups' early stage in contrast to venture capitalist firms. The success of business angel backed startups is evident throughout the world, American startups e.g., Paypal and LinkedIn and European one's such as Innocent have experienced the benefits in their early stage from business angel investments and eventually became rather successful all in their respective fields (Grilli, 2019).

The stage where BAs usually occur is when a startup hasn't entered any market yet, and according to Grilli (2019) the focus lies more on testing the hypotheses of the business idea. The broad assumption is that business angels are expected to provide more than just financial support, and additionally deliver valued added expertise and consultancy to drive the development of the new venture (Politis, 2008). Match (2011) argues that the involvement between business angels and startups are not without complexities. Match (2011) continues to highlight that the relationship between the two is influenced by various aspects such as the

investor himself, the nature of the startup and the industry it operates within. A lot of prior studies have indicated startups' absorptive capacity as one key determinant for organizations to utilize external knowledge to enhance their performance (Debrulle, Maes and Sels, 2013; Zahra and George, 2002). Prior work has shown the strategic prominence of adequate external information and the benefits of absorbing it (Cohen and Levinthal, 1990), but, however, what factors that decide on how well startups utilize these external factors are not researched enough. Therefore, it becomes interesting to investigate what factors influence startups ability to digest and utilize the expertise provided by business angels, except the financial aspect.

## **1.2 Problematization**

The relationship between business angels and startups does not by itself promise any guaranteed success, and Politis (2008) stresses the belief of 'added value' except financial muscles from the business angels, and highlights what affects the value-adding potential involvement as a well under-researched area. Politis (2008) summarizes the value-added contributions of a business angel, and points out that it may be impacted by the different conditions in the internal and external environment of the new venture. However, the author doesn't explicitly mention what kind factors decide what these environments should consist of to make the best use of the value-adding contribution of the business angel. Furthermore, the BA involvement is often referred to 'relevant capital' due to their appropriate and suitable engagement (Saetre, 2003)

According to Man (2006), for startups to leverage on external expertise they need to employ entrepreneurial learning, which requires an openness, awareness and willingness to learn the right abilities i.e skills, knowledge and experience to convert the learning into use. Moreover, Mason (2006), asserts that startups who don't fully understand the importance of learning from the external environment face difficulties in terms of growth and development. This later on gave rise to researchers investigating the responsiveness or receptivity for startups to external actors' involvement (Barney et al, 1998). The author suggests that BAs or VC involvement only could be successful if the receiver of the funds, i.e., startups, are inclined to learn and to integrate the advice and knowledge.

Furthermore, business angel backed startups present good opportunities for future advancement and growth, encouraging innovation and increasing employment rates (Nigam & Gokhru, 2023). However, despite the fact that business angels provide assistance beyond the financials, there's little research that shines light on the factors that affect startups' ability to utilize those most effectively. To create a thriving partnership between them entails a lot of aspects, one of them being the alignment of vision and values (Bapat, 2003). An alignment, according to Bapat, which can be pivotal and influence decision making processes, growth of the company as well as the handling of adversities.

On the other hand, some researchers have questioned the BAs involvement, and opposed the guaranteed correlation between BA involvement and success. Two of them being Collawaert and Sapienza (2016), and Landström (1992), argue that the partnership sometimes can present itself as counterproductive and give rise to conflicts that otherwise wouldn't have occurred. Despite the acknowledgment of BAs providing more than just financial backing, earlier research has only scratched the surface of understanding the factors crucial for optimizing this non-financial support. The challenge, therefore, lies in identifying which factors influence this relationship from a startup perspective, and how those factors determine startups ability to best utilize the potential value provided by business angels.

### **1.3 Purpose and Research Question**

The purpose of this study is to examine which factors affect startups' ability to interpret and utilize the resources provided by business angels, and how these factors affect the utilization. Additionally, this study contributes by attempting to clarify and concretize what and how these factors determine startups capabilities to absorb and to use the value business angels provide except capital. This thesis targets to create knowledge and ramifications around the factors that influence startups ability to utilize the value offered by business angels.

Based on the purpose the following research question has been formulated:

***What factors affect how Startup founders utilize the resources provided by business angels, and how do these factors affect the utilization?***

## 1.4 Definitions

**Business Angel** – Also known as an angel investor. Is an individual investor, usually with high net worth that invests their money into non-listed companies, in which the person has no family connection to. In exchange for the monetary support, the angel investor receives a stake in the venture, usually in equity. Following the investment, the angel often takes an active role in the business, either as an advisor or as a member of the board of directors. Besides the capital, the angel contributes with experience, expertise and networks in pursuit to help the startup in its early stage development (Mason and Harrsion, 2008).

**Startup** – According to Panjavarnam & Balachandran (2019), a startup is by its nature a young company founded by one or more entrepreneurs that develop a certain service or product and exploit it on the market. This thesis takes a broad perspective examining startups, therefore the definition made by Panjavarnam & Balachandran (2019), that a company is considered a startup until it is ten years old is suitable. Since the thesis focus will lie on investigating Swedish startups, the more broad definition of startups will facilitate the findings of startups where there has been business angel involvement.

**Resources** – In business terms, according to Mahoney (1995), refers to anything that could be used to achieve a desired outcome, this includes human, financial, physical and technical resources. Within this thesis, resources refers to the value-adding contribution the business angels presumably are set to provide for the startup excluding the financials. These resources are derived from the BAs knowledge, mentoring, managerial experience and networks that could help the startup grow and develop (Politis, 2008).

**Factors** – The set of means within a startup that determines how external knowledge is absorbed, assimilated, and used in commercial-ends. The definition of factors in this thesis are directed to the internal means in startups that affect their ability to use the resources provided by external actors. For this thesis, the aim is to identify the factors that decide how startups exploit external knowledge, in this case, provided by business angels.

## **2. Theory**

*In this chapter, literature and theories related to the purpose of this study are examined. Initially, the concept of BAs as high-net-worth individuals is outlined, followed by a presentation of the value-added roles of the BAs. Subsequent parts delve into agency theory, diving into relationship dynamics with a following presentation on initial human capital. The chapter is finished with the presentation of absorptive capacity and summarized in a theoretical framework.*

### **2.1 Business Angels**

According to Mason and Harrison (2008) business angels or (“BAs”), are defined as individuals with high net worth and who invest their money into a non-listed venture, in which the person has no family connection to. Following the investment, the Business Angel often takes an active role within the business, normally, according to Mason and Harrison (2008) as an advisor or a member of the board of directors. There is a significant amount of research that recognizes the role Business Angel plays in driving growth for startups and new businesses (Croser et al., 2018; Shane, 2012). Given the small size and early stage of new businesses, the problem often lies internally in producing positive cash flows, leading to the acquisition of external capital as a crucial aspect for their future survival (Cooper et al., 1998). Besides the capital business angels provide, they also offer non-monetary assistance. This according to Politis (2008) includes industry knowledge, mentoring, managerial experience and reach to leverage on personal networks. As the BAs take a more “hands-on” investment approach compared to other financing alternatives e.g., venture capital, debt financing, with the aim to contribute with their experience to benefit the investment. Given that most business angels have entrepreneurial backgrounds, their participation is also expected to be beneficial for the venture (Mason and Harrison, 2008).

### **2.2 Business Angels Value Adding**

According to Politis (2008), the non-monetary assistance that business angels provide is referred to value-added, and is often derived from the BAs prior career background, which has prepared them to add value in the venture in which they have invested, steamed from their experientially

achieved business know-how. Politis (2008), categorized and identified four distinct complementary value adding roles that business angels potentially can perform, and links them all to theoretical perspectives. Politis (2008), summarizes and separates them all in a four field model, with governance or resource acquisition as the main attribute on the y-axis and human- or social capital as the source of value added on the x-axis. These are: (1) sounding board / strategic role, (2) supervision and monitoring role, (3) resource acquisition role, (4) mentoring role. These roles are to not only support the founders of the company, but also to reduce investment risks (Mustafa 2021).

### ***Sounding Board / Strategic Role***

One of the most common value-added roles that BAs have is acting as a sounding board, where the BAs deliver strategic advice to the founders of the startup taken from their extensive business know-how and management expertise (Politis, 2008). The involvement captures all from helping in formulating the business strategy, reflection on ideas, enhancing the pool of general resources and giving advice on timing for how to realize the value of the new venture. The role obliges the angel to be involved in making long-term plans for the business as well as being part of the bigger picture (Mustafa, 2021). In terms of theory, this supply of business know-how and expertise management can be connected to the resource based theory, and concerns the internal environment of a startup's resources and capabilities. These additions to the startups, are according to Politis (2008), based on the human capital linked to the BA, which are their productive knowledge derived from prior jobs, knowledge and experience. Therefore, the value provided by business angels may in this sense be considered as an essential strategic resource that is hardly imitable and neither easily substitutable, and hence of significant value for the startup (Politis, 2008).

### ***Resource Acquisition Role***

The other commonly performed value added role by BAs is by contributing to the acquisition of important resources through their extensive personal networks. This is often drawn to activities such as interfacing with investor groups, bringing forth potentially important business contact, and helping raise additional funds (Politis, 2008). The networking contribution is particularly helpful in the early stage of the startup development, and enables them to surround themselves

with the right environment of stakeholders. Although the founder should take control over important relationships itself to reduce dependency, this often becomes the case even if supported by an angel investor (Mustafa, 2021). Through this the startup gets better prepared to act upon unexpected opportunities that may arise in the market due to their strong information base and knowledge. This value-added role is then linked to the resource dependence perspective, which emphasizes the long term survival and of firms abilities to link with the external environment. For startups, to overcome the obstacles tied to shortage of internal resources it's important to rely on support of outside expertise to aid the growth and development. The value added is linked to the social capital of the BA, which enables them to perform the resource acquisition role, and additionally which is clearly, drawing to figure 1, resource provision (Politis, 2008).

### ***Mentoring Role***

The last value-added role business angels are set to provide according to Politis (2008), are mentoring activities, which is a more common relationship between more experienced business angels and less experienced entrepreneurs. According to Mustafa (2021) this implies helpfulness, openness, and truthfulness with the aim to achieve a stable and dedicated relationship with the entrepreneur central to this role. In practice, this means that the BA contributes by moral support, lifts up the spirit, provides a broader perspective, and helps dealing with sensitive personal issues. The BAs involvement in this sense supports the business operations, and also fosters solidarity and trust with the startups founders. The trust aspect here can lead to greater performance, but more importantly, it generates greater commitment and promotes a collective learning. Theoretically, this value added performed by business angels is linked to the relational governance, here as much emphasis lies on social components that will create strong bonds between the parties involved characterized by shared norms, beliefs and values. Connecting to figure 1, the value added of the mentoring role is through governance and which is based on social capital tied to the business angel (Politis, 2008).

### ***Supervision and Monitoring role***

Supervision and monitoring is another commonly performed value adding role from the business angel. Here the BAs role implies a more shielding approach to the investments main



resources providers of the startup ( e.g., debt- and equity holders, and employees), from potential managerial mistakes made by the founders (e.g., that the founders mix personal and business goals) (Politis, 2008). The more common ways for BAs to perform such activities are by instituting formal accounting systems and by serving on the boards (Mitchell, Reid and Terry, 1997). These activities allow the BA to oversee the operating matters, shield the assets of the firm, and hold managers accountable for their actions to seal future survival and success for the venture (Mustafa, 2021). The involvement of business angels’ in this sense can be linked to agency theory, which focuses on minimizing potential information asymmetry and reducing agency cost (Politis, 2008). Here the value added from the BA comes from governance, with a focus on relationships and interactions between the various resource providers of the new venture, and in combination with the human capital as the main strength of what the BA delivers.

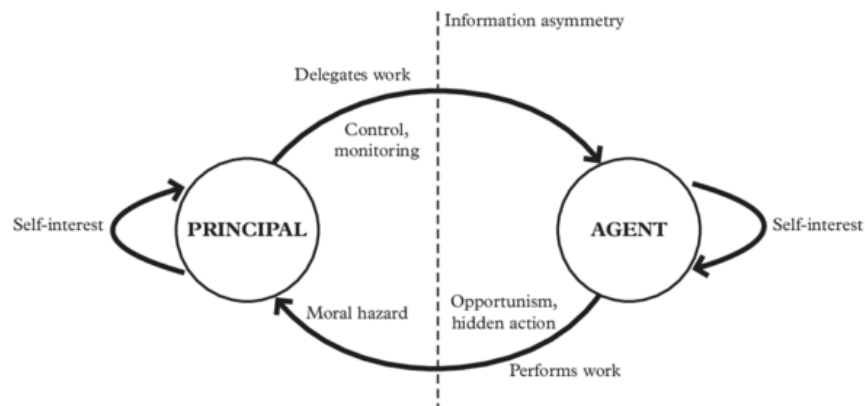
|                           | <b>Value added based on human capital</b> | <b>Value added based on social capital</b> |
|---------------------------|---|--|
| <b>Resource provision</b> | Sounding board/<br>strategic role         | Resource acquisition role                  |
| <b>Governance</b>         | Supervision and monitoring role           | Mentoring role                             |

**Figure 1 - Business angels and value added: a sorting logic - (Politis, 2008)**

## 2.3 Agency Theory

Connected to value adding and specifically the supervision and mentoring role is the agency theory. The theory provides insights into how organizational structure and governance mechanisms can be designed to reduce conflicts of interest and ensure that agents act in the best interest of the principal. It explores the relationship between principals (often shareholders or owners) and agents (often managers, employees or consultants) (Moloi & Marwala, 2020). The involvement of business angels in the supervision and monitoring of startups, as described in 2.2 (supervision and monitoring role) aligns closely with agency theory. Agency theory deals with the relationships between founders and investors, with strong focus on how founders (principals) can ensure that investors (agents) act in the best interest of the principal rather than pursuing their own goals, working as a mentor and supervisor at the startup. It seeks to understand and explain how conflicts of interest and trust can arise between the two parties and how to reduce it. The theory consists of five different key components: (1) *contractual nature*, (2) *conflicts of interest*, (3) *information asymmetry*, (4) *monitoring and incentives* (5) *agency costs* (Jensen & Meckling, 1976).

(1) Principal-agent relationship exists when the principal delegates authority and tasks to the agent, to act on their behalf. This is often made by a contract that defines the relationship and lays out the expectations and responsibilities of both parties, attempting to ensure that the agent acts in the best interest of the principal.



**Figure 2 - Model of Agency Theory - (Slyke, 2006)**

(2) The conflict of interest is a core concern of the theory and tries to explain the conflict of interest between the two parties. The agent might not always act in the best interest of the principal if their personal interest deviates from those of the principal. This misalignment can potentially lead to suboptimal outcomes for the principal. It could involve the agent prioritizing decisions increasing their own personal wealth at the expense of the principals, different long-term/short-term focus or risk preferences.

(3) Another aspect of importance is information asymmetry. The agent typically possesses more information about the actions they are taking than the principal does. This can lead to issues where agents take risks because they don't understand the full consequences or bad decisions where principals make bad choices due to lack of information.

(4) In order to address and cope with these challenges, principals often implement incentive schemes and monitor their agents. Monitoring is about keeping an eye on agents' activities to ensure they are acting in the interest of the principal.

(5) The costs involved in managing both the relationship itself but also in the monitoring of the agent are considered in agency theory. This aspect is crucial for startups, since it highlights the economic implications of ensuring that the agent acts in the best possible way. To balance the costs and benefits, it is important to optimize the monitoring, use cost-effective bonding strategies and minimize residual loss.

In conclusion, the agency theory helps navigate the complexities of principal-agent relationships, offering help and strategies to ease risks and enhance cooperation and mutual benefits. To continuously refine strategies through more effective monitoring, better contracts and aligned incentives, an organization can achieve improved outcomes and enhance trust and cooperation with the agent.

## **2.4 Initial Human Capital**

One of the main determinants for new ventures performance as indicated by Cooper et al. (1998) are how well general human capital is within, which then reflects the extent on how relevant skills and contacts could be developed in the new business. Indicated by Cooper et al. (1998) access to general human capital depends on which degree these three factors are developed: (1) General background, (2) Management know-how, (3) Specific industry know-how. The authors refer to (1) as the educational level the entrepreneur of the new venture has, and connects it to knowledge, skills, problem solving ability and discipline. This enables the entrepreneur to better encounter problems and hence increasing the chances of success, and supports that there is a somewhat correlation between educational level and performance. Furthermore, the authors describe (2) as knowledge on how to navigate and manage the enterprise. This could be derived from various sources, and according to the authors some of the sources of management know-how come from: parents who owned a business, work experience, professional advisors and partners. Moreover, Cooper et al. (1998) refers to the availability of know-how to the specific industry or line of business in the venture. This know-how grows from previous experience, and encompasses all from tacit knowledge about products, processes, technologies to relationship with suppliers, customers and other relevant stakeholders within the specific industry. Development of these three areas contribute to startups survival and growth, but are not solely an indicator of good performance (Cooper et al., 1998).

## **2.5 Absorptive Capacity**

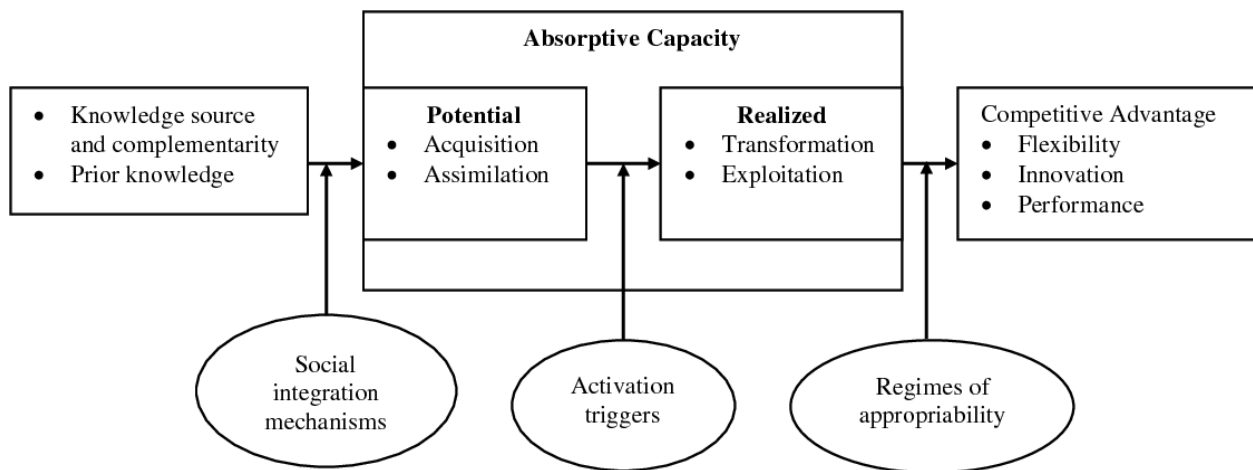
Absorptive capacity is the ability to locate new external ideas and influences to later incorporate and apply them into processes in order to improve organizational performance (Cohen & Levinthal, 1990). The concept is vital in the fields of innovation and strategic management and describes how effectively a company can acquire and make use of information, assimilate it and later commercialize it. The concept can be divided into potential and realized capacity as well as internal and external (Easterby-Smith, Grace, Antonacopoulou & Ferdinand, 2008). Potential capacity involves the ability to acquire and use relevant external information, while realized

capacity is the ability to later on make use of this information and exploit it into a tangible outcome. The effectiveness of an organization's absorptive capacity is connected to and depends on various aspects including communication within the organization, learnings from past experiences, diversity of expertise and prior knowledge (Easterby-Smith et al, 2008). Furthermore, there are three critical factors that an organization must work with in order to learn and develop this capacity, which are: exposure, presence of prior knowledge and diversity. Exposure to relevant information explains the importance of working with appropriate networks in order to be updated and in line with its competitors. The presence of prior knowledge is connected to the assimilation process and are, according to the authors, important in the stage of recognizing new information and assimilating it (Whittington, Regner, Angwin, Johnson & Scholes, 2019). The importance of diversity is connected to broadening the range of knowledge to which the organization can adapt and respond.

Extending on the concept of absorptive capacity, Zahra and George (2002) developed a framework that divides and conceptualizes both potential and realized capacity (figure 2), which showcases the possible outcome it could yield for a firm. In their model, they highlight external sources of knowledge and experience as bases for absorptive capacity, as well as certain triggers for it. Firstly, as mentioned earlier in this thesis, the authors suggest that the greater a firm's exposure to diverse and interrelated external sources of knowledge, the greater opportunities there are for a firm to develop absorptive capacity. Secondly, they argue that experience within a firm will affect the development of absorptive capacity, especially the search and capabilities of doing so. Moreover, Zahra and George (2002) outlines that in order to even have a chance to exploit the external knowledge and turn it into potential absorptive capacity there has to be a social integration mechanism. Knowledge exploitation requires a sharing of relevant knowledge as well as an openness to absorb it, and through that reduce the gap between potential and realized capacity, and thus strengthening the factors of efficiency.

Furthermore, Zahra and George (2002) continues to lift forward certain activation triggers that are events which encourage a firm to respond to specific internal and external stimuli. Internal triggers refers to bad performance or crisis, that intensifies a firm's attempts to achieve and develop new skills and knowledge that enhances their absorptive capacity. External triggers, on

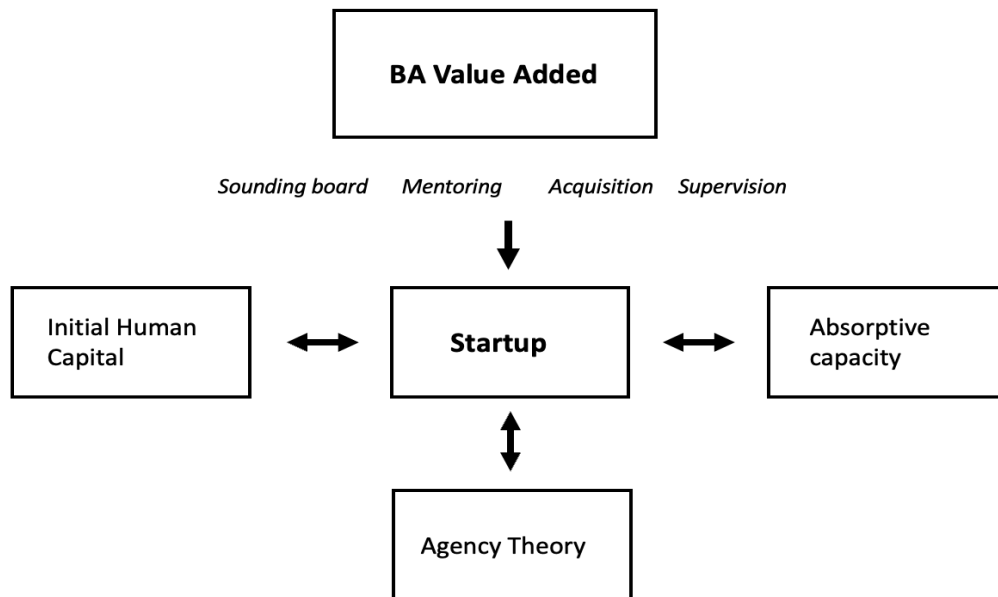
the other hand, include radical innovative changes, technological swifts , regulations etc, events which impact has broader effect. Central in triggers are that they ignite a firm's efforts to seek and exploit external knowledge, and functions as a bridge between potential- and realized absorptive capacity, as it allows a company to transform and exploit the knowledge into competitive advantage. For a firm to turn this into a competitive advantage, regime of appropriability is a necessary component, which according to Zahra and George (2002) refers to a firm's ability to protect or keep their advantages in their industry. When there is a high degree of appropriability, the payoff from realized absorptive capacity will be high due to the firm being able to protect the assets of knowledge they gained, and hence continue to present itself as a competitive advantage.



**Figure 3 - Model of absorptive capacity - (Zahra and George, 2002)**

## 2.6 Theoretical Framework

A theoretical framework has been developed in order to facilitate the analysis of the information collected from the startups founders. As brought forward earlier by Politis (2008), a lot of prior research indicates absorptive capacity and initial human capital as the key determinants for startups ability to absorb external knowledge and to utilize it. However, there's been a shortage of research that focuses primarily on what factors determine how startups absorb the value added provided by business angels. As well as if the agency theory plays a significant factor in whether or not the value added resources generated by the angel get utilized by the startup. Therefore, the main value-added role performed by the BA is determined and then evaluated based on what factors from a startups perspective affected their way of utilizing it. Consequently, the role of the business angel will be assessed, and thereafter the means of the startup to utilize the value-added will be analyzed. In hope of drawing conclusions of what and how these factors affect startups founders ability to utilize the resources provided by business angels expect capital. As a result of the theories, and with the aim of this thesis, to investigate what factors affect startups ability to utilize the resources provided by business angels, the following theoretical framework is presented.



**Figure 4** - Theoretical framework.

## **3. Method**

*In this chapter, the methodology employed in conducting the research for this thesis is explained. Each phase of the research process, including the selection of a research design, methods of data collection, and analytical techniques used, is outlined. The rationale for each methodological choice is discussed, highlighting how these decisions align with the aims of the study and influence its outcomes.*

### **3.1 Research Strategies**

This study has chosen to approach the chosen problem/question by a qualitative method, the following chapter will argue for the choice. This study will examine the complex relationship between the business angel and the startup, which involves interactions and subjective experiences that are difficult to quantify. To get a comparable result the study focuses on the perspective of the startup and conducts interviews with founders and leadership of the startups. The qualitative study provides depth, understanding and details necessary for exploring this complex phenomena (Bryman & Bell, 2015). The chosen strategy allows the researcher to capture the context where the relationships arise and develops, which will enrich the study with an understanding of broader personal, cultural and social context that are necessary in order to understand what the study is investigating.

Furthermore, the study wants to explore and understand how the startup perceive and make sense of their relationship. The qualitative method is therefore ideal in order to understand the meanings and interpretations people attribute to their relational experiences (Bryman & Bell, 2015). The perspective of individuals is additionally an attribute that will help the study examine the chosen subjects. According to Bryman and Bell (2015) the qualitative method helps the researcher gather data from the individual perspective. This will provide the researchers a comprehensive understanding of how the startup views the relationship between themselves and the angel investor and how they utilize these relationships.



This study will test and apply already existing theories to chosen subjects. According to Bryman and Bell (2015), a deductive approach is grounded in existing research and theories, from which hypotheses are formulated. Given these characteristics, this study can be considered deductive, as it uses existing research and frameworks in the given field. The deductive method provides a structured methodology, guiding the researcher through a clear sequence of research steps. The structure helps the researcher maintain focus and a clear direction through the whole process (Bryman & Bell, 2015). The given subject could also be in danger of being too speculative or personal, the deductive method opposes this. By employing a deductive approach, the potential for bias of the researchers are minimized (Bryman & Bell, 2015).

Moreover, the researchers will be careful to not only rely solely on one theory. Using multiple theories in the given field, especially since its complexity, will help broaden the perspective. The usage of different theories will provide varied perspectives (Cairney, 2013), helping the study understand the different dimensions of the relationship between startup and angel and how the startup makes use of it. This gives the researchers a more holistic view and understanding of a phenomena. The usage of multiple theories may also lead to possible cross-validation. If findings from different theoretical frameworks corroborate each other, it may strengthen the validity of the result (DeLuca, 2011). It will furthermore give the researchers the possibility of increased flexibility in analysis. The incorporation of different theories provides a more flexible data interpretation. It gives an opportunity to compare and explain the data from different angles for analysis and may lead you to a more creative and innovative conclusion.

## **3.2 Research Design**

The research design this thesis employs is multiple-case study design. In line with Bryman & Bell (2015) thoughts that a multiple-case study design is the optimal approach when trying to draw comparisons between cases, find similarities and also identify differences. The cases within the multiple-case study are often aimed at individuals or organizations, and for this thesis, it refers to organizations (startups). Since this thesis aims to investigate what factors affect and how startups utilize the resources provided by business angels, the multiple-case study design presents itself as the best alternative. As it allows for individual analysis for each case and also to

later on be compared across for identifying patterns between the cases in a more detailed thematic analysis. According to Bryman & Bell (2015), a multiple-case study gives the researcher the opportunity to investigate more than one case, and therefore allows for comparison and generates better basis for determining when theory applies and when not.

## **3.3 Sampling**

### **3.3.1 Chosen Startups**

For the qualitative interviews conducted in this study, the selection criteria for participants require that each individual possesses extensive knowledge of their respective company and its interactions with BAs. This prerequisite is important to ensure the collection of substantive data. Therefore, the objective is to interview individuals occupying similar roles across various firms to maximize comparability. For the interviews, the selection criteria for the interviewees stipulate that each individual must possess comprehensive knowledge of their company as well as its interactions with angel investors. Therefore the aim is to interview persons with the same position, in this case founder/co-founder, in the different companies for the answers to be as comparable (Bigby, Frawley & Ramcharan, 2014) and insightful as possible.

Anonymity for all interviewees was a critical aspect of the methodology. It provides the respondents with freedom to express candid opinions and share sensitive information without fear of personal or professional repercussions (Saunders, Kitzinger & Kitzinger, 2015). This openness is crucial for acquiring a genuine understanding of the inner workings of the companies and the nuanced roles of angel investors. Furthermore, the discussions often involved proprietary or competitive information that could possibly harm the company or individual if disclosed publicly. Ensuring anonymity helps protect this information and makes the interviewed person feel safer. Anonymity is also an important part of complying with ethical standards, this shows respect for the participants privacy and ensures that ethical considerations are upheld. This not only helped facilitate richer discussion during the interviews, but also helped build a foundation of trust, critical to the success of the interviews and research.

| Interview               | A                  | B       | C                  | D           | E       | F                |
|-------------------------|--------------------|---------|--------------------|-------------|---------|------------------|
| Position of interviewee | Co-founder and CPO | Founder | Co-founder and COO | Founder     | CEO     | Co-founder       |
| Years since launch      | 3                  | 9       | 2                  | 10          | 10      | 4                |
| Industry                | Fintech            | Finance | Clothing           | Advertising | Fintech | Media/production |
| Number of angels        | 3                  | 4       | 1                  | 2           | 5       | 4                |
| Employees               | 8                  | 13      | 5                  | 40          | 15      | 3                |

**Table 1 - Interviewees**

Interview D stands out because of the primarily and almost solely financial support from the BAs. Unlike the other cases, where the BAs were deeply involved in mentoring, network and strategic design, the BAs in interview D were mainly financial backers. However, the nature of this interview provides valuable contrast to the study. It underscores the variability in BA-involvement and emphasizes that capital may sometimes be the only resource a BA can provide.

**3.3.2 Method**

The chosen sampling method for this study has been purposive sampling, where the interviewers chose certain attributes and features that the participants are supposed to have to be beneficial to the study (Bryman & Bell 2015). These criterias for the participants are set up to be in line with the objective of the research, where the goal is that the interviews shall be significant and useful for the empirical evidence. Besides the purposive sampling, some opportunity sampling has been used to find suitable subjects for the study. Opportunity sampling is when available contacts, friends or similar subjects are used for the purpose of the study (Bryman & Bell 2015). Therefore the amount of 6 subjects was found suitable for the study, giving the possibility to do in-depth interviews with each while still keeping an manageable overview of the empirical findings. For this study, the criteria was startups that had either previously used or were currently using a business angel. To achieve results that were in-depth and extensive only founders and

co-founders were used as interview subjects, since they were expected to have the most insight into the relationship with the business angels.

### **3.3.3 Limitations**

An apparent limitation to the study is the sample size. Some might argue that 6 is a too small group of startups compared to be able to achieve a tangible and academic result. However Eisenhardt states that there is no ideal number of cases, and that a number between 4-10 cases are optimal. 4 are considered too few and more than 10 could be too complex (Eisenhardt, 1989).

The selected startups operate within the same geographical region and hence can arguably be seen as not totally representative for the broader startup ecosystem. This means that the studied cases may share similar economic and cultural contexts and can therefore be hard to translate to startups operating under different conditions. Despite this, homogeneity among the selected cases allows for deeper and more specific exploration of the issue (Beach & Petersen, 2018). This provides a rich and detailed understanding of complex phenomena, uniquely relevant to certain groups. The section of startups at a single point in time can provide a snapshot of the current phenomena and landscape but many lack the ability to capture changes over a longer period. This can be particularly relevant in the dynamic context which the startup often operates within. Due to the short period of time this thesis was conducted, this was not possible. Instead, the thesis aimed to interview startups with different maturity, in order to get an understanding on assumptions from 10 years ago until now.

## **3.4 Literature Selection**

The paper has used academic journals as the main source of information. These journals have been useful from the start, helping the authors form problematization and research purposes, as well as in the later stages in the paper, serving purpose in analysis and discussion. Drawing primarily on peer-reviewed academic journals, the literature is to help and highlight both the direct and indirect effects of a business angel and how the startup utilizes this. According to Bryman and Bell (2015), a peer-reviewed journal is important, as it acts as a filter to ensure that the chosen journal is of high quality. While there is a lot of research connected to this subject, the

chosen perspective is more of an uncharted territory. Therefore, the usage of keywords in order to find relevant journals have been important. Some keywords that helped the authors find relevant information was, *affects, business angels, startup, resources, etc.*

Most of the chosen literature is internet-based. Thus, there exist numerous articles. Therefore it becomes important to filter and chose literature form an author that has an impartial view of the subject, to think about why the journal was published, how recently it was updated and where the journal can be found is according to Bryman and Bell (2015), favorable ways to ensure that the journal is in fact impartial. While the reviewed literature provides valuable insights into the subject, it also reveals significant gaps, particularly in the understanding of the startups role in utilizing the non-financial support from the angel. Therefore, this paper aims to build on and continue to explore these gaps with the chosen journals together with interviews.

To help the researchers find relevant literature, ChatGPT by openAI has been used. In order to find as many new and relevant journals and articles as possible. While ChatGPT itself doesn't access databases, it can guide the user on how to search various academic databases and journals. It can suggest relevant keywords, synonyms, and related concepts that can be used to enhance search queries in databases like Googlescholar and LubSearch.

### **3.5 Data Collection**

The data collection from the startups was made through several semi-structured interviews. A semi-structured interview is described as an interview with predetermined questions that can include follow up questions depending on the answers from the subject to further broaden the understanding, hence making this method suitable for a qualitative study (Bryman & Bell, 2015). The combination of closed questions, open questions and follow up questions gave the interviewers the possibility to grasp new understandings and insights that could benefit the study by encouraging the interviewees to convey their perspectives in an open discourse. By being encouraged to give elaborate and descriptive answers the interviewees were able to express their own understanding of how the startups had utilized the resources of business angels freely. As

recommended for a semi-structured interview a interview guide was set up to ensure that the startups were asked the same base of questions (Bryman & Bell, 2015).

The interviews were made by in person meetings as well as online via video-call meetings in cases where geographical distances were too large for in person meetings. The interviews were always initiated by giving a short presentation and explaining that the interviewee and his or her company will be anonymous in the study. The interview subjects were not anonymous to the interviewers, but were anonymised in the study and in the interview transcription. Answers that were given that could lead to the understanding of which company was being interviewed were also blurred out from the transcriptions in order to keep the interviewees identity hidden.

The anonymity aspect was crucial to the study since it gave the study more reliable data and the interviewees confidence in giving honest answers without having to fear consequences from business angels or coworkers.

After the study and anonymity aspect was explained the interviewers asked for permission to record the interview. It is important to receive consent from the interviewees before recording the interview (Bryman & Bell, 2015). The recordings were later transcribed to be able to be used in the study. Recording during the interview instead of transcribing manually during the interview gave the benefit of giving the interviewer more focus on asking follow-up questions rather than writing down answers. The interviews were conducted in the native language of the interviewees and interviewers, swedish. This gives a slight room for error during the translation process in the transcription of the interviews. Questions and answers could be interpreted differently when translated and meanings of certain answers could be lost. However, conducting the interview in Swedish has the benefit of letting the interviewees answer in their native language, and therefore being able to give a more accurate and descriptive answer.

### **3.5.1 Background Question**

At the start of the interview, four opening questions were asked to the interviewee to receive some degree of background information regarding his or her experience, the industry of the startup, and for how long the startup has been existing. In that pursuit, the following questions were asked:

- What role do you currently have in the startup?
- What industry does your startup operate in?
- What's your experience before joining the startup, industry/field?
- How long have you been a part of the startup?

These four questions serve an introductory purpose, and make it easier to separate each case with experience and industry of the founders.

### **3.5.2 Business Angel Involvement**

To receive the data regarding the business angels involvement from a startup perspective, the following question were given to startup founders under the interviews:

- What role did the BA play in your startup, and what did it provide?
- How have the BA contributed to your startup and its development?
- What did you expect the BA to provide except capital?

The first question, “What role did the BA play in your startup, and what did it provide?” aims to gather information about the part the business angels played in the partnership and what its main contribution was. The remaining ones try to cover similar parts as the first one, but lean more towards the startups founders' expectation on the BAs contributions, and its impact on the startups development.

### **3.5.3 Utilization of the Resources Provided by Business Angel**

Data collection for how the startups were able to utilize the resources from business angels is the most prominent question of the study and hence most questions were asked related to this area. As this study wants to shed light on the factors that affect startups ability to gain the benefits from angel investors, especially the resources apart from just capital. The questions were designed accordingly:

- How did you integrate the new knowledge and skills acquired from the angel investor into the company?
- Can you describe a specific situation where external help from an angel investor was utilized and then integrated into the company?
- What processes have you developed with the help of an angel investor to ensure the continuous development and integration of external knowledge?
- Can you identify any specific resources that the angel investor brought into the company?

All questions aim to highlight or attempt to identify factors that have had an impact on the startup founders approach and ability to use the resources provided by the BAs, and all regard the startups perspective.

### **3.6 Data Analysis**

In line with Eisenhard (1989), thoughts that the problems researchers often face is the large amount of data to be analyzed, and therefore emphasizes the strength to have a clear plan when organizing it. The case study approach presented by Eisenhard (1989), is a method that aims to grasp the patterns within single settings. The authors continue to highlight that in order to do so, separating each case is necessary, as it allows the researcher to organize the data more easily and to understand each case in depth before searching for patterns between cases. This approach is undertaken by this study, with the goal of presenting each case separately in the empirical data section. Furthermore, the data collected will also be analyzed from multiple perspectives (three researchers), which according to Eisenhard (1989), presents two key advantages. First, it will add



creativity into the study, and second, it will add complementary insights that will give richness to the data. After following the above mentioned, a with-in case analysis will be conducted for each case. This, according to Eisenhard (1989), is a way of becoming more familiar with each case as a sole entity, which allows for unique patterns and connections to emerge before looking at cross-case analysis. The basis for doing a with-in case analysis is detailed and more descriptive presentation of the empirical data, which is the choice this study has been following, as it works as a central presumption for generating insights (Eisenhard, 1989).

For recognizing patterns and connection from the collected data, cross-case analysis is undertaken. In order to do this, Eisenhard (1989), recommends selecting categories or dimensions, and from that look for within-in group similarities in combination with intergroup differences. In this case, the two main categories that allow for this approach are: (1) *Business Angel Involvement* and, (2) *Utilization of the Resources Provided by the Business Angel*. The initial one with the aim of presenting the role the BA took in the startup and trying to identify the value-added contributions. The second one, however, is more central and tied to the research question, with the aim to dig deeper into the factors that determined and played a part in how the startup utilized these value added resources.

The strategy to analyze the data is also tied to the thematic analysis approach presented by Bruan & Clarke (2006), which is a flexible approach for spotting patterns (themes) in data sets, and across sets. The process, according to Braun & Clarke (2006), begins with the researchers becoming familiar with the data, and in the case for this study, is done in the initial descriptive step. Following that comes the second step, which is generation of initial coding that will be done in combination with the with-in analysis mentioned before. This includes generation of codes, that in essence is features of the data that appears interesting for the analysts. Furthermore, these interesting codes will later on be translated into themes, which represent broader concepts from the collected data and is more tied to the research question. Thereafter, the aim is to spot, review and define these themes, for this study these will be the presumptive factors that affect startups ability to utilize the resources provided by the business angels (Braun & Clarke, 2006). In hope of drawing conclusions and to spot the factors tied to research questions, the theoretical framework is used in combination with the collected data. Since this

study uses semi-structured interviews as the choice for data collection, information might arise that has not been part of the chosen literature. Because of that, this study suggests a more interactive approach regarding the collected data and theory, with constant pivoting back and forth (Bryman & Bell, 2015).

### **3.7 Reliability and validity**

In academic research, the role of reliability and validity are highly important to ensure quality and credibility of the research findings (Bryman and Bell, 2015).

#### **3.7.1 Reliability**

Reliability is an essential aspect of the research process that ensures the dependability of the research result. It determines if the result of the study can be reproduced under similar conditions, providing a trustworthiness for the result. A high degree of reliability is achieved when a study draws similar results consistently under the same circumstances and therefore indicates a preciseness in the measurement (Bryman & Bell, 2015).

The authors have taken several actions to enhance reliability in the paper. Firstly, consistent testing conditions have been important. To give each respondent the same possibilities and time to give as precise and correct answers as possible, the interviews have been made without end time. Secondly, the authors have been using detailed and guiding protocols, in the form of a semi structured script, to ensure that each interview is following the chosen structure and helps the authors ask relevant questions. Lastly, the use of a pilot testing has been made, to help the authors identify and correct inconsistencies and weak spots in the interview.

#### **3.7.2 Validity**

Validity pertains to the accuracy and appropriateness of the study and its conclusions. A high validity indicates that a research test measures what it is intended to measure (Bryman & Bell, 2015). A high validity is a fundamental part to be able to draw applicable and correct

conclusions from the gathered data. Similar to reliability, the authors have been careful when working with the validity, to make sure that desired aspects of the subject have been measured. The researchers have been careful to research and answer the research question without bias. This is referred to as internal validity and is according to Bryman and Bell (2015) whether the study was designed to allow trustworthy answers. Untrustworthy answers could arise through selection bias or performance bias (Andrade, 2018) and hence the researchers have tried to be as open and randomized when choosing people to interview.

The generalization of the study is referred to as external validity and examines whether the study can be generalized into other contexts (Bryman & Bell, 2015). Since the study didn't have unlimited time or resources, the work of finding interviewees of different origin, culture, age or sex have been hard. All of the respondents are men of an age between 27-60 born in Sweden. To therefore generalize the study and make it applicable in all regions and parts of the world, may be hard. A broader sample of interviewees could have increased the generalizability of the study, which could have been more representative of the population and allows the findings to be applied to a wider context. A diverse sample can also help to uncover similarities between subgroups, highlighting universal themes, this can be valuable in fields where understanding a broad human behavior or operating a wide and international market is crucial.

The development of the interviews have been made under thorough consideration of chosen research questions, with extensive literature reviews. Furthermore, the use of triangulation is when the employment of multiple methods, theories, interviews and recent research can enhance the validity of the study (Bryman & Bell, 2015), which also have been made by the authors, by using interviews, already established methods and the most recent research in the given subject.

## 4 Empirical data

*In this chapter, the collected data from interviews A to F will be presented. Each interview will be presented separately, starting with a brief background information about the startup and founder. The background is followed by an explanation of the involvement of BAs and lastly a part about how the startup utilizes the resources provided by BAs.*

### 4.1 Interview A

#### 4.1.1 Background Information

The interviewee is co-founder and currently positioned as Chief Product Officer (CPO) for a Swedish fintech-startup. The role implies several different tasks, such as developing strategies, overseeing delivering of services and effectivizing the operations. The interviewee's journey within the startup began one year after the initial launch, and has been part of the major revamp of the company's direction since. The respondent has held the role of CPO and been a co-founder since January 2023, and the company currently has eight employees.

#### 4.1.2 Business angels Involvement

The company has 3 different business angels that have entered during different phases, all from the first half year to the last months. However, they all have a similarly equal share of the equity and role as an angel for the company, hence the answers for the different angels being similar. The interview shed light over the relationship between startups and business angels in a very effective and broad way since this company used several different angels .

The angels were initially used as means of getting capital to be able to scale and grow the startup. The background of the angels, coming from the same and similar industries, led to them taking a mentoring role for the company where they were able to give rapid and valuable insights in how different problems could be solved. On the question *“how have your angels contributed to the company and its development?”*, the interviewee explained that the first angel was an

excellent entry point to getting their first customers. By using the network of the angel the startup was able to locate potential customers and then use the reputation of the angel to convey trust into customers. This gave them the opportunity to make relatively large contracts despite being a young company. Furthermore, in terms of expectation of the business angels, the interviewee explains that the founders did not have so much expectations except receiving the financial boost, but that they hoped to gain some advantages from the BAs large network.

#### **4.1.3 Utilization of the resources provided by the business angels**

To ensure that the startup could benefit greatly from the business angel relationship, angels with a background within fintech were sought out to be able to give more specific mentoring and advice that could be utilized for the company's growth. When asked to rank what the company valued the most from an angel the interviewee answered “*1: Money, 2: Networking and 3: Knowledge*”. The main goal was to gain funding, but as an adverse effect the company gained valuable knowledge within marketing mainly and how to price their services, this according to the interviewee.

The question “*do you have processes to make sure that the potential benefits of the angels are utilized fully within the company?*”, the interviewee answered that the startup had routines which included monthly meetings with the angels where both parties were updated on progress and were able to give feedback. Aside from the monthly meetings, daily communications occurred between the angels and employees where smaller topics were discussed and solved. By having continuous and frequent contact the startup ensured that knowledge and solutions from the business angels could be applied when the team needed guidance. The startup was also keen on involving the angels in the culture of the company to avoid future conflicts and bring benefit to the relationship. To make this possible, the startup met the angels in non-business settings to do some team building, something that has been deemed effective. The interviewee explains that “*there has never been a conflict with the angels*”, which has benefited the company.

To make sure that the BAs knowledge is always used when it comes to changes or impactful decisions, the startup has set up a specific protocol. The interviewee explains: “*every time before*

*we perform a major change, we contact the angels to get their feedback. Since there are specific areas where we know that the angels have more knowledge than us.”* This minimizes the risk factor of doing missteps when performing changes in the company since the experience of the angels is being utilized. Since several of the angels have worked within and owned companies in the same field previously, they were able to guide the startup in tough decisions and lead them away from mistakes that they have made themselves.

A key resource that the interviewed startup utilized and valued highly from the angels is the networking possibilities and getting access to the angels social network. When asked “*Are there specific areas that have gained a positive impact from the angels' involvement?*” the answer was “*it was absolutely within customer contact and establishing new relationships with customers. That was the biggest impact*”. The startup utilized the social circle of the angels to get their first customers, and hence, the first business angel played a key role in launching the company to the market.

## **4.2 Interview B**

### **4.2.1 Background information**

The interviewee is a co-founder of a finance company that has been existing for almost nine years. The interviewee has a long professional background of thirty years within finance, before moving on and co-launching his own company. The company marked its growth in terms of assets under administration, celebrating each billion as a milestone. From starting with a single employee at a business center, the company grew to sixteen employees, underscoring the scalable impact of strategic angel involvement.

### **4.2.2 Business angels Involvement**

When answering the question “*what role did the BA play in your startup*”, the interviewee covered how the angel provided essential capital during the early stages and also contributed expertise and industry connections that were critical in navigating the complex landscape of

financial technologies. The founder highlighted specific instances where the guidance from business angels enabled the company to develop and grow bigger, for example the implementation of a more sales-thinking spirit at the company. One of the most important roles of the different angels was to act as “messengers”, to spread the word about the company and build its reputation. The angels also contributed with expertise, for instance, one angel with a background in banking was integrated into the company’s operations to leverage his skills in organization. As for the expectation on the Business Angel, the interviewee says that they actually did expect some additional contributions besides the financial aspect. Since they were aware of the background, experience and drive from the BA, they anticipated to gain some benefits in terms of business development, and advice in the more strategic and broader sense.

#### **4.2.3 Utilization of the resources provided by the business angels**

To utilize the skills and expertise from the angels, the company first and foremost chose angels with specific industry know-how. This helped the company utilize specific expertise which the BA possesses, this is being further emphasized when the interviewee explains “*we wanted one angel to have worked in banking, one as a consultant in sales, these we gave important duties from the start, as we knew these guys could provide our staff with important expertise*”. The company established different processes to make sure there was an alignment between angel and company. Regular shareholder meetings and continuous monitoring of assets have been central to their operational strategy, with BAs often participating directly in governance to steer the company's direction.

The company ensured that the business angels were not just investors, but that they were aligned with the culture and strategic goals of the company. This was done directly from the start, by ensuring, before entry, that the BA shared the culture and agreed with the goals of the company. When asked about the company and BA wanting the same thing and how they handled disagreements. The respondent points at the importance of corporate culture, “*that is what I call a strong corporate culture, we don't use an angel just because of his money, but because of who he is. Because he contributes with new points of views together with the will to reach common goals. That is shaped by a strong culture*”. This helped maintain a strong corporate culture and facilitated a smooth integration of the contributions of BA. The startup is also very clear with

what they expect from the BA. *“Before we let them invest, we give him clear and distinct information on how to behave and how it works here. Adapt to this company, but also be free and different and contribute with new exciting ideas”*. This according to the respondent helps the BA to quickly adapt and thus the company to quickly start to utilize the resources provided by the BA.

To furthermore utilize and make the utilization smoother, the startup started to analyze data after, during and before the entry of every BA. This was done to ensure full utilization of every BA. The respondent explains that the founders implemented incentive programs like employee stock options and also made some BA members of the board. *“To protect the resource, we have incentive programs to make them more personally connected, to give them more”*. To tie the angels more emotionally to the company, these initiatives were of big help according to the interviewee.

When describing the BAs, the interviewee discusses and talks about the BAs taking a lot of different roles. This is because the founders found different areas where the angels could be utilized the most. Some BAs were involved at management level, which allowed them to have a direct influence on decision-making processes. The BAs also facilitated training and development of the employees. For instance, one angel focused on improving sales among the staff, an approach to enhance business capabilities related to revenue generation.

The BAs were according to the respondent chosen because of their expertise more than their money, and therefore became the utilization of them critical. To quickly integrate them, have cultural and strategic alignment, have regular updates and strategic meetings, use the incentive program and place them as quickly as possible in their own area of expertise, was the key to utilize the resources provided.



## **4.3 Interview C**

### **4.3.1 Background information**

The interviewee is a co-founder of a sports clothing brand and currently holds the role of Chief Operating Officer (COO), which he has held responsible for the past two years. The role implies overseeing and supporting of the daily operations, mainly sales and marketing, but also actively working on development with new products and designs. The startup celebrated three years some weeks ago, and the interviewee has been a part of the company since day one. The interviewee has 15 years of experience in marketing and sales, and also has been involved in another startup journey before, where a business angel also played a part, but at that time in the service industry.

### **4.3.2 Business angels Involvement**

Through the first question about what the business angel provided, the interviewee begins by giving high praises to the BA:s involvement, and emphasizes the prominence of their participation for the startup in reaching the level they currently are in. The interviewee continued to explain that the business angel contributed in many ways, but particularly in the helping of obtaining valuable resources and opening doors that otherwise wouldn't have been possible. In the early phase of the startup the business angel leveraged on their big network base, and played a huge part in securing deals and partnership with manufacturers and additional financiers, as well as creating traffic to the initial showrooms and events for the startup. Moreover, the interviewee carries on by explaining that the BA also played an important role in the bigger strategic decisions, decisions that went through the BA and got contemplated by his experience.

According to the interviewee, the business angel got handed a seat at the board of directors, and a fair share of equity, equivalent for their financial support. Furthermore, as for the question on what the startups founders expected the BA to provide except capital, the person responded with *“we did actually expect the business angel to provide some additional value except capital, particularly knowledge about how to time the market entry and how to surround yourself with the appropriate stakeholder”*. The interviewee sums up the BA:s involvement despite the

aforementioned involvement, as an extra experienced employee that worked as a ballpark, to which the founders could receive response and feedback on ideas and thoughts that helped them move forward making the best decisions.

### **4.3.3 Utilization of the resources provided by the business angels**

When asked what the startup founder utilized most from the BA between the capital, knowledge and expertise, the interviewee answered “*the capital was probably the number one thing, but we actually used his knowledge and experience much more than we anticipated, which took us a lot further compared to our expectations*”. In addition to this, the interviewee also stresses his and the other co-founder initial attitude towards the business angel involvement. Since both of the co-founders had been part of another startup journey before where there also has a BA involved, they were aware and had experience regarding the value-adding potential a business angel could bring to the new venture. The interviewee continued on this by saying “*from the start of the partnership me and the other founder had a positive and open approach to all advice the BA gave us, because of our experience with a BA before, we were aware of the potential value it could bring to the startup*”. Furthermore, about the question of how the founders integrated the expertise and resources provided by the BA, the interviewee points out that there was not a specific method for making sure the expertise and resources got utilized. However, he continues and emphasizes once again, the experience with a BA before made the process of taking advantage of it much easier, and came more naturally. As it wasn't their first involvement with a BA, they had an idea on what value adding they could gain.

Moving forward, to the interviewee's response “*we had an idea on what value adding they could gain*”, the follow-up question was asked “what was the idea of value adding was based on”. To this, the interviewee says that since they were aware of the business angel's strengths compared to their own e.g., design, vision and branding, they had an idea on what knowledge and experience from the Business angel they wanted to utilize and therefore pay a little extra attention to. In essence, the interviewee explains that their utilization of the BA became much easier due to their prior experience with a BA, their attitude towards him, and lastly, because they were aware of the potential strengths that could be reaped from the BA involvement .

## **4.4 Interview D**

### **4.4.1 Background information**

The interviewee is a founder of the company, operating within marketing and production. The founder holds extensive experience within the sector, and the company has been active for almost ten years. Today, there's currently forty employees at the company and there has been involvement from two business angels. However, despite substantial monetary support from the BAs, the contributions from them were largely financial, with limited strategic or operational input.

### **4.4.2 Business angels Involvement**

The first out of two angel involvements at the company, was instrumental in launching the business. This financial boost was then followed by another angel, supported with additional financials. Despite their particular help with funds, they were not useful beyond that. This the respondent explains is due to the niche line of business the company worked within, therefore, the ideas outside of financial ideas were received as "strange". Besides the financial contributions, the BA in the later stages of the growth phase also had a role in the board. Where he helped facilitate a few meetings and establish contacts with stakeholders.

### **4.4.3 Utilization of the resources provided by the business angels**

The primary utilization of the angels was almost purely financial. The utilization of the financial resources was initially funds to formalize and create the company, such as registering fees. This first financial infusion enabled the basic establishment of the company. As the company later on began to generate revenue, the investment was used in funding the expansion of operations. Leasing necessary properties and hiring staff to manage increased activities.

Later on, the entry of the second angel contributed to buy out the initial investor, which adjusted the ownership structure. The utilization of the resources provided, was according to the

respondent not according to a certain process or pattern. They were used to build a solid and stable company, to be able to start certain operations and pay salaries.

When asking the respondent about how they integrated and maximized the money and expertise from the angel, he explains “*we hardly got any new knowledge, since we had more expertise than the angel, therefore we had no real processes to integrate knowledge. We had on the other hand very clear and good ideas about what to do with the money, and afterwards it was just to look at the numbers to make sure we had worked well with it*”. The integration of resources provided by the angel, can therefore be seen as purely economical, and according to the respondent, a solid and well thought out plan of what to do with them, was the best way to utilize every penny.

Outside the financial aspects, one BA was utilized in sharing his network and contacts. Facilitating meetings and putting pressure on banks. By helping the startup enhance problem solving and introducing new perspectives in how to negotiate, these resources were utilized.

## **4.5 Interview E**

### **4.5.1 Background information**

The interviewee is co-founder of a fintech startup that aims to pioneer the financial technology landscape. The respondent currently holds the position of Chief Executive Officer (CEO), and has a genuine experience and knowledge within the sector, having worked for similar companies before starting his own. The growth of the company was marked by significant milestones, beginning with essential early investments, which enabled the transition from concept to operational status. As the company grew, the role of angels adapted as a dynamic partnership that scaled back as the company became more established and operationally focused. Additionally, the startup has had five business angels involved, and currently has fifteen employees.

## **4.5.2 Business angels involvement**

Initially, the angels provided crucial capital needed to launch the business. Beyond mere financial support, their contributions extend into networking, where they leveraged their connections to facilitate meetings. The interviewee says *“beyond the financial, they acted as door openers, helped us get contacts and partners... otherwise we wouldn't be that big in ...(region)”*. Moreover, the angels provided a form of emotional and strategic support, serving as a sounding board for the founder during the early days of the business. Working and contributing with their expertise in management, dealing with complex business environments through their experience, know-how in decision-making, all areas benefiting from qualified insights. As the company matured, the involvement of the angels changed. Their roles shifted towards less direct involvement, bringing a shift in focus that was more towards operational efficiency and less reliant on angel oversight.

## **4.5.3 Utilization of the resources provided by the business angels**

According to the interviewee, the company effectively leveraged the resources provided by the angels in ways that significantly contribute to the company's initial development. The most clear and direct contribution was financial, this was utilized in the early stages, helping the company cover operational expenses connected with launching the business.

To get a wider contact network and find partners outside of their scope, the business angels were crucial, the angels opened doors that would be otherwise hard or even inaccessible to a nascent company. They facilitated introductions to stakeholders, set up meetings with potential partners and helped expand the company. This thanks to the angels, but also because of the trust the founder had towards the angels to integrate them into the right environments.

In specific instances, the angels provided expertise in navigating regulatory landscapes, this expertise ensured that the company could operate within certain frameworks. Due to angels taking seats in the board, they could help professionalize and create organizational structure. *“As the time went, the work within the board became more and more professional, these angels that*

*were board members, contributed with a better structure and better processes, from a board perspective... how to run the company, discipline etc*". By utilizing these resources, the company could secure funds, grow outside its scope, grow and navigate the transition from startup to established firm.

## **4.6 Interview F**

### **4.6.1 Background information**

The interviewee is a co-founder of a small Swedish production company. The company has three employees and has had involvement from four business angels. The startup, which focuses on producing series and programmes, have been active for 5 years and are until this day utilizing and viewing the angels as an important resource.

### **4.6.2 Business angels involvement**

Primarily, the angels contributed through their partnerships and extensive networks. According to the respondent, they facilitated important meetings and especially provided access to vital industry contacts, which were crucial for the company's production. The angels helped by bringing in specific skills such as production expertise and related talent. This suggests that the angels were not just financial backers, but also actively involved in different operational aspects.

Without the contributions from angels, the respondent thinks the company would have been worse off, *"without these specific angels, we would only have gotten money, now we got crucial industry connections, both in producing, but also the people we built the productions around, actors, and people on camera"*. This response indicates that the contributions from these angels went far beyond mere capital injection and emphasizes the "specific industry know-how".

### **4.6.3 Utilization of the resources provided by the business angels**

The selection of the angels was heavily based on trust and the assurance that they would not withdraw from the project. This reliability became essential for the company to commit to long-term strategies and investments. Without the dedication from the angels and the quick integration of their skills, the investments would have been much more uncertain. They also selected BAs for their specific skills within certain areas. The startup knew what knowledge they were missing, searching for angels within these areas, making them invest and then applying their knowledge into daily operations. This reliability became essential for the company to commit to long-term strategies and investments. Without the dedication from the angels and the quick integration of their skills, the investments would have been much more uncertain.

To fully utilize the angels, the founder explains that it was during meetings that the board was effective in identifying and clarifying the specific skills that each angel could contribute with. *“We had these big boards and maps, where we early wrote and discussed what each angel could help us with, and therefore knew what we could utilize early, which helped us a lot”*. This effectively helped the founders utilize the expertise to enhance the company’s capabilities.

All angels were also given a role at the board, making them more attached and committed to the company. Which according to the respondent helped raise the level of commitment and influence from the angels. Their presence underscored their importance to the company, making them work harder and more effective. *“We also chose angels based on their previous experiences within related businesses, especially when it came to the pure production part, since none of us (the founders) knew that much about cameras or production”*.

The structure of the meetings and the equal participation in discussions and at operational level, is according to the respondent, a key part in making all parties aligned and moving in the same direction. Minimizing potential complications and ensuring common focus. The interview also highlights that the engagement of the angels led to concrete results and successful implementation of ideas, this according to the founder because of making every angel an equally big part of the company, which was a well-thought-out strategy in how to fully utilize these angels.

## 4.7 Summary Empirical Data

The tables below show a summary of the collected data for each separate interview. Table 2 summarizes and categorizes the Business Angel involvement, including the startups founder's expectation towards the partnership. Furthermore, table 3 summarizes the interviewee's response to the utilization of the resources provided from the BA, and in line with Bruan & Clarke (2006), method for thematic analysis tries to generate initial coding and themes tied to what could be considered as factors. The tables below provide a brief overview and understanding of the empirical data.

| Interview A   | Interview B  | Interview C   |
|---|--|---|
| <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Fintech</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> <li>• Mentoring</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Entry points</li> <li>• Network</li> <li>• Establish trust</li> </ul> | <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Finance</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> <li>• Strategic</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Business know-how</li> <li>• Commercialization</li> <li>• Expertise</li> </ul> | <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Clothing</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> <li>• Resources provider</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Entry points</li> <li>• Contacts</li> <li>• Strategic advice</li> </ul> |
| Interview D   | Interview E  | Interview F   |
| <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Marketing</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Capital</li> <li>• Contacts</li> </ul>   | <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Fintech</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> <li>• Networking</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Commercialization</li> <li>• Contacts</li> </ul>                              | <p><b><u>Startup Industry</u></b></p> <ul style="list-style-type: none"> <li>• Production/media</li> </ul> <p><b><u>BA Role</u></b></p> <ul style="list-style-type: none"> <li>• Capital provider</li> <li>• Resources</li> </ul> <p><b><u>Main contributions</u></b></p> <ul style="list-style-type: none"> <li>• Industry connections</li> <li>• Expertise</li> </ul>                     |

**Table 2** - Summary and Categorization of interviewees business angels involvement



| Interview A  | Interview B  | Interview C   |
|--|--|---|
| <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• Daily/monthly catch-ups</li> <li>• Saying/impact on company culture</li> <li>• Positive/open approach to guidance received from BA</li> <li>• Protocol, big decisions went through the BA</li> <li>• Leverage on BA network</li> </ul> | <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• Regular shareholders meetings</li> <li>• Keen on BA Involvement / engagement beyond the financial support</li> <li>• Engaging in building company culture</li> <li>• Clear informing of what to expect from BA, and guidelines within company</li> <li>• Analyzing / Evaluating BA involvement</li> <li>• Incentive programs – increase the personal connection</li> </ul> | <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• Leveraging on BA network and contacts</li> <li>• Increase traffic to events through BA big contact base</li> <li>• Strategic influence on bigger decisions</li> <li>• Keen on involving the BA</li> <li>• Experience with BA before, knowledge of the value-added</li> <li>• Natural integration of BA expertise</li> <li>• Awareness of BAs strength and hence focusing on those most</li> </ul> |
| Interview D  | Interview E  | Interview F   |
| <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• No certain utilization except usage of the financial</li> <li>• Nothing to utilize from the BA besides the capital</li> </ul>  | <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• Leverage / use the BAs wide contact base as a competitive advantage</li> <li>• Use regulatory advice from the BA</li> <li>• Integrate strategic advice, structure enhancements</li> </ul>  | <p><b><u>Methods for Utilizing Resources from BA</u></b></p> <ul style="list-style-type: none"> <li>• Clarifying / identifying strengths of the BA beforehand to maximize the value-added</li> <li>• BA receiving influential roles at the board</li> <li>• Integrating BA at operational level</li> <li>• Leveraged on industry expertise</li> </ul>   |

**Table 3 - Summary and Categorization of the interviewees utilization of resources provided from the Business Angel**

## 5 Analysis

*In this chapter, an analysis of the collected data is produced. The analysis revolves around a thematic identification, which are themes drawn from the previous chapter. The themes drawn from the interviews and which will be thematically presented are, (1) prior knowledge and initial human capital, (2) governance and board involvement, (3) alignment of goals and interest, (4) quick cultural and structural adaptation, (5) openness and trust, (6) social integration mechanism/communication.*

### 5.1 Themes Identification

In this section, a table of themes are presented based on the with-in-analysis from each interview above. The tables shown in section 4.7 – Empirical Summary, was a more descriptive and summary presentation of the data collected. Table 4, however, focuses on categorizing and identifying themes that are evident through the collected data and, in combination with help from the previously presented literature. Themes, in this case, represent broader concepts from the collected data that is tied to the research question, and hence the purpose of these themes is to serve as a basis for what could be considered as factors drawn to this thesis research question.

| Themes  | Interview  |
|---|------------|
| Prior Knowledge & Initial Human Capital         | A, B, C, E |
| Governance and board involvement                | B, E, F    |
| Alignment of goals and interest                 | B, D, F    |
| Quick cultural and structural adaptation        | A, B, E, F |
| Openness and trust                              | C, E, F    |
| Social Integration Mechanism /<br>Communication | A, C, F    |

**Table 4** - Categorization and Identification of Themes

### 5.1.1 Prior Knowledge & Initial Human Capital

Interviews A and C present an interesting similarity (theme) which served a useful purpose for the utilization of the resources provided by the BA. In both cases A and C, prior knowledge tied to Business Angel involvement from the founder's, yielded positive results. It supplied both of the startups with the right tools and knowledge, which they later on used to steer and guide the BA partnership towards the optimal direction in their respective cases. This could be connected to Zahra and George's (2002) model for absorptive capacity, where prior knowledge serves as a prerequisite for an organization's ability to use and exploit external knowledge. Additionally, this could be tied to what Easterby-Smith et al., (2008) states as dependent for an organization's ability to develop absorptive capacity, which are: learnings from past experiences, diversity of expertise and prior knowledge. Therefore, the similarity shown from interview C and A, both in terms of prior knowledge and their successful partnership with the BA (from the founder's perspective) could be connected to what both Zahra and George (2002), and Easterby-Smith et al., (2008), suggest about a firm's development on utilizing external knowledge. The importance of prior knowledge is also being shown in interview B. The founder of the company described the following: "*we wanted one angel to have worked in banking, one as a consultant in sales, these we gave important duties from the start, as we knew these guys could provide our staff with important expertise*". This is an example of what Cohen and Levithal (1990) calls high absorptive capacity. Where the startup knows what they are missing, and hence looking for certain specific knowledge to absorb.

Furthermore, this developed prior knowledge could also be considered as a high degree of initial human capital. When Cooper et al. (1998) discusses determinants of new venture performances, they suggest initial human capital within as one, and which are dependent on i.a., how the degree of general background is developed in the organization. As for interview C and A, since the partnership with the BA was considered as successful from the startups founders perspective, and that the founders of the startup had a considerably high degree of development in terms of general background, connections between them two could be considered. The experience, and former business involvement from the founder's side could be seen as general background, and according to Cooper et al. (1998) enables the entrepreneurs to better encounter the problems and

increase the chances for success. From the response of interview C, the correlation between them two could be shown, and as interview C emphasizes their prior background as their probably biggest reasons for their successful partnership with the BA. Therefore, given the success of both partnerships with the BAs in case C and A, a connection between initial human capital and absorptive capacity could be spotted in terms of utilization of the resources from the BA. The importance of prior knowledge in company E should neither be underscored. As described by Cooper et al (1998) the management know-how related to the direct transfer of skills in certain areas, specifically the board, benefitted from seasoned insights from BAs and helped professionalize and structure the work at board level. Initial human capital could therefore be considered as prerequisites for absorptive capacity to function, as it allows the firms to evaluate and guide the resources provided from the BA in the optimal way.

### **5.1.2 Governance and Board Involvement**

Through insights gathered from the interviews, it becomes evident that when BAs are integrated into the governance, they can be fully utilized through their knowledge and expertise in decision-making processes, strategy and operational efficiency of the startup. Interview E highlights a shift in the BAs role from financial support to strategic governance as the company grows. By making the BAs members of the board, the startup can from there start to utilize more than just the financial aspects of the BA. The company starts here to utilize the BA for what Cooper et al (1998) calls management know-how. The BA typically brings a lot of experience from various sectors, which broadens and sharpens the expertise of the board (Cooper et al, 1998). This shift signifies a focus towards more operational efficiency and professionalism with help of the BA, thanks to their board involvement.

In interview F, the BAs are key operational leaders within the company. By having roles at the board, BAs provide crucial business contacts as well as strategic vision of the company, similar to “specific industry know-how” by Cooper et al (1998). Their role in this context becomes essential and their knowledge utilized as they participate in decision-making and strategic direction. Through these governance roles, the BA can guide through their specific know-how in product development, production and competitive positioning, as well as crafting specific

strategies and guiding through early-stage development related to market entry. All of the examples above also illustrate a work to counteract what Jensen and Meckling (1976) calls information asymmetry. To integrate the BAs in the board reduces this asymmetry and helps the founders utilize the BA and the BA to contribute in a better way.

To involve the BA in both governance and at board level can also be a way to protect and tie the BA more emotionally to the company. This is being concretized with company B where the interviewee explains “*To protect the resource, we have incentive programs to make them more personally connected*”. To give the BA the potential to both govern through stock options and at board level, makes the BA more attached, and increases their feeling of involvement. The use of incentive programs is described as a method to “*protect the resource*”, which in this context refers to BAs ongoing support. By making BAs feel more personally connected and financially involved, the startup ensures that the BAs are motivated and increases their contribution. This involvement is according to Politis (2008) crucial for guiding the company through complex market landscapes and challenges, which can be aligned with the supervision and monitoring role. By integrating people like BAs in governance roles, the company can ensure that the strategic insights from them are integrated into high-level-decision-making (Politis, 2008).

### **5.1.3 Alignment of Goals and Interest**

The alignment of goals and interest between BAs and startups, after the interviews, could be seen as central for a successful utilization of resources provided by BAs. Along most of the interviews, the alignment is highlighted as an important factor in fostering a supportive and productive relationship between the BA and the startup.

Interview B highlights the importance of consistent communication to ensure that both founders and BA are aligned in their understanding of objectives and strategies implemented. Without alignment, the strategic insights from the BA will not align with the operational goals and therefore not be utilized. To ensure that these insights are seamlessly integrated into daily operations, the interviewee emphasizes structured meetings and interactions. The regular and structured interactions between the angel and the startup reflect Politis (2008) *supervision and*

*monitoring role*, where the angel helps manage the startups strategy, ensuring alignment with long-term goals and minimizing risks with operational missteps. This is being concretized in interview B, when the respondent talks about the monthly and even daily communication between him and the angel, to ensure the strategic inputs are utilized and that they contribute effectively to decision-making processes. This can be tied to the agency theory by Jensen and Meckling. It examines that conflicts can arise from misalignment in goals of principals and agents (Jensen & Meckling 1976), and suggests mechanisms like alignment of incentives and monitoring. Furthermore, the strong corporate culture emphasized by the interviewee helped the founders communicate expectations and vision, *“Before we let them invest, we give him clear and distinct information on how to behave and how it works here. Adapt to this company, but also be free and different and contribute with new exciting ideas”*, ensuring that the BAs shared this vision before entry. This reduces potential conflicts and enhances cooperative efforts.

Interview D on the other hand emphasizes another kind of alignment, primarily focused on financial goals. Even if the goals may look different across the different interviews, it still has a big emphasis on alignment of goals. The trust from both parties to work towards common interest facilitates the angel to invest and therefore the startup to utilize the money. This according to Jensen and Meckling (1976) is a proper incentive to reduce potential conflicts, which ensures both parties working towards the same goals, minimizing conflicts and optimizing resource utilization.

The strategic and operational involvement in interview F not only emphasizes the importance of aligned goals, but also highlights the role BAs could have in shaping these goals from the beginning. Directly influencing decision-making and company direction. BAs are involved in daily decisions as well as long-term planning, ensuring their expertise and resources are fully aligned with the strategic goals of the startup. By making the BAs serving on the board, the founders ensure that the BAs commitment aligns with the start-ups long term success. The alignment of goals between startup and BA, is key to maximizing the benefits of the relationship. Whether through network expansion, financial support or strategic advice, alignment ensures that both parties are working towards common goals and leads to successful outcomes for the startup (Moloi & Marwala, 2020).

### **5.1.4 Quick Cultural and Structural Adaptation**

Quick adaptation of the BA is important for the startup, especially in the early-stage development when navigating rapid changes. This adaptation allows the startup to from day 1 integrate the insights and expertise of the BA into the company.

Both interview A and E showcases the importance of quick adaptation in how both startups rapidly integrate the network provided by the BA to secure customers. This contribution can be tied to the resource acquisition role by Politis (2008). Where the BA contributes to the acquisition of critical resources through their network, making the startup work upon market opportunities, in this case through gaining new customers. The startup's ability to quickly adapt its sales strategies based on the BAs networks exemplifies cultural openness to new business approaches and highlights the importance of quick adaptation in gaining early stage customers within the network of the BA. The startup's quick utilization of the BAs networks demonstrates what Cohen and Levithal (1990) should describe as high absorptive capacity. It urges the importance of prior related knowledge and the firm's ability to exploit and assimilate external knowledge.

BAs provide important networking connections, necessary for the company to grow outside its own scope. This value provided by the BA, can according to Politis (2008) be seen as resources hardly imitable and neither easily substitutional, and hence important to utilize. Following startup Es substantial growth in the regions where the angels provided contacts, the initial utilization of these strategic advises can be seen as high. The angels not only facilitated financial needs, but also opened doors to these essential business contacts, playing an important role in regional expansion, emphasizing quick adaptation to early enter new markets.

Interview B emphasizes the importance of cultural alignment even before the BA enters the business, to have a strong corporate culture so the BA knows what's expected and what to expect. In contrast to A and E, this interviewee highlights the importance of this in a view of reducing potential for conflicts and future misalignments. Connected to this is the agency theory about conflict of interest. A core concern for every company, the authors stress the need to lower the costs in managing the relations between agent and principal, one of these being quick and

effective integration of the agent (Moloi & Marwala 2020). The structural and operational integration is also highlighted in interview F where the startup from the start integrates a BA into its core operational workflow, to develop and work on production. This early integration was, according to the interviewee, crucial to start producing. The mentoring role Politis (2008) is characterized by support and trust, this deep operational involvement of BAs in the daily work and strategic planning mirrors the mentoring role. Whether the integration of the BAs is to utilize strategic advice, reach early stage customers or to work within core operations, it is evident that its early adaptability is crucial. As it, according to the interviewee responses, enhances effectiveness and positions the startup to respond to market opportunities.

### **5.1.5 Openness and Trust**

An evident theme throughout some of the interviews is sheds of openness and trust as elements that facilitated the partnership between the founders and the BA. What could be seen through interview C, E and F is that the founder's approached the partnerships with both openness, in terms of absorbing and using the value adding potential from the BA, and trust for the BAs contributions as beneficial to the startups development. Interview C shares some interesting thoughts on this. Due to their prior involvement with a BA, they approached the partnership with an open approach (openness) to all advice the BA gave, and the potential value it could add to the startup. This could be drawn to the statements made from Zahra and George (2002) as for knowledge exploitation. They stress that in order to be able to exploit external knowledge, there needs to be an openness to absorb it from the receiver's ends, and through that the gap between potential and realized capacity reduces. This could also be seen in interview E, where the founders employed an openness towards the BA role in associating the startup with the right stakeholders, which eventually proved beneficial for the startup. Moreover, inside interview F we find a similar tendency. Here, the startup founders established structured and clear ground on what each BA could contribute with their extensive knowledge, and fostered an open approach to all areas where the BA could generate better results. Drawing from that, it is evident that interview F also lean towards Zahra and George (2002) thoughts for what causes the right conditions for external knowledge exploitation.



In terms of trust, which also is connected to openness mentioned above, as trust is a necessary component for having an open approach towards another party. Drawing from interviews C, E and F, it's rather clear that all these cases share the same properties as for trust towards the BA. In either, the BA got seated at the board to make them more committed and involved in the startup or the interviewees explicitly mentioned that they placed a large amount of trust in the BAs' ability to contribute to the venture. In interview F, for example, the interviewee says that the reason why the BA was able to surround the startup with the right stakeholders was because the founders placed a huge amount of trust in the BAs ability to achieve this. This also could be drawn to Zahara and George's (2002) model for absorptive capacity, and more specifically the "social integration mechanism" that functions as the bridge between external knowledge and potential capacity. For the cases C, E and F, these trust bonds shown between the BAs and the startups could be a fundamental part of the functioning "social integration mechanism", so that in order to turn external knowledge into potential capacity mutual trust needs to be established as it allows for the "social integration mechanism" to perform.

### **5.1.6 Social Mechanism / Communication**

Another shown similarity in the empirical data is the communication or social integration mechanism performed between the startups and the Business Angel. In the interviews A, C, and F there is clear emphasis on the communication between the two that enabled the startups to exploit and utilize the value-added from the BA. Drawing from interview A, for example, the startup there established clear routines and methods of communication to ensure that the BA expertise and knowledge was utilized as much as possible. The interviewee in A also explicitly said that *"every time before we perform a major change, we contact the angels to get their feedback. Since there are specific areas where we know that the angels have more knowledge than us"*, which additionally highlights the role communication played for them to optimize the utilization of the BA. In interview C there is a similar sign, but in that case, the interviewee describes the BA as an extra additional employee, from whom the startup could receive constant feedback and response on ideas and thought in their pursuit of growing. Once again, similar to case A, emphasis lies on the steady communication with the BA to ensure the usage of their expertise. As for interview F, the interviewee explains that each particular skill (value-added) the

BA could perform was discussed early on, and that meetings initially were set to plan on how to best utilize the knowledge from the BA. The communication here, in case F, served the purpose of planning on how to utilize the value-added from the BA, which was enabled through the strong and clear communication between them two.

The above mentioned focus on strong communication between the parties can be linked to the “social integration mechanism” that Zahra and George (2002) lifts forward in their model of absorptive capacity. There, the “social integration mechanism” refers to social function between the parties for knowledge exploitation, which requires sharing of knowledge and openness to absorb it. Based on that, it’s rather clear that some sort of “social integration mechanism” was performed in each respective case of A, C and F that allowed or gave the startup the right conditions to utilize the resources provided by the Business Angel.

## 6 Conclusion and Discussion

*In this chapter, the conclusion from this study will be presented with a following discussion regarding the relevance of the study as well as the research process. Lastly, suggestions for future research and the practical contribution of the study are presented.*

### 6.1 Conclusion

The purpose of this study is to examine which factors affect startups ability to interpret and utilize the resources provided by business angels, and how these factors affect the utilization. Based on the purpose the following research question has been formulated:

***What factors affect how startups utilize the resources provided by business angels, and how do these factors affect the utilization?***

From the thematic analysis from above, six factors emerged as evident throughout the six interviews that affected the startups ability to utilize the resources provided by business angels, being: (1) *Prior knowledge & Initial Human Capital*, (2) *Governance and Board Involvement*, (3) *Alignment of Goals and Interest*, (4) *Quick Cultural and Structural Adaptation*, (5) *Openness and Trust*, and (6) *Social Integration Mechanism / Communication*. Drawing from the thematic analysis, these factors all affect how startups utilize the resources provided by business angels, but each in a particular way.

The first one, *Prior knowledge and Initial Human Capital*, present itself as a factor for startups utilization, even though they are two separate entities, they show similarities and have therefore been chosen to be mentioned together. *Prior knowledge and Initial Human Capital*, is shown as a factor, as it works as a fundamental cornerstone for startups to navigate the utilization of the BAs knowledge and expertise. Through prior knowledge, it's clear that the startup founders know what, where and how to use the value-added contributions, since they have established experience through their prior knowledge they can evaluate in which areas to utilize the BA.

Furthermore, this is also evident through the connection to the model of absorptive capacity, in which prior knowledge lies as prerequisites for external knowledge exploitation, and hence allows the founders to manage the external knowledge exploitation – utilizing the value-added from the BA in the right way.

Moreover, *Governance and Board Involvement* appear as a factor, especially signifying the shift from passive to active funding. This shift is important for operational efficiency, showcasing the importance of board members with management and specific business know-how. BAs bring a wealth of experience which are invaluable in strategic planning and decision making-processes. Through *governance and board involvement* these experiences and knowledge can be utilized on a higher and more impactful level. Furthermore, it underscores the importance of securing a long-term commitment from the BA, making them morally dedicated to the startup. Through this involvement, the BA becomes more integrated in the startup operations, and thereby making their skills easier and more accessible for the startup to utilize.

*The Alignment of Goals and Interests* between the startup and BA also surfaced as a key theme. It shows that clear and mutual objectives as well as effective communication are important for maximizing the contribution of resources by the BA. Both parties benefit from regular interactions that keep both informed and engaged with the strategic and operational needs. Through aligning goals and interests, the startup can ensure commitment from the BA, making sure that the work of the BA is contributing to both long- and short-term goals. Moreover, the alignment is not only about harmonizing goals, but also to minimize conflicts and set clear expectations. The establishment of clear goals minimizes the potential for conflicts as both parties are working in the same direction. The *Quick Cultural and Structural Adaptation* is shown as a cornerstone for startups to integrate insights and networks from the BA immediately. As showcased in the analysis, the quick integration is important for leveraging unique market opportunities and finding early-stage customers. Leveraging the BAs networks to identify key stakeholders, crucial for market entry and securing further investments, is vital. This underscores the significance of rapid adaptation in utilizing these connections effectively. It is further important and helps the startup to assimilate the knowledge of the BA as early as possible, knowledge that can help develop internal processes and enhance operational efficiency.

*Openness and Trust*, share the same similarities as mentioned above, and have therefore also been chosen to be mentioned together as one factor. This factor affects how startups approach and stand towards the resources provided from the BA. By employing *Openness and Trust*, the startup allows itself to absorb the resources from the BA, and as seen from the thematic analysis, creates a basis for external knowledge exploitation. *Social Integration Mechanism/Communication*, is the last factor shown evident through the thematic analysis. It works as a factor that affects the utilization as it decides how much and even if the startup could potentially make use of the resources provided by the BA. Through the empirical data, it's clear that the social integration and communication between the BAs and the startups played a big role. Through heavy and clear communication, the startups allowed themselves to receive input in all areas, and therefore potentially maximized the utilization of the resources provided by the BA.

To summarize, the six factors above all affect startup founders' ability to utilize the resources provided by business angels, each in a particular way. However, some of the factors share similar characteristics in terms of the affect on the utilization, but still present some differences and should therefore be presented separately.

## **6.2 Discussion**

The researchers recognize this study as relevant, mostly because of the research gap it fills. While there is substantial literature on venture capital and BAs in general, less is known about the specific interactions between startups and the BA, especially in terms of the utilization of resources from the startups point of view. By focusing on less tangible assets, the study analyzes what the researchers think are an under-explored area in angel investments. The importance of startups in both national and international economies should not be underscored, and are often the place of origin for innovation and play a crucial role in job creation. This study tries to refine policies and practices that support this entrepreneurial ecosystem that may lead to economic benefits. Startups face in general high failure rates, often due to financial mismanagement or poor market fit. By providing a clearer understanding of what contributes to successful angel-backed startups. This study offers valuable insights that can help reduce the risk of failure

among early stage companies, and is hence another reason why the study should be seen as relevant. The researcher's ambition is that this thesis can be used as a guide for future entrepreneurs, in order to help them manage the difficult landscape connected to acquiring angel investments.

The choice of a qualitative study was grounded in the researchers approach to capture complex and nuanced interactions and phenomena. This method allowed for in-depth exploration of subjective experiences and contextual factors influencing resource utilization. However, this approach has inherent limitations, mostly in challenges in generalizing the findings. Furthermore, the sampling technique ensured that the interviewees were selected based on their relevance to the research question, contributing to validity of the findings. However, this approach limits the generalizability of the results, the researchers are well aware that the findings are of a narrow degree of applicability and are above all applicable in Sweden and surrounding countries with similar cultural and organizational traits. As for the narrow sampling, six Swedish startup founders which had at least one Business Angel involvement were interviewed, with no additional criteria being applied. Because of that, additional characteristics could have been added to the sampling (e.g., only interviewing startups that are X amount of years old or that only had X amount of business angels involved). On the other hand, this could have generated a more narrow answer (less factors) due to the similarity between the startups, which possibly could have led to more similar traits in terms of utilization, and hence providing less factors to the research question.

## 6.3 Future Research

The exploration of the relationship between startups and business angels in this thesis opens up for future research. Even though the conclusion from this thesis provides additional understanding of how startups can better utilize the support of a Business Angel, there can be both practical and theoretical gaps identified in this study, and most because of the short time span. As this thesis's main focus lies on identifying a number of factors that influence how startups utilize the resources provided by BAs and how these are being utilized. Because of this somewhat narrow scope, future research could try and broaden the investigation by including other factors such as cultural, structural and other more industry specific factors that may have an influence. Since this is not highlighted as particularly important in this research, a potential research question could be: *How do the different cultural, structural, and industry specific contexts impact the effectiveness of how to utilize the angel?*

Although this thesis only tries to investigate the factors that influence startups ability to utilize the BA involvement, and slightly ignores the BA role (i.e., sounding board, mentoring, acquisition & resource) and how it affects the utilization. Future research could therefore focus on if the different roles the BA takes have an impact on how and to what degree startups utilize the resources. This would show possible differences that the BA role implies for the startups utilization.

The time span, as mentioned earlier, is another factor that this research doesn't take into account. After ten years of being a startup, to investigate the long-term effects of the BA involvement, a longitudinal study that tracks startups over time could be applied. Which assesses survival rate, change in strategic direction and growth metrics, something this thesis couldn't do due to the short time span. This long term study can provide important insights and information into how early-stage investments and support impact the long term growth of a company. A potential research question for this research could be: *What are the long-term impacts of the business angels on the startups they invest in?*

## 6.4 Practical Contribution

The conclusion drawn from this thesis provides deeper understanding for entrepreneurs on what factors affect the utilization of the resources supplied from BAs, but also contributes to knowledge on how these factors affect the utilization. By identifying the key factors, this study offers a roadmap and practical advice for entrepreneurs to maximize the benefits from their relationship with business angels. More specifically, it highlights the more important internal means that startup founders need to consider and evaluate in order to create the right conditions for a successful BA partnership. By doing so, startups can reap the full benefits of the extensive expertise and knowledge from BAs, and thereby making the financial support only the tip of the iceberg. On the other hand, the thesis also contributes practically to the BAs themselves. By unveiling the critical factors from a startups perspective on the utilization, the BA now has insights into what could make a startup investment more successful. The conclusion from this thesis could, therefore, also serve as a guide for BAs moving forward, and enlighten them with the right information necessary for them to get their expertise and knowledge through to the startup founders.

Lastly, this thesis's main focus may be entrepreneurs, recently named founders or business angels. But since it touches on major points that determine a successful exchange of knowledge between two parties, it could also be applied to a broader audience. Therefore, the researcher also sees this thesis to benefit all readers interested in organizational development. The conclusion of this thesis could be applied to a broad range of situations or partnership, whether it's corporate or not, and hence serve as guidance for individuals or organizations to better utilize the resources supplied by another party.



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# **Appendix**

## **Appendix 1 Intervjuguide SV:**

Namn:

Företag:

### **Anonymitet, inspelning och transkribering:**

Innan start av intervjun, vill vi tydligt förklara att du under hela intervjun samt arbetet kommer att vara anonym, samma med ditt företag. Vi har planerat att spela in detta samtal i syfte att underlätta transkribering och undrar om detta är okej för dig. Om du önskar kommer det finnas möjlighet att ta del av både uppsats och intervju i efterhand.

Är detta okej för dig?

### **Förklaring av oss samt uppsats:**

Vi är tre studenter från Lunds Universitet som skriver vårt examensarbete inom företagsekonomi med inriktning på entreprenörskap och innovation på Ekonomihögskolan. (Info om vår uppsats)

### **Inledning som grund**

Vill du börja med att berätta om företagets uppkomst, utveckling och viktiga milstolpar? (Ha denna tidslinje som bakgrund för upplägg av kommande frågor)

### **Inledande frågor (om den svarande)**

Vilken roll har du på ditt företag?

Hur länge har du haft denna roll?

Var du del av företaget från början?

Hade ni hjälp av en business angel i starten?

### **Frågor om BA:**

Vad anser du ängeln bidrog med?

Hur anser du att en optimal ängel bör vara?

Hade ni några förväntningar om att BA:n skulle bidra med värde utöver kapital?

### **Frågor intervjuer:**

Hade ni hjälp av en business angel i starten?

Vad var avgörande i ert val av ängel?

Hur använde ni ängeln?

Vad utnyttjade ni mest, kunskap, pengar, nätverk?

Kan ni nämna något konkret exempel på resurser ängeln bidrog med utöver de finansiella?

Hur integrerar ni dessa resurser/expertis in i startups. Hade ni några processer på företaget för att säkerställa att det ängeln bidrog med utnyttjades till fullo?

### **Absorptive Capacity**

Hur integrerar ni ny kunskap och färdigheter som ni fått av ängeln in till företaget?

Har ni några strategier som försäkrar er om att det ni fick från ängeln togs om hand om och användes på ett effektivt sätt?

Kan du beskriva en specifik situation där extern hjälp av en ängel har använts och sedan integrerats i företaget.

### **Agency Theory**

Vilka mätverktyg eller krav har ni satt upp för att säkerställa att ni båda drar åt samma håll?

Hur hanterar ni konflikter och ängeln emellan?

### **Initial Human Capital**

Hade ni hjälp av era tidigare erfarenheter i ert samarbete med affärsängeln?

## **Appendix 2- Search words for ChatGPT**

In order to use ChatGPT in helping the researchers to find relevant literature, following words and sentences have been used:

”Help me find new articles about business angels and startups”

”Business angel”

”Startup”

“Help me find articles about how business angels could be utilized”

”Absorptive capacity and how it works”

”Agency theory”

“Help me find articles about how absorptive capacity affects startups”