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**Navigating Through Networks:
Social Capital and Agency Theory in
Business Angels' Investment Processes**

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Abstract

This study explores how business angels in southern Sweden use social connections and trust to find and assess potential investments. Business angels often rely on their network for finding investment opportunities, and the process can vary from one cultural context to another. Most existing research on the business angels' investment process lacks a focus on the relational and informal mechanisms in the process. This study aims to understand the balance between formal and informal mechanisms that business angels and entrepreneurs go through during the investment process, from opportunity discovery to screening and due diligence. Based on 11 in-depth interviews, our inductive analysis developed a four-level framework. The Relational Level shows how trust, referrals, personal connections, and reputation help quickly identify credible ventures. The Cognitive Level reveals how shared understanding of industry, values, and founder fit acts as a screening tool. The Structural Level highlights how angels use both strong and weak ties for informal due diligence and market validation, reducing information gaps through peer confirmation. The study also views investment decisions as a continuous process of information evaluation and intuition, blending analytical rigour with experience. Theoretically, these findings expand Social Capital Theory by detailing network mechanisms and Agency Theory by showing how informal governance supplements formal controls in uncertain situations. Ultimately, this research offers insights into cultivating networks and balancing due diligence with intuition to improve investment outcomes and entrepreneur compatibility, shedding light on the intricate mix of formal and informal processes in angel investing.

Keywords: Business Angels, Social Capital Theory, Agency Theory, Early-stage Investments, Decision Making, Trust

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1 INTRODUCTION

In today's rapidly evolving entrepreneurial landscape, early-stage ventures often struggle to access traditional funding sources due to their high-risk profiles and limited track records. Business angels are wealthy individuals who invest personal capital into startups and have become an increasingly important source of both financing and strategic support (Aernoudt, 1999; Wong, 2002). Positioned between informal seed funding and institutional venture capital, business angels help bridge the early-stage funding gap, especially during periods of high uncertainty. Beyond financial investment, they offer hands-on involvement, mentorship, and access to valuable networks, significantly influencing the trajectory of the ventures they support (Politis, 2008; Sudek, 2006). As the business angel market matures and becomes more sophisticated, it is essential to explore the factors driving their investment decisions, particularly the role of social networks and trust-based relationships in shaping how opportunities are discovered and evaluated.

Business angels are often the first external investors in early-stage startups, stepping in when formal financing options are limited. Their decisions carry high levels of uncertainty due to the early development stage of ventures and the limited availability of hard data Wong (2002). As a result, business angels rely heavily on informal mechanisms, such as personal judgment, past experience, and social cues in order to assess opportunities. While their financial contributions are well acknowledged, the factors that influence their investment decisions remain less clear, particularly when compared to institutional investors like venture capitalists. Unlike venture capitals, business angels often invest their own capital and evaluate opportunities based on a mix of intuition, trust in the entrepreneur, and perceived strategic alignment (Mason and Stark, 2004). This makes their decision-making process both unique and underexplored in academic research.

Studying business angels is essential because they are critical but often an informal force in early-stage entrepreneurial finance. Unlike institutional investors, they rely less on standardised metrics and more on personal networks, experience, and trust when evaluating opportunities (Mason and Stark, 2004; Sørheim, 2003). This informality is especially significant given the high level of uncertainty and risk that characterises early-stage investments. Business angels often commit capital before a startup has substantial revenue,

customers, or data, which forces them to depend on factors such as the entrepreneur’s credibility, referrals, and perceived potential (Wong, 2002; Sudek, 2006).

In this context, social networks and trust become central to how business angels discover and evaluate investment opportunities. Referrals from trusted sources often act as a signal of legitimacy, helping investors navigate the risks associated with early-stage ventures (Batjargal, 2007; Beckman and Shahrabi, 2020). Yet, despite their importance, we know relatively little about how these informal processes actually influence investment decisions (Croce et al., 2017; Buttice et al., 2021). This gap is especially important to fill as angel investment becomes more common, and understanding their decision-making can shed light on how trust and social capital function in financial markets. According to Wong (2002), angels face high uncertainty but mitigate risks through informal methods like investing close to home and syndicating with other angels, rather than relying on formal control mechanisms. Sørheim (2003) highlights that business angels leverage regional and industry-specific experience to gain competitive advantages, emphasising the role of social capital in identifying and evaluating investments. Additionally, Skalicka et al. (2023) stress that the trustworthiness of the entrepreneur is essential in investment decisions, alongside industry structure and product features. These insights underline the significance of business angels in supporting startups through financial investment and value-added contributions.

1.1 Research Problem and Aim

Existing research on business angels has largely concentrated on identifying investment criteria and mapping how these evolve across different decision stages, including opportunity identification, initial screening, and due diligence (Mason et al., 2017; Croce et al., 2017; Block et al., 2019). Scholars have highlighted the importance of factors such as founder characteristics, financial potential, and strategic readiness in shaping decisions (Hsu et al., 2014). However, much of this literature focuses on the formal, rational dimensions of investment, while the informal, relational aspects, particularly the roles of social networks and trust, remain insufficiently explored.

This study addresses that gap by examining how business angels leverage social connections and referrals when identifying and evaluating early-stage investment opportunities. Drawing on Social Capital Theory and Agency Theory, the research explores how trust, network ties, and informal cues influence investor behaviour during the early investment process (Portes, 1998; Meckling and Jensen, 1976). By focusing on the opportunity identification and pre-investment screening phases, this study contributes to a more nuanced understanding of the social mechanisms behind the angel investing process. Furthermore, it proposes a rather complex conceptual model that combines relational and control-based perspectives, offering a comprehensive framework to analyse business angel decision-making.

To address the research problem, we develop the main research question for the study:

How do business angels leverage social networks and trust to discover and evaluate early-stage investment opportunities?

Supporting this, the following sub-questions examine the roles of referrals, credibility assessment, and risk mitigation during the pre-investment stages:

1. What role do referrals and interpersonal trust play in business angels' investment decisions?
2. How do business angels assess credibility and mitigate risk through social connections during the due diligence process?

The research draws on qualitative interview data with active business angels and applies an integrated theoretical lens combining Social Capital Theory and Agency Theory. By focusing on the opportunity discovery, screening, and due diligence phases, the study uncovers patterns in how informal mechanisms like trust and social ties influence decision-making. It contributes a conceptual model that blends relational and control perspectives, offering new insight into the social foundations of business angel investment behaviour.

Therefore, this study contributes to theory by offering a nuanced understanding of how trust functions as an embedded mechanism within the business angel investment process. It extends Social Capital Theory by demonstrating how relational ties influence opportunity discovery and evaluation, and integrates Agency Theory to explain how trust sub-

stitutes for formal control in high-uncertainty settings. Practically, the findings provide insights for entrepreneurs seeking to build credibility with investors and for business angels aiming to support early-stage investment ecosystems through trust-building and network development.

1.2 Delimitations of the Study

This study is delimited to the context of southern Sweden, focusing specifically on Swedish business angels who invest in early-stage startups. The geographic scope was chosen because we are studying and living in Sweden, but also to allow for a deeper exploration of how local cultural norms, business environments, and institutional conditions shape investment decisions and trust dynamics (Batjargal, 2007; Sørheim, 2003). The sample of our study represents business angels from any industry, whom we can connect with through our personal and professional networks. The study is cross-sectional and reflects business angel behaviour and perspectives as of the period of data collection in March to May 2025.

The study investigates only the early phases of the investment process, including opportunity discovery, screening, and due diligence. This focus captures the decision-making dynamics that occur before formal control mechanisms are established, where trust, social connections, and interpersonal judgments are most influential (Politis, 2008). To ensure relevant insights, participants were selected based on the criterion that they had made at least four prior investments as business angels. While some participants may be members of formal angel networks or groups, this study focuses exclusively on their personal, individual investment decision-making experiences, rather than the collective funding process. The study does not restrict itself to a specific industry, though the samples may reflect sectors where angel investing is most active, such as digital and financial services.

A qualitative research design was used to explore the nuanced and relational aspects of trust and social capital in investment behaviour. Semi-structured interviews allowed participants to reflect on their own decision-making experiences, aligning with prior work on investor learning and judgment (Harrison et al., 2015; Mason, 2010). All interviews

were conducted in English, which was chosen as a shared working language to ensure consistency and accessibility. However, this may have influenced how certain culturally embedded ideas were expressed or interpreted.

1.3 Structure of the Thesis

This thesis is structured as follows. **Theoretical Framework** reviews existing research on business angel investment process, entrepreneurial network, Social Capital Theory, Agency Theory, and an integrative discussion of Social Capital Theory and Agency Theory. **Methodology** demonstrates the methodological approach of this research, including research philosophy and design, sampling, data collection, and data analysis. Following, **Empirical Findings** presents the empirical results and the findings throughout the data collection and analysis process. Next, in **Discussion** we exhibit our established conceptual model by connecting to theories discussed in the theoretical framework. Finally, **Conclusion and Implications** addresses our research questions and provide a theoretical contribution. Further, we present practical implications, research limitations, and suggestion for future research.

2 THEORETICAL FRAMEWORK

This chapter outlines the theoretical foundation of the study by introducing and discussing key concepts and relevant theories that inform the research. The chapter focuses on two central theoretical lenses, which are Social Capital Theory and Agency Theory. The frameworks provide valuable perspectives for understanding how business angels use their social networks in making investment decisions. By defining important concepts within Social Capital and Agency Theory, these help us situate the study within existing literature and guide the analysis of the empirical data collected through interviews. These theories not only support the research questions but also help explain the underlying mechanisms that shape business angel behaviour in early-stage investment contexts.

2.1 Business Angels

In the early stages, most startups struggle with validating their business ideas and securing the resources needed for growth, including funding, mentorship, and market access. Business angels play a crucial role in bridging this gap by providing not only financial support but also strategic guidance and industry connections. Unlike other financial sources, such as venture capital, corporate venture capital, and bank loans, business angels rely heavily on their social networks to discover and evaluate investment opportunities. Business angels are high-net-worth individuals who invest their personal funds into early-stage startups.

According to [Ramadani \(2009\)](#), they are often individuals with substantial financial means, such as retired managers or entrepreneurs who have accumulated wealth through their own businesses. [Landström and Mason \(2016\)](#) defines business angels as individuals who invest directly in unquoted businesses with no family connection, often becoming actively involved in the business post-investment. Similarly, [Morales-Alonso et al. \(2020\)](#) emphasise that business angels invest their own capital in unquoted companies and typically engage either actively or passively in the firm's operations. Beyond providing financial support, business angels are often hands-on investors who bring valuable skills,

expertise, knowledge, and networks to the businesses they back (Ramadani, 2009).

Unlike institutional investors such as venture capitalists, business angels tend to invest earlier in the startup life cycle, rely more on informal channels for sourcing deals, and often become directly involved in the ventures they support. Their contributions go beyond capital. Politis (2008) outlines four key value-adding roles of business angels: a strategic sounding board, which offers strategic advice and shapes business direction; supervision and monitoring which is more engaging in oversight to ensure operational accountability; resource acquisition means facilitating access to networks, talent, and follow-on funding; finally, mentoring which often means coaching founders based on personal experience. The guidance, mentoring, industry connections, and managerial support that business angels provide set them apart from other financial sources. Unlike venture capitalists or bank loans, business angels are driven not only by financial returns but also by the entrepreneurial experience, the stimulation of risk-taking, personal value, and psychological fulfilment (Falcão et al., 2023).

In short, business angels are high-net-worth individuals who invest their own personal funds in early-stage startups, typically without any prior family connection to the founders (Landström and Mason, 2016; Morales-Alonso et al., 2020). They play a unique and essential role in the entrepreneurial ecosystem by providing not only financial capital but also expertise, strategic advice, mentorship, and access to networks (Ramadani, 2009; Politis, 2008). This hands-on and relational involvement distinguishes them from other financial sources such as venture capital or bank loans, which are often more formal, distant, and performance-driven (Falcão et al., 2023). As such, business angels are considered irreplaceable contributors in supporting early-stage startup growth, particularly during high-risk phases when other funding sources may be unavailable.

2.2 Business Angel Investment Process

The business angel investment process is a structured evaluation framework that is split into different stages through which investors identify, assess, and ultimately decide whether to fund early-stage ventures. This process is typically categorised into four key stages: op-

portunity discovery, screening, due diligence, and funding. Each stage plays a distinct role in filtering and assessing investment opportunities based on specific criteria and methods of evaluation. In this study, we concentrate exclusively on the first three stages.

At the opportunity discovery stage, business angels conduct an initial assessment to eliminate proposals with fatal flaws. This phase relies heavily on heuristic decision-making, particularly the elimination-by-aspects approach, whereby investors systematically exclude ventures that fail to meet critical requirements (Maxwell et al., 2011). External validation, such as proposals referred by venture capital firms, can significantly enhance a proposal's credibility and likelihood of advancing beyond this phase (Croce et al., 2017). Once a proposal or referral passes opportunity discovery, it enters the screening stage, where more detailed evaluations take place. Business angels prioritise the quality of the entrepreneur and the founding team, often placing more weight on personal characteristics and team dynamics than on the novelty of the business idea (Mitteness et al., 2012). Alignment between the proposed opportunity and the angel's investment goals is also assessed to determine the strategic fit (Croce et al., 2017).

Due diligence involves in-depth verification of the information presented during earlier stages. Angels investigate financial forecasts, operational plans, and legal structures, often conducting this research independently, although findings may be shared in group settings (Arundale and Mason, 2025). Ventures projecting low profitability or those with unverified claims are commonly rejected at this stage (Croce et al., 2017). After due diligence comes funding, where angels decide whether to proceed with the investment based on the cumulative insights from previous stages. Negotiations regarding investment terms, return expectations, and equity dilution are integral components of this phase (Bell, 2014). The decision to invest hinges not only on the opportunity's strength but also on the perceived alignment with the angel's personal or strategic investment criteria (Mitteness et al., 2012).

As mentioned earlier, the business angel investment process is sequential and selective, with each stage reducing the pool of potential investments through increasingly rigorous assessments. This structured approach enables angels to mitigate risk and optimise

decision-making by concentrating resources on ventures that align with their preferences, goals, and risk tolerance.

2.3 Entrepreneurial Network

Entrepreneurial networks are essential to the startup ecosystem, offering not only interpersonal connections but also access to social capital, financial resources, industry knowledge, and business opportunities. These networks, which comprise personal, professional, and institutional relationships, help entrepreneurs navigate uncertainty, recognise opportunities, and mobilise resources that would otherwise be inaccessible (Jack et al., 2010; Witt, 2004). They also provide legitimacy, trust, and informal validation, which are particularly important in early-stage environments where formal structures and data are limited (Anderson et al., 2007).

Jack et al. (2010) describe entrepreneurial networks as organic structures that evolve through interactions between actors and their connections. These networks range from low-density, weak-tie structures to high-density, strong-tie networks, adapting as members engage and socialise. This dynamic nature is particularly important for early-stage startups. Smith and Lohrke (2008) suggests that entrepreneurial networks help startups overcome the liability of newness, facilitate future network development, and enhance venture success by providing exclusive information. Through entrepreneurial networks, startups gain access to critical resources and knowledge that may not be available in traditional markets, as well as unique assets such as reputation and proprietary information (Witt, 2004).

2.4 Social Capital Theory

Social capital refers to the value and resources individuals gain through social relationships, networks, and interactions within a community. It encompasses trust, shared values, and norms of reciprocity that facilitate cooperation and collective action (Bhandari and Yasunobu, 2009; Whiteley, 2015). Social capital is often categorised into three forms: bonding social capital, which arises from strong ties within close-knit groups such as fam-

ily and close friends; bridging social capital, which is formed through weaker ties that connect individuals across different social groups and provide access to new information and resources; and linking social capital, which involves connections with institutions or individuals in positions of power and authority (Bhandari and Yasunobu, 2009). Social capital is linked not only to economic growth, productivity, and the efficient functioning of modern economies but also to broader societal outcomes such as democracy, governance, community development, education, health, and crime prevention (Whiteley, 2015; Kawachi, 2007).

In the context of business angel investing, social capital is important for three main reasons. First, it helps angels access high-quality investment opportunities through referrals from trusted contacts. These referrals act as informal filters, helping investors avoid poor-quality deals and focus on more promising ventures (Batjargal, 2007). To understand the role of social capital in business angel investment, it is crucial to recognise that business angels contribute far more than capital. They provide access to valuable business contacts and networks, often helping startups secure further funding and partnerships (Macht and Robinson, 2009). In addition, business angels offer professional experience and strategic guidance, which enhances early-stage decision-making and improves operational efficiency (Ramadani, 2009; Macht and Robinson, 2009).

In this context, signalling, as a social capital mechanism, explains how one party (the sender) sends information to another (the receiver) to shape their views and behaviours. This is a mechanism rooted in Social Capital Theory, and it unpacks the benefits gained from social networks, trust, and shared norms that help people cooperate and act together (Przepiorka and Berger, 2017). Business angel groups also generate collective knowledge and shared competencies, which act as cognitive resources for funded ventures, influenced by the angels' motivations and decision-making styles (Bonnet et al., 2022).

Second, social capital allows angels to assess the trustworthiness of entrepreneurs. When opportunities come through shared networks, angels can judge the credibility of a founder based on reputation and feedback from people they know (Macht and Robinson, 2009). Third, social capital supports post-investment involvement. Business angels often help

startups by sharing knowledge, making introductions, or offering advice. These contributions are more effective when there is trust and a shared understanding between the investor and the entrepreneur (Anderson et al., 2007). Social capital can be broken into three dimensions (Nahapiet and Ghoshal, 1998): structural, meaning who you know, the contacts in your network; relational, which represents how strong and trustworthy those relationships are; and cognitive, reflecting on the shared goals and understanding between people. Social Capital Theory also incorporates key concepts such as strong and weak ties, which represent different levels of connection and information flow within networks, as well as trust.

Trust is a concept within social networks that reflects on the reliability, integrity, and mutual confidence between individuals or groups, influencing the flow of information, collaboration, and decision-making within the network. Trust is referred to as the key concept between the business angels, the weak tie and the decision to invest. Trust is defined in various studies as a fundamental element in social networks, playing a crucial role in enabling interactions and collaborations. Sherchan et al. (2013) highlights that trust in social networks extends beyond personal connections, influencing how individuals evaluate and disseminate information. The authors define social trust in the context of social networks as the belief in the reliability and credibility of others within the network, which is vital for successful collaboration and engagement.

2.5 Agency Theory

Agency Theory examines the relationship between principals (investors) and agents (entrepreneurs), focusing on problems that arise from information asymmetry, such as moral hazard and adverse selection. The theory explains problems that arise when the two parties have different goals and when the principal cannot fully monitor the agent's actions. This situation creates information asymmetry, which can lead to issues such as moral hazard, for example, when the entrepreneur takes risks that the angel would not agree to. Simultaneously, another consequence of information asymmetry is adverse selection, such as when the angel selects a venture based on incomplete or misleading information (Ross, 1973).

These problems are especially relevant in early-stage investing, where startups lack financial history, formal governance, or market proof. Business angels often invest based on limited data and have to rely on the entrepreneur's word, vision, and character. At the same time, they are investing their own money and want to reduce the risk of failure or misuse of funds. In the context of early-stage investing, business angels face high levels of uncertainty and risk due to limited access to reliable information. To mitigate these agency conflicts, business angels implement various mechanisms. Many adopt a hands-on approach, offering strategic guidance and support to reduce information gaps and improve entrepreneurial decision-making (Ramadani, 2009; Bratfisch et al., 2023). Angels with a control-oriented decision-making style are typically more involved in investment-related activities, which enhances monitoring and reduces the likelihood of opportunistic behaviour (Bonnet et al., 2022).

Agency Theory helps explain why business angels often invest in people they already trust or know through their networks. When formal contracts or reporting structures are weak, relational trust becomes a substitute for control. However, angels still want some way to manage uncertainty. So even when they trust the founder, they often stay involved and apply informal checks, combining relational trust with practical oversight (Bonnet et al., 2022). Additionally, investing in close geographic proximity helps business angels maintain closer oversight, thereby minimising the risk of expropriation or mismanagement (Wong et al., 2009).

These actions illustrate how business angels actively reduce agency risks and increase the likelihood of investment success. In this way, Agency Theory supports Social Capital Theory in explaining business angel behaviour. While social capital explains how trust is built, Agency Theory explains why trust alone is not enough and why investors still seek ways to monitor and reduce risk. Together, these theories help us understand how business angels make decisions in high-risk, information-poor environments.

2.6 Combining Social Capital and Agency Theory: A Conceptual Foundation

Social Capital Theory explores the different relations and social structures and the ways in which these can provide access to resources, trust and information. In the context of entrepreneurship, these can be truly valuable for ventures and investment decision-making. Social ties play a direct and influential role in investment decisions, particularly among business angels who often rely on personal relationships and trust when evaluating potential ventures. In high-uncertainty environments, these personal ties can even outweigh the influence of high-status investors in the decision-making process.

Research has shown that in emerging industries, strong personal connections significantly shape investment preferences, demonstrating the importance of trust and familiarity over hierarchical status (Wuebker et al., 2015). According to Lin et al. (2017), social capital refers to the benefits derived from an individual's network of relationships, highlighting how social connections serve as valuable assets. In the context of entrepreneurship, McKeever et al. (2014) emphasise that social capital is built through mutuality, where trust and reciprocity strengthen ties within entrepreneurial ecosystems.

Business angels, who often operate in high-risk environments, rely heavily on social capital to mitigate risks, gain information, and assess potential investments. Anderson et al. (2007) argue that entrepreneurial social capital not only facilitates access to financial resources but also provides legitimacy, mentorship, and market opportunities. This is particularly relevant for business angels, as their investment decisions often hinge on the trustworthiness of the entrepreneur and the credibility established through shared connections. Doh and Zolnik (2011) provide an exploratory analysis demonstrating how social capital accelerates entrepreneurial success by fostering collaboration, resource sharing, and innovation.

For business angels, social capital is not just a mechanism for deal flow but also a critical factor in post-investment support and value addition. Lin (1999) further builds on this by proposing that social capital enhances an individual's ability to leverage network resources for economic and social gains, making it highly applicable to business angels who navigate complex investment landscapes through their networks.

In summary, Social Capital Theory offers a robust framework to analyse how business angels utilise their networks for investment decisions, emphasising the importance of trust, mutuality, and resource exchange within social structures.

Agency Theory provides a foundational framework for analysing the dynamics between principals and agents, particularly within entrepreneurial contexts. Introduced by [Ross \(1973\)](#), the theory addresses the challenges that arise when one party (the principal) delegates work to another (the agent), who performs that work. This delegation often leads to issues of information asymmetry and divergent interests, commonly referred to as the principal-agent problem. In the realm of entrepreneurship, this theory is especially pertinent.

To understand how Agency Theory applies to business angel investment decisions, it is important to examine how the theory explains investor-entrepreneur relationships, especially in relation to information asymmetry, control mechanisms, and decision-making criteria. In practice, business angels frequently rely on heuristics and gut feeling when evaluating early-stage ventures. These intuitive methods allow them to navigate the uncertainty and limited information typical of early investments more efficiently. Rather than conducting exhaustive analyses, business angels often make quick yet informed decisions by focusing on key red flags or success indicators, using simplified mental models to manage risk and complexity ([Huang and Pearce, 2015](#); [Jeffrey et al., 2016](#)).

[Arthurs and Busenitz \(2003\)](#) further explore the boundaries and limitations of Agency Theory in the venture capitalist-entrepreneur relationship. Their hypothesis was that while Agency Theory offers valuable insights into safeguarding investors' interests against potential opportunistic behaviours by entrepreneurs, it may not fully capture the complexities of trust and long-term collaboration inherent in such relationships. [McMullen et al. \(2020\)](#) expand upon this by examining the concept of entrepreneurial agency. They argue that entrepreneurs are not merely agents acting on behalf of investors, but are proactive individuals driven by their own goals and motivations.

In the context of business angels, Agency Theory exemplifies the reliance on social networks and trusted referrals to mitigate risks associated with information asymmetry. By leveraging established relationships, business angels can better assess the credibility and potential of entrepreneurial ventures, thereby aligning interests and fostering successful investment outcomes. This approach not only reduces agency costs but also enhances the collaborative synergy between investors and entrepreneurs, ultimately contributing to venture success.

3 METHODOLOGY

3.1 Research Philosophy

This study adopts a constructivist and interpretivist research philosophy, which shaped both the design and execution of the research. Our aim is to explore how business angels make use of their social networks during the investment decision-making process. We assume that the investment decisions that business angels make are not driven by objective laws or measurable truths. Instead, they are shaped by individual experiences, trust-based relationships, and context-specific interpretations. A constructivist ontology aligns with this view by suggesting that reality is socially constructed and context-dependent. Meanwhile, an interpretivist epistemology emphasises that knowledge is co-created through interaction, focusing on the subjective meanings that individuals assign to their experiences.

This philosophical stance guides our choice to conduct semi-structured interviews that encourage participants to reflect on their personal experiences and sense-making processes, which further co-create the subjective understanding of their valid realities. As [Kabaji and Mukanzi \(2018\)](#) argue, articulating such foundations is vital in social science-related research, as it frames the researcher's world-view and methodological choices. Similarly, [Peck and Mummery \(2017\)](#) emphasise that hermeneutic constructivism enables researchers to engage meaningfully with the complexity of human interpretation, making it well-suited for studies that explore lived experiences and social phenomena.

From this perspective, the goal of this research is not to uncover a single, universal truth, but to understand how business angels perceive, experience, and make sense of their interactions and networks when evaluating entrepreneurial opportunities. By grounding our study in this philosophical stance, we ensured alignment between our world-view and methodological choices. It influences not only the way we approach data collection, but also how the data is interpreted. We aim to focus on meaning, context, and the lived realities of the participants.

3.2 Research Design & Sampling

This study employed an abductive qualitative research design, characterised by an iterative process between empirical data and theoretical frameworks. Initial insights from existing literature on social capital, Agency Theory and the business angel investment process informed the development of the interview guide. As more data were collected, new themes began to emerge, which led us to adjust the interview guide and revisit parts of our theoretical framework to better understand how business angels use their social networks when making investment decisions.

To recruit participants with substantial experience in early-stage investments, purposive sampling was utilised. This approach is effective for identifying information-rich cases, particularly when the target population is not easily accessible through conventional sampling methods (Palinkas et al., 2015). Business angels often operate informally, without centralised registries, making them a hard-to-reach group (Barratt et al., 2015). Purposive sampling enabled the selection of participants who met specific inclusion criteria, which ensured that participants could provide deep, experience-based insights into the role of social networks in investment decisions:

1. The individual must be an active business angel.
2. They must maintain a connection with the ventures they have invested in.
3. They must have invested in a minimum of four ventures.

In addition to purposive sampling, the snowball sampling strategy was also applied when acquiring participants. We initially reached out to individuals within our personal and professional networks who met our criteria. In some cases, participants were identified and approached during entrepreneurial events. This initial group then further referred us to more relevant participants within their network, allowing us to expand our sample through a snowballing process (Noy, 2008). This combination of purposive and referral-based sampling enabled us to access broader connections of business angels, and it guarantees the quality of our participants. Table 1 shows relevant information of all participants. For the "Network" column, some business angels are involved in more than one network, but we prioritise the main network business angels are involved in or the network they have

mentioned during the interviews. The "Investment" column shows the total amount of investment business angels have made and the number of years participants have been business angels, starting from their first investment.

We approached potential participants carefully and respectfully. Before initiating contact, we conducted background research to confirm that each individual met our selection criteria. In our initial outreach, both in person and via email, we briefly introduced ourselves, explained the topic of the research, and clarified why we believed their experience would be valuable to the study. Once a participant expressed interest, we followed up with a formal invitation email (see Appendix A), which included a more detailed introduction to the project, an outline of the interview structure, and a link to schedule a convenient interview time.

Table 1: Participant Information

No.	Age	Gender	Location	Network	Investment	Industry Background
1	27	Male	Cologne	NA	7 / 5 years	Software
2	80	Male	Lund	I Love Lund	50 / NA	Food Packaging
3	53	Male	Lomma	I Love Lund	10 / 5 years	Plastic Industry
4	49	Male	Malmö	Connect	8 / 8 years	Entrepreneur, Investment
5	53	Female	Helsingborg	Connect	NA / 15 years	Media, Med Tech
6	53	Male	Lund	Connect	4 / 2 years	Finance, Consulting
7	57	Female	Malmö	Connect	22 / 15 years	Marketing, Business Dev.
8	67	Female	Helsingborg	Connect	20 / 12 years	Management, Consulting
9	52	Male	Lund	Skåne Ventures	10 / 20 years	Consulting
10	36	Male	Lund	NA	8 / 12 years	Energy, Business
11	58	Male	Helsingborg	NA	7 / 15 years	Med Tech

3.3 Data Collection

Data for this study were collected through semi-structured interviews conducted between March and May 2025. All interviews were held in English via Google Meet and Zoom, with each session lasting between 45 and 75 minutes. An interview guide was developed to support the semi-structured format, allowing for consistency across interviews while

leaving room for flexibility in follow-up questions.

The initial version of the interview guide was designed around key themes identified in the literature: social capital, trust, due diligence, and the challenges faced by business angels. A pilot interview was conducted to test the structure and content of the interview guide. Based on feedback and the data collected, the guide was revised to include more detailed follow-up prompts and open-ended questions that encouraged participants to share their personal experiences. As [Majid et al. \(2017\)](#) emphasise, pilot interviews are instrumental in refining interview questions and enhancing the overall research design. As the data collection progressed, the interview guide continued to be refined iteratively. Adjustments were made three times during the entire data collection process to ensure alignment with the research questions and to deepen the quality of insights gained. This iterative process is a recognised best practice in qualitative research, allowing researchers to adapt their instruments based on emerging data and insights ([Parker et al., 2023](#)).

The design of the interview guide was directly informed by the theoretical foundations outlined previously, particularly Social Capital Theory and Agency Theory. Since this study focuses on how business angels leverage their networks during the early stages of investment, the guide was structured around key dimensions of the investment process where these theories are most relevant.

The guide begins with questions about the participants' background and investment focus, intended to establish their domain expertise and contextualise their decision-making approach. It then explores how business angels identify investment opportunities through their networks, with particular attention to the role of referrals, trust, and personal connections, which reflect the structural and relational dimensions of social capital. Further questions investigate the influence of shared cognitive values and vision and how these shape investment preferences. The second part of the guide aligns with key constructs from Agency Theory, particularly regarding how investors assess risk in the face of information asymmetry. Questions in this section explore how business angels use their networks during screening and due diligence, how they evaluate trustworthiness and commitment, and how they interpret reputation signals to avoid moral hazard and adverse

selection. Both formal and informal due diligence practices are examined to understand how business angels combine personal insights with more structured evaluation tools. See Appendix B for the final version of the interview guide.

By structuring the interview guide this way, the study ensures theoretical consistency while allowing participants to share nuanced experiences across multiple stages of the investment process. This design supports the study’s qualitative, interpretivist approach by promoting open-ended, reflective responses that capture the complexity of investor decision-making in real-world settings.

3.4 Data Analysis

This study used the Gioia methodology (Gioia et al., 2013) to analyse the interview data. This approach was chosen for its ability to maintain a close connection between participants’ experiences and the development of theoretical insights. It is particularly suitable for exploratory research aiming to uncover patterns and meaning-making processes, and it has been widely adopted in organisational and entrepreneurship studies for its systematic and transparent coding structure (Gioia, 2021). After conducting 11 semi-structured interviews, these resulted in approximately 135 pages of transcribed data. All interviews were transcribed and reviewed for accuracy shortly after they were conducted (see Appendix C for transcription tool). The data analysis process followed the structured steps proposed in the Gioia method, which emphasises rigorous, inductive coding and systematic development of concepts.

First, we go through the transcript individually to select quotes that can be useful for answering the research questions. We then compare and discuss what quotes we should keep for further analysis. This was conducted without imposing prior theoretical assumptions, consistent with the abductive nature of this study. Our aim was to remain receptive to novel insights grounded in the empirical material, rather than constraining our analysis to existing theoretical categories.

Following, we turn these original quotes into a polished version, including removing un-

related words, correcting grammar, etc. Next, we summarise the polished quotes into first-order concepts. For instance, participant 9 said, "So I would say relevant skill sets. Meaning, if you're building a sustainability climate tech business, ideally, you should have some prior experience, education-wise, and knowledge of climate tech", was paraphrased as "Founder's relevant skill set and education background". In total, 165 initial first-order concepts were extracted, reflecting the interviewees' own terms and perspectives. By prioritising inductive coding, this step enabled us to build a foundation for a theory that is empirically grounded and contextually rich. This abductive approach is increasingly recognised for its capacity to bridge empirical observations with theoretical abstraction in a flexible yet rigorous manner ([Timmermans and Tavory, 2012](#); [van Hulst and Visser, 2025](#); [Conaty, 2021](#)).

Continuing, we organised the first-order concepts into broader categories to formulate second-order themes by finding connections between each first-order concept. Examples of second-order themes include "trust through referral", "founder's fit", and "market validation". This step involved pattern recognition and interpretive coding to capture the underlying structures within the collected data. While some concepts were relevant to more than one theme, each was assigned a primary category for clarity and coherence. This process resulted in 9 second-order themes, forming the intermediate stage between data and theory.

From the first-order concepts and second-order themes, we discover that there are patterns of how business angels go through the investment process while using trust signals to make decisions. In the final step of the analysis, the second-order themes were further aggregated into four higher-level dimensions, which we drew inspiration from Social Capital Theory, based on thematic consistency and conceptual alignment. These include "relational dimension", which captures how angels build and leverage trust through face-to-face relationship-building, reputational signals, and broader social endorsement; "Cognitive dimension" that encompasses the shared mental frameworks used to evaluate ventures, including startup assessment and founder's fit; "Structural dimension" reflects the network-based mechanisms of due diligence and market validation, whereby investors tap both strong and weak ties to verify claims; finally, "decision making dimension", inte-

grates systematic information analysis with continuous data evaluation alongside intuition and gut feeling, to guide funding decisions.

These aggregate dimensions form the basis of the conceptual model developed in this study, which addresses the research question: *How do business angels leverage social networks and trust to discover and evaluate early-stage investment opportunities?* The combined use of the Gioia methodology and abductive logic provided a structured yet flexible approach to uncovering nuanced insights grounded in the data, while maintaining transparency and analytical depth (Gioia et al., 2013; Gioia, 2021; Timmermans and Tavory, 2012). Figure 1 demonstrates the data structure of our analysis.

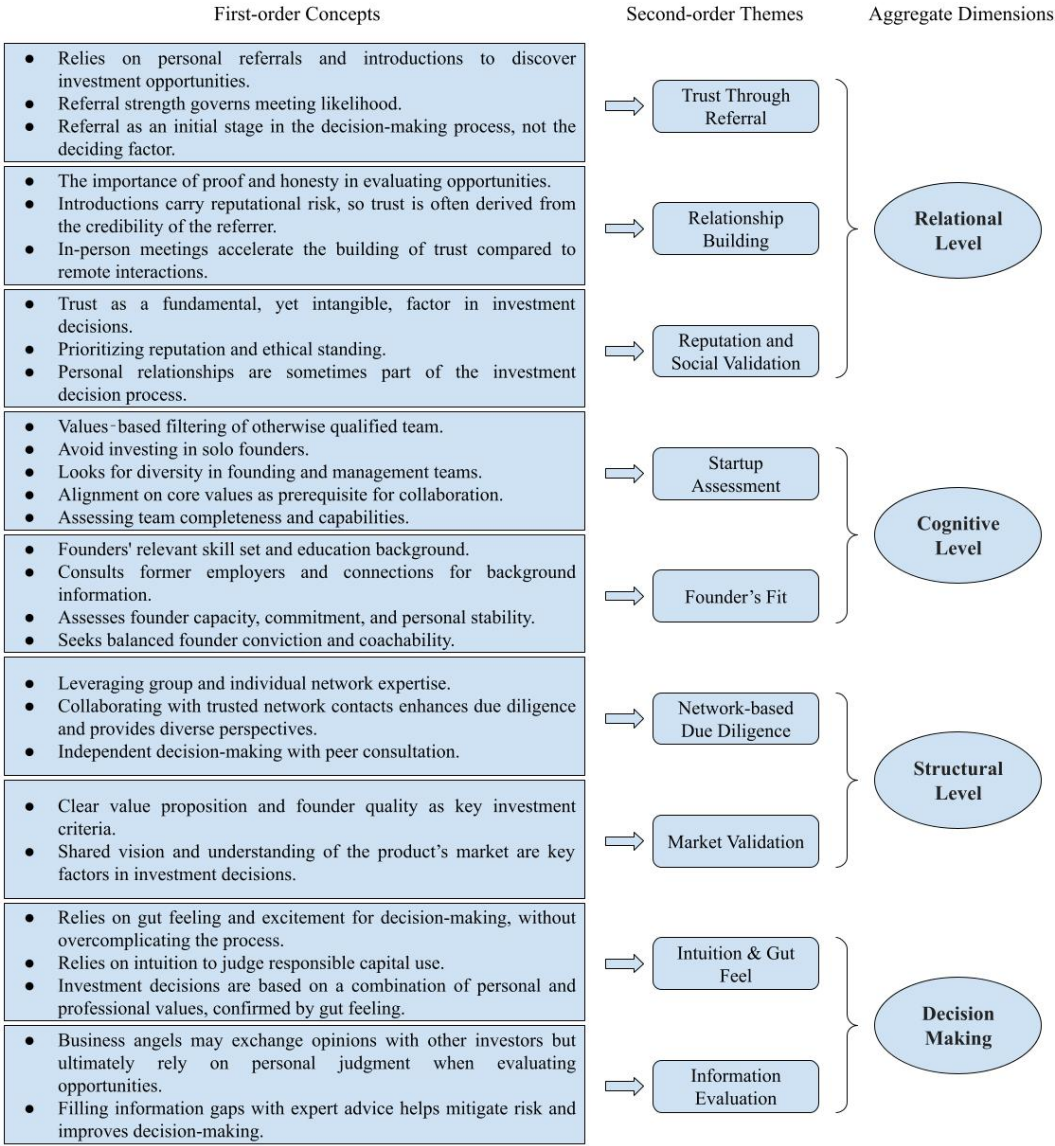


Figure 1: Data Structure

4 EMPIRICAL FINDINGS

This chapter presents a comprehensive summary of the findings from our study, which investigates how business angels make use of their social networks to discover and evaluate potential investment opportunities. Our data structure reveals how angels use social networks and trust in early-stage investing through the four dimensions. At the Relational level, the second-order themes, Trust Through Referrals, Relationship Building, and Reputation and Social Validation guide us through understanding how business angels rely on referrals, reputation signals and personal rapport to identify credible opportunities. The Cognitive dimension focuses on how shared understanding helps angels quickly identify compatible teams with the second-order themes, such as Startup Assessment and Founder's Fit. Structural elements show how network ties aid in due diligence and market validation, with second-order themes that are Network-based Due Diligence and Market Validation. Finally the Decision-Making dimension illustrates how angels combine Intuition and Gut Feel with Information Evaluation. These dimensions collectively map the entire process of opportunity discovery and evaluation.

The goal of our research was not only to explore the functional role of social networks but also to understand the nuanced, relational factors that shape investment decisions. Through a series of interviews with experienced business angels, we uncovered recurring themes related to trust, credibility, relationship building, reputation, founder fit, and the due diligence process. Our analysis shows that business angels rarely rely on a single, standardised approach to evaluating opportunities. Instead, their decision making is shaped by a range of personal and contextual factors, often influenced by the strength and nature of the connections within their networks. We observed that trust plays a central role throughout the entire investment process in terms of whether and how a referral is acted upon, and that perceived credibility and past experience with intermediaries strongly affect the likelihood of further engagement. These findings point to the complexity of the angel investment process, where both rational evaluation and relational judgment come into play.

4.1 Relational Level

We have identified three second-order themes that can be categorised into relational level, trust through referral, relationship building, reputation and social validation. These findings gave us a holistic view of how business angels leverage their personal and professional connections to explore opportunities, build and maintain interpersonal relationships, and validate the information they gathered throughout the investment process.

From the beginning of the investment process, business angels tend to utilise their network as a channel of opportunity discovery. As Participant 4 explained, *"Well, if I get a reference from a person that I don't know, I would still screen the company, look at the pitch deck. But, it's a high risk that I won't take a meeting. But if I get a reference from a person whom I have high trust in, then I will probably meet that company."* Similarly, participant 8 highlighted trust: *"If someone I trust points out a promising startup, I always look into it. [...] that doesn't guarantee I'll invest, but it's where I start."*

This illustrates that referrals act as a powerful tool, by fast-tracking an entrepreneur into a possible investment opportunity. Compared to a startup that wasn't introduced through referral, a startup introduced through referrals has more advantages starting from the beginning of the investment process. Despite a better starting point for startups with trusted referrals, some business angels mentioned that a trusted referral doesn't guarantee startups to enter the next phase: *"It's like I may find out about new opportunities, but I don't invest based on the referral. It's the referral just if you look at it as a funnel, a decision-making funnel, then the referral it's on the top."* (Participant 6)

After introduction through referrals, business angels tend to build relationships with the founders before entering the screening stage of the investment process. Our participants expressed the importance of interpersonal connection and the relationship between themselves and the founders. Participant 1 explained, *"I think it is very important to meet people in person. That's why I always notice that, builds trust a lot faster."* The participant also went on to note that *"If you interact with somebody in person, you just get a whole different feeling for it than just zooming into action."* (Participant 1) Participant 6 echoed this sentiment: *"So for me, unfortunately, there's nothing to replace time with*

the relationship to propaganda.” Similarly, participant 8 highlighted the importance of relationship building: *”If I can’t connect with the people, and even if I think that they are really knowledgeable, but if the values or other things are different, then it’s not interesting.”*

All interactions between referrals, business angels, and entrepreneurs send credibility signals to one another. Not just during the opportunity discovery phase, but essentially throughout the investment process. As business angels, they have to constantly evaluate trust, signals, reputations, and even conduct social validation on referrals, entrepreneurs, and the startups themselves.

Participant 1 mentioned:

The trust kind of comes from the introduction, and you feel like somebody that you trust, who has a reputation, introduces them. So if somebody tries to introduce me to somebody that would turn out to be a scam or something like that, obviously I would be like, hey you introduce me to this person. So that’s also something important to understand. I also wouldn’t make introductions for everyone who asks me. You have to be kind of careful with it because it’s also probably your reputation that you put in. (Participant 1)

This illustrates how reputation and trust are co-constituted. The act of referring to someone is not neutral, it carries social and reputational risk for the introducer. Referrals serve as a credibility check, and business angels making those referrals are aware of the weight their introduction holds. Moving beyond direct introductions, business angels still remain mindful of reputation ripples in their network.

Participant 6 mentioned:

People have a reputation, and their reputation affects how other people make decisions. You just need to be aware of it, and I’m sure it has happened to me without me knowing. [...] I’m sure there’s some people who had a bad experience with me, then I will lose opportunities based on that. You need to minimise that. So you try to learn, and you try not to do it. But then you

need to realise also that everything is probabilities. It's inevitable that you're not going to make everyone happy. You do your best and try to be honest, then you need to make decisions. I don't think you should be stopped from making decisions because you're gonna pay someone off. If your portfolio of people who think something about you, 20% of people think you're bad and 80% think that you're good, then you probably are doing okay, I'm thinking.
(Participant 6)

This shows how reputation functions as a form of social check and validation mechanism: positive word-of-mouth amplifies trust, while negative whispers can silently shut doors, underscoring the relational stakes underlying every referral. It is utilised to shape access and evaluation throughout the entire investment process, allowing business angels to make holistic judgements when balancing information from all perspectives.

4.2 Cognitive Level

In the screening phase of the investment process, we found out that business angels tend to look at two aspects: founders' fit and startup assessment. Founders' fit includes quantifiable measurements such as educational background, previous startup, work, or industry experience, and relevant skill sets, but also more subjective evaluations such as personality, characteristics, commitment, and personal stability.

Many business angels shared that they tend to have a more founder-centric investment philosophy. Participant 1 captured this idea perfectly, "*I've also seen that most startups go through at least one pivot, or even several pivots. So the idea changes all the time, what stays is the founder. That's why I would say the founder is definitely the most important factor.*" Similarly, participant 5 remarked, "*I think there is an indicator if the founders had built companies before and worked in startup companies before.*"

We also knew from participant 7 of how important founder's stamina is: "*it is something very crucial for us [...] that entrepreneurs have what it takes and they also have the stamina to fulfil it, and also their social capital, their family situation, their financial*

situation, that they actually could do with it.” Meanwhile, participant 9 highlighted the importance of the entrepreneur’s background: *”So I would say relevant skill sets. Meaning, if you’re building a sustainability climate tech business, ideally, you should have some prior experience, education-wise, and knowledge of climate tech.”*

On the theme of startup assessment and reputation, but on a rather negative line, participant 11 gave an example of a situation where the startup idea was in his field of expertise, but knowing the chairman drove them away: *”I actually refused an investment in a medical technology company because I happen to know the chairman of that company, and that was not someone I wanted to get involved with.”*

Interestingly, we found out that past failure isn’t necessarily a bad thing in this case. Some business angels pointed out that past startup failure is seen as a positive indicator rather than a negative signal. As participant 3 mentioned, *”If someone has failed before, it doesn’t stop me [...] they have learned from that mistake. I would say [it’s a] plus.”* Reflecting on their past experiences, participant 9 mentioned *”I wouldn’t think failure is a showstopper because failure is experience, and you learn a lot from experience. So, to have been a founder before, but failed, I think, is still a positive.”* These finding shows that evaluating the capabilities of the founder is essential to business angels, given that the founder is often the key driver of the startup’s success and the focal point for trust-based investment decisions.

Besides the founders themselves, business angels also assess startups based on their purpose, vision, and whether there is alignment when it comes to value and common language. Some participants expressed that shared value can be an important criterion when making investment decisions. Participant 4 describes that *”If we have similar values, I feel strongly that I can say maybe the opposite. I don’t think I have a company that I don’t believe in the vision. And I will probably not invest.”* Participant 6 highlighted the importance of culture and similar values: *”Values and culture are really efficient. You know things that don’t feel good culturally, you just don’t waste time doing it because in the end, the company is not gonna accept it.”* Participant 8 also underscored the need for similar values: *”We must understand each other and have values that I can respect. We don’t*

have to be equal in everything or have the same vision exactly, but we have to have the same basic values about things. These are important, and the rest we can learn from each other.” Very similarly, participant 11 mentioned the importance of having a shared goal: *”I think common values are more important than common language because I think as long as your heart’s in the right place and you’re trying to strive towards the same sort of goal.”* Participant 9 framed their investment criteria: *”It’s general [industry I invest in], but I have a very strong purpose in terms of environmental and social sustainability. So the start-up needs to somehow contribute to humanity’s future survival, or just make life better for somebody or less harmful to people”* Participant 10 summed up, *”So, values are very important. And we are aligned in helping others.”*

Some participants also mentioned that team formation and management will affect their judgment of the startup. Some feel sceptical about investing in a solo founder: *”I think the one thing that is important is to not invest in somebody that is alone. [...] I need to be able to see that they can share their ownership with somebody else, that they’re willing to let others in, that they can attract other people with other competencies.”* (Participant 5) Similarly, team composition serves as a credibility signal, a heuristic that a founder can attract complementary skills and collaborate, which is a signal that builds business angels’ confidence. On the theme of team composition and management, participant 2 stated, *”The management is so important, because if I think they can make it, then it’s fine. But if you are a little bit hesitant about that, I would not go into that.”* Similarly, participant 4 mentioned, *”I always see how they fit in with each other, which roles and responsibilities they have. What I’m looking for is a complete team that can handle different things in the company. So what I’m looking for is a team that can do that, can have different responsibilities, and execute them.”*

Business angels consider how well-aligned they are with the founders and the venture industry because they care to be useful in ways other than only through monetary investments. Common language is important for business angels in this sense, because they feel more connected with the founder, and it signals credibility and reduces perceived uncertainty. Some angels prefer investing in sectors where they have expertise, enabling better evaluation of the founder’s fit and vision. Participant 3 emphasises, *”I’m not supposed to*

invest if I can't help the company in some way."

Meanwhile, trust is still a foundational element when evaluating a founder's fit and assessing startups. Participant 1 emphasised that "*this whole system only works really if you trust the founder a lot.*", reflecting the consensus that without trust, promising ventures can be dismissed. This is particularly relevant in angel investing, where investors rely on informal judgments due to limited formal control mechanisms.

Evaluating the founders and the team isn't a single checkpoint but rather a continuous journey. This assessment unfolds through interactions, referrals, and observing consistency across various meetings: "*First of all, I met the team. That's when they are pitching the company, and the pitching period is one thing, and then you meet them a couple of times more. So, for me, I probably start with the team because that is the most important thing from the beginning. I have to believe that they are competent, that they realise what they are doing [...]*" (Participant 8). This finding shows that business angel decisions evolve through learning and interaction over time.

4.3 Structural Level

In the due diligence stage of the investment process. We identified two main approaches that business angels tend to have in order to perform their due diligence, namely network-based due diligence and market validation.

When conducting due diligence, many business angels mentioned that gathering information is crucial. They sometimes gather information from performing market validation, using information available on the internet, their own knowledge, market research, etc. To collect all sorts of information that will help when conducting a holistic evaluation: Participant 4 mentioned, "*I need to understand why a customer should pay for your solution or service, or product.*" As a practical example, participant 6 noted, "*The key thing I look at is whether or not they have a clear value proposition. Who's the customer? Are they addressing a problem that the customer has? Do they have a solution that actually addresses the problem as stated? [...]*"

Linking the theme of market validation, participant 9 explained that *"I would absolutely do my own market analysis of the potential markets and not just take their presented data, the functions, features, and benefits versus competitors for granted. I would do my own desktop research and maybe export it to these."* Business angels utilise these concrete market signals to evaluate startup growth and investment potential. Understanding the market and product potential is key to investment interest. Even though it requires additional research or customer calls, this method can ground investment decisions in real-world data and reduce risk when making decisions.

Besides their own market validation, business angels also mitigate uncertainty by leveraging the expertise of their networks. Many participants expressed that they not only conduct their own research and make use of personal expertise, when facing information gap and information asymmetry, they also utilise their personal network and connections to conduct peer-based information gathering: Participant 2 explained, *"If I feel a [information] gap somewhere, then I also use people, and they are very knowledgeable in these specific areas, and I call them. So, experts in the industry. They have helped me a lot, actually, because they said, no, no, no, watch out here, this is not good. Or something like that. It has been very helpful."* Similarly, participant 4 described, *"I always have discussions with people who are interested in the company. It's always good to get other opinions, but the decision is mine."* Participant 8 highlighted as well the importance of using their network: *"I use my own network. If I need to find out what this kind of product actually is, if it has a market potential or is that then I definitely use my network to ask the question."* Participant 9 described reaching out beyond the immediate network: *"I would connect with friends or pure acquaintances or connections that I have on LinkedIn, for example, relevant to that industry, to verify and validate hypotheses about market size or the idea in general. I would, if possible, speak to other investors or customers or whatever that I could get access to their opinion on the persons, the people, the founders, and the business study itself."*

By tapping known peers, angels not only verify basic facts but also inherit the referee's credibility before committing time or capital. This strategy reduces the risk of one-off gut

errors by embedding each opportunity within a broader web of trust. This reduces the risk of errors from gut feeling by embedding the opportunity in a wider network of trust. Some business angels even leverage the collective knowledge of their community to make the due diligence process more efficient.

Participant 8 stated:

Because I'm in these two different investment groups, I would say we have all the competence in these groups. So if we do an investment together, then we just use the lawyer we have, the finance person we have, the knowledge about consumers, and all these people. When it comes to my own investments, I use one or two of the people or other people in the network to discuss or understand. [...] So it is a lot about the communication going on through the network and through the process. (Participant 8)

This outlines how business angels can benefit from individuals' specialised knowledge through their network and connections when facing information gaps and information asymmetry. Furthermore, helps reduce risks associated with early-stage investment decision making. In essence, business angels conduct informal network-based due diligence relying on quick, experience-based assessments and peer validation over rigid criteria. This approach boosts agility but also introduces subjectivity and requires a careful balance between trust and critical evaluation.

4.4 Decision Making

After gathering all available information, business angels usually conduct their own evaluation of whether to pursue the next step with the founders and startups. We recognised two themes that are relevant to decision making during the investment process: intuition & gut feel, and information evaluation.

Deciding whether to invest or not in a venture can be filled with uncertainty. We observed that some business angels rely heavily on their gut feeling and intuition, while others rely on more logical information evaluation. These each offer a different way to balance speed,

trust and rigour in the face of information gaps. Participant 1 made it clear that *“I don’t know what convinces me. I think it’s really a gut feeling to be honest. There are angel investors who write memos, and they have their framework to analyse startups and stuff. I don’t really believe in that stuff. For me, it really is a gut feeling. If I just click well with somebody, I just get excited.”*

Similarly, many other participants also expressed that they sometimes rely on intuition when making judgements. Participant 3 puts it: *“You just go with your gut feeling. You don’t know whether the person is gonna use the money responsibly or not.”* Participant 6 also noted that *“You don’t need complicated manuals and stuff. You get a gut feeling for things, and that’s good enough.”* Participant 9 described how *“I would always triangulate between gut feeling, between trusted people’s opinions and AI and desktop research.”* Participant 10 also observed that *“I think that to balance this information is to use gut feeling. Because in the end, all the information cannot be confirmed 100%. And something that gut feeling is just telling, it’s kind of a risky game.”*

This approach presents a rather quick decision-making method, crucial when dozens of pieces of information come up, but it carries obvious risks of bias and over-reliance on intuition. Still, for these angels, intuition serves as a trusted shortcut during each step of the investment process.

Since business angels gather information from diverse sources, blending network-based information with self-conducted due diligence and deciding which information can be used and trusted is important. Participant 6 noted, *“[...] You get as much data as possible. And then some data is from annual reports. Some data is in Google. Some data is on the website. Some data is word-of-mouth. So you get all the data that you can, but the decision is yours.”* Despite this openness, the business angel also recognised the necessity to filter and prioritise: *“[...] Sometimes you have to say no to more information because it’s just unmanageable. I will take any information I can, and then you need to make a decision.”* (Participant 6)

Besides intuition and gut feel, business angels also conduct logical information evaluation

and analysis before making decisions. They often look at due diligence lists, financial documentation, track record, etc.

Participant 5 pointed out:

So you will look at the cap table, the ownership of the company. You will look at the financial side mainly to see that there are no loans or off-balance items that you need to be aware of, any sort of convictions on the founders or the board members, or anything that you really do not want to work with. (Participant 5)

Participant 8 mentioned:

Because if I go through the due diligence list, then I know that I checked everything, so I don't miss out on it because of the tax things, you can miss out if you don't speak about it every day. If you're a finance person, you will not because she's doing all these declarations and everything. But I would miss it if it weren't on the list. Yes. If it's not. So I just stick to the list, and then I know that everything I need to know is there. It's checked. (Participant 8)

Based on the information they have collected, business angels are able to conduct a more holistic evaluation on whether or not they want to continue with the startups to the next step. The approaches of information evaluation and intuition and gut feel cannot only be used to make the final decision of providing funding or not, but can also be applied throughout the entire investment process. At any point, the business angels receive information and signals from their network and entrepreneurs, they need to evaluate the trust, reputation, signals, and information, and finally, trust their own intuition and gut feeling to make a decision.

Our findings show how trust, networks and quick judgments are crucial throughout the investment screening process. This gives us a solid understanding of early-stage investing and forms the basis for our conceptual model.

5 DISCUSSION

In this chapter, we interpret our four-level framework (Relational, Cognitive, Structural, and Decision Making) in light of concepts such as signalling, trust, social capital and agency theories. We first show how each element of our model inter-connect with each other and builds upon these established ideas. This demonstrates how referrals, shared understanding, network structures, and quick judgments influence angels' early-stage funding decisions. While integrating these theories, we then highlight the insights our analysis uncovered, before discussing contributions to existing studies and practical implications for both business angels and entrepreneurs. Our central focus remains: *How do business angels leverage social networks and trust to discover and evaluate early-stage investment opportunities?*

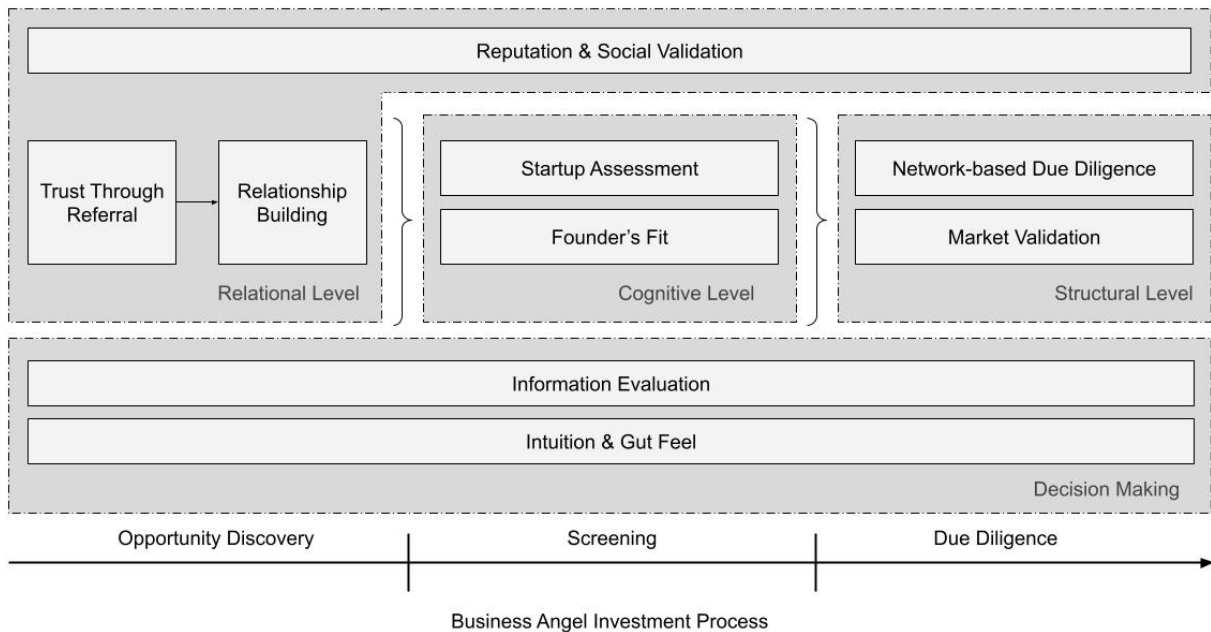


Figure 2: A processual conceptual model illustrating how business angels leverage social networks and trust to discover and evaluate early-stage investment opportunities.

This conceptual model (figure 2) illustrates how business angels leverage their social networks across the stages of the investment process. Rather than acting as passive background resources, these networks serve as active tools that facilitate trust-based referrals, reputational validation, and access to expert insight. Social connections shape both the initial identification of opportunities and the ongoing assessment of credibility, aligning with core principles of Social Capital and Agency Theory.

Relational, cognitive, and structural elements of social capital are interwoven throughout this process, informing decision-making at each step. From intuitive judgments formed during early interactions to structured evaluations supported by network-based due diligence, angels rely on both social cues and analytical inputs. Our model captures this dynamic interplay, emphasising how decision-making is not a discrete final step, but a continuous thread shaped by evolving information, personal trust, and intuitive assessments.

5.1 Relational Level

In the relational level dimension, we recognised three patterns that business angels usually exhibit during the opportunity discovery stage and also further in the investment process. These three themes are Trust Through Referral, Relationship Building, and Reputation & Social Validation.

During the initial review, or opportunity discovery stage, angels often see many potential investments, mostly because someone they know recommended them. Social Capital Theory helps us understand our findings about building trust and relationships, and it also relates to most of what we found overall. Specifically, it explains our findings about building trust and relationships. Some of the main ideas we found in our data easily fit with Social Capital Theory. For example, the idea of trust through referrals, building relationships in person, and reputation being like social currency all show this clearly. So, the themes of Trust Through Referral and Relationship Building connect to the relationships angels have, like referrals and in-person interactions, which are part of the relational level. Going back to Social Capital Theory, we learn that it's about the benefits or personal advantages that come from building relationships. Social capital often involves trust, shared values, and common goals that can lead to working together.

Besides Social Capital Theory, we can draw inspiration from concepts such as signalling. In the opportunity discovery phase, most business angels tend to use referrals as a channel to explore more opportunities. The trust they have is not only in the referrals themselves,

but also in building new trust with entrepreneurs and new ventures. Instead of using social capital with referrals, signalling helps develop the relationships between investors and entrepreneurs. Signalling as a concept in the Social Capital Theory suggests that business angels rely on signals to assess the quality of entrepreneurs and their projects (Edelman et al., 2021). During our interviews, many business angels suggested that they prefer to have an in-person connection and relationship before diving into further discussion. Some pointed out that the founder's storytelling skills and charisma are the key factor that opens the conversation and leads to more future meetings. The signals that business angels receive from interpersonal communication are a decision-making factor determining whether they will move on to the next stage.

Similarly, Social Capital Theory emphasises the importance of trust in the relationship between business angels and entrepreneurs, not only in the opportunity discovery phase, but throughout the entire investment process. Social validation and reputation play a key role in building trust. Nahapiet and Ghoshal (1998) states that reputation acts as a key way for people to get social approval, proving that their aims and skills are legitimate within their social networks. Bammens and Collewaert (2014) mentioned that high levels of trust lead to more positive evaluations of venture performance by angel investors. However, trust evolves over time and can either facilitate or damage the investment journey, highlighting the dynamic nature of trust in investment decisions (Lefebvre et al., 2022; Skalicka et al., 2023). Thus, trust as a key element in the business angel investment process is a recurring topic and is constantly used as an assessment tool to evaluate all parties involved during the process.

5.2 Cognitive Level

Within the Cognitive Level, we have observed how angels may use a mix of formal, structured and informal evaluation practices to evaluate Founder's Fit and Startup Assessment. According to the Agency Theory, business angels employ a mix of these practices when assessing potential investments. This blend of methodologies helps them navigate the uncertainties inherent in early-stage investments. This process, although sometimes lacking in rigour, is crucial for making informed investment decisions (Arundale and Mason,

2025). However, many business angels rely on heuristics and intuition, developed through experience, to make quick decisions about entrepreneurs or ventures. This approach is particularly useful in the early evaluation stages (Harrison et al., 2015). A low formalised process also touches upon a rather informal or personal rapport. Therefore, this leads to investors embracing uncertainty and the possibility of failure, because failure is not only predicted by a bad business model, but also by poor management and misalignments.

Sometimes, business angels put more emphasis on the founder's background, expertise, previous start-up success and even charisma. This is important for them to know how well the founder will perform under pressure and difficult moments. Yet, this is the kind of information that cannot be perfectly known. Agency Theory explains economic relationships under conditions of uncertainty and less-than-perfect information. It is particularly relevant in the context of business angel investments, where information asymmetry and potential opportunism by entrepreneurs are common (Ibrahim, 2008). Agency Theory is often used to understand how business angels invest and what the process looks like. It helps explain the relationship between the investor and the entrepreneur, especially issues like information asymmetry and control.

Business angels frequently use Agency Theory to design their investment agreements and the criteria they look for, highlighting how important the entrepreneur's reliability and the quality of the management team are (Kelly and Hay, 2003; Skalicka et al., 2023). Additionally, in our study, angels create ways to evaluate the business model, which helps them avoid risky investments. Yet at the same time, they keep the process less formal and focus on the founder to reduce the risks of an entrepreneur acting in his or her own interests. We understand that while some business angels have a more structured investment process, others rely on more informal ways of making a decision, which therefore means that they are practising an acceptance of uncertainty and risk of failure. This two-part approach, formal and informal, shows how angels balance control and trust, which are common ways to deal with the risks and lack of information in early-stage investing.

In industries where social capital is routinely assessed, robust network ties can signal credibility and substantially improve the odds of attracting investment (Khoury et al.,

2013). Signalling requires founders to emphasise their human capital, education and prior experience, which are particularly influential in the early-stage investment process. Some participants mentioned that they value entrepreneurs' educational background and industry experience. Sometimes it can be a key factor to move on to the next step with certain entrepreneurs. Interestingly, many participants expressed that they tend to view entrepreneurs' past failure experience as a positive signal as well. Past failure experience in a new venture is valuable not only because the entrepreneur has experience of starting a new venture, but also because they have experienced the failure and the lessons they have learned from the experience. Business angels value the learning from the failure rather than seeing the failure as a red flag.

When business angels and founders share a common ground, such as industry-specific language or similar expectations regarding growth benchmarks, and aligned values and vision like customer centricity, the process of interpreting these signals becomes quicker and more precise. For instance, a founder's display of grit only resonates as a valuable signal if the investor possesses a shared understanding and appreciation for the significance of persistence (Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002). The shared understanding and knowledge that form the cognitive aspect of social capital make venture capital funding easier by improving how entrepreneurs and investors negotiate. This common way of thinking helps build trust and ensures they have similar expectations (Shao and Sun, 2021).

5.3 Structural Level

The Structural Level dimension, based on Network-Based Due Diligence and Market Validation, mainly reflects the structural aspects of Social Capital Theory. During the due diligence phase, after screening the founders and the startup, business angels get a deeper understanding of the management team and the investment. More practically, we know that angels don't only consider founders' pitch decks, but they do their own independent research, comparing what's offered to what's needed, closely examining early customer engagement, and thoroughly checking financial predictions to make sure the business model holds up under scrutiny. In this sense, some participants expressed that they tend to

only invest in industries that they are familiar with since they have more experience and knowledge in certain fields.

On the other hand, some argued that the industry is not the priority; if they find a venture that is interesting or has potential, or even with founders that inspired them, they will consider investing in the venture. Yet, if specialised knowledge is needed, angels reach out to their most experienced contacts for a one-on-one, in-depth discussion. Market validation is also very important at this point in the investment process, as it can confirm to the investor whether the business is worth investing in, given the current market. Additionally, angels use both comprehensive and focused due diligence lists to avoid overlooking critical elements such as tax concerns, IP rights, or regulatory threats, to catch all essential points.

To emphasise more on the importance of the network, despite some familiarity in the fields or knowledge from their network about the market, business angels still depend a lot on their fellow investors to fix the gap of information asymmetry. Structural social capital can also act as a quality stamp. When a firm has already secured funding from well-connected angels, it can signal its quality to other investors. This helps reduce information gaps and positively influences the due diligence process (Kleinert et al., 2020). From a structural social capital viewpoint, they do informal checks through their network and get confirmation from their peers regarding the venture itself, technology, future of a particular field, etc., which are key ideas within the structural level dimension.

However, as described by Stam et al. (2014), angels who have diverse networks are better equipped to conduct thorough due diligence because they can access more varied information and resources. This wide reach reduces their sole dependence on structural social capital, allowing them to draw on multiple sources of knowledge. As it often came up during interviews, angels tend to use both their weaker and stronger connections, but at this stage, weaker ties seemed to be more important. Weak ties are effective because they often bridge different groups, allowing novel information to circulate (Centola and Macy, 2007). Weaker ties can be broader contacts who might identify problems or opportunities in the market, and they are often useful for getting different opinions about the industry

and finances. As revealed through the interviews, angels often team up with one or two trusted peers to share insights and spot blind spots. Therefore, these connections can help the investor make an informed judgment of the market. Essentially, these structural aspects of Social Capital Theory explain not only why angels look to their networks for confirmation and trust but also how they turn these social connections into practical decisions during the due diligence process.

Concluding the above discussion, we have discovered that there has been a pattern of how business angels utilise their network and connections when discovering and evaluating early-stage investment opportunities. In most cases, business angels start by both passively and actively exploring investment opportunities through their networks and connections. Knowing their time and resources are limited, angels accept they can't fully investigate every deal. By using their network for due diligence, leveraging both close connections for detailed references and broader contacts for market insights, angels effectively reduce information gaps.

5.4 Decision Making

Information Evaluation reflects a practical, bounded-rational approach (Simon, 1955). Investors systematically gather and analyse available data from their networks, like financial projections, customer metrics, and business models. This helps reduce information asymmetry and protects against adverse selection (Meckling and Jensen, 1976). This data-driven scrutiny often involves simple checklists, and as we described in the conceptual framework, this dimension stretches out over the entire process as business angels evaluate their information and follow their gut feeling from the start to the end. Gut feeling becomes important because angels know that exhaustive modelling isn't feasible or cost-effective in the early stages (Harrison et al., 2015). Intuition & Gut Feel is a quick, emotion-based heuristic (Kahneman, 2011). It allows investors to make rapid judgments, especially when information is limited or unclear. As Gigerenzer et al. (1999) suggests, these quick and efficient heuristics can be surprisingly accurate in real-world situations. Our interviews showed that a strong personal "click" with a founder often outweighed formal analyses.

Crucially, these two processes do not operate sequentially but rather co-evolve. Early gut impressions help angels decide what to research more closely, and as new information comes in, it either confirms or changes those first reactions. Angels consistently shared how they've learned to "read" founders, picking up on personality cues, storytelling style, and body language. These signals directly inform their intuition about whether to pursue a deal. Concurrently, they rely on due diligence lists, pitch deck assessments, business model walk-throughs, and basic financial reviews ([Harrison et al., 2015](#)) to ground these intuitions in concrete facts. The Decision Making dimension, which includes Information Evaluation and Intuition & Gut Feel, is present throughout every stage of an angel investor's process. From the very first introduction to the final funding choice, initial gut reactions help angels decide which numbers or facts to explore further ([Harrison et al., 2015](#)). As new information comes in, whether it is a founder's pitch or business model, it either confirms or challenges those first feelings ([Kahneman, 2011](#)). Therefore, angels keep relying on their "people sense" to understand financial predictions, while also taking into account things like founders' previous experience, any past failures and team dynamics. In this way, Information Evaluation and Intuition & Gut Feel create a continuous feedback loop. This keeps personal judgment at the heart of every investment decision ([Meckling and Jensen, 1976](#)).

6 CONCLUSION AND IMPLICATIONS

In this final chapter, we summarise our answers to the research questions and explain our study's contributions to theory. We also show how our work improves our understanding of the complex ways angels find and assess investment opportunities. By looking at our findings, we highlight the subtle interaction between formal evaluation methods and informal, trust-based approaches that are crucial for making early-stage investment decisions.

6.1 Addressing the Research Questions

The main research question: *How do business angels leverage social networks and trust to discover and evaluate early-stage investment opportunities?* From our findings, we learned that business angels rely on their social network as the core of both finding opportunities and evaluating early-stage investments. Since most referrals come from their networks, angels heavily depend on their relational capital, especially during the opportunity discovery phase, but also during screening and due diligence. In the opportunity discovery phase, they use social capital, particularly referrals and personal rapport, to quickly advance only those ventures vouched for by trusted contacts. During screening, angels combine cognitive capital, like assessing founder fit and startup quality, with structural capital. They tap into both weak and strong ties for informal due diligence and market validation to confirm claims and real-world demand. In the decision-making phase, angels balance information evaluation, such as financial reviews, with intuition and gut feelings. This creates a continuous feedback loop between data and experience that reduces information asymmetry and moral hazard. This all shows that business angels use their social networks throughout the entire early investment process, leveraging trust as they move through each stage.

First sub-question: *What role do referrals and interpersonal trust play in business angels' investment decisions?* Referral clearly serves as the primary way into entering a deal flow, signalling the entrepreneurs credibility and integrity before any formal mechanisms are executed. Angels lean on introductions from trusted peers as a shortcut to vet potential investments, often using these referrals to catalyse in-person meetings. Face-to-face in-

teractions then allow investors to assess founders' storytelling, charisma, and emotional and cognitive alignment. Across our interviews, it became clear that angels place heavy reliance on network-based trust to mitigate persistent information asymmetry, recognizing they can never know every detail of a nascent venture. This reliance on personal endorsements and direct engagement underscores the Relational dimension of our conceptual model.

Second sub-question: *How do business angels assess credibility and mitigate risk through social connections during the due diligence process?* Early due diligence heavily depends on social capital and structural relational capital. At this stage, investors reach out to both their weak ties, like industry acquaintances and strong ties, such as close colleagues and co-investors, for peer confirmation and market validation. These network-driven checks offer quick, cost-effective insights that formal processes can't match at this point, as it's hard to fully vet a new venture using only official checks. Because of this, angels consistently use cognitive and social filters, like a shared understanding of the industry and assessing how well the founder fits. By combining these informal network checks, angels effectively reduce the risks of adverse selection and moral hazard before any contracts are even written.

6.2 Theoretical Contribution

Based on our findings, this study advances how we understand early-stage investments. We provide a data-driven framework that builds upon Social Capital Theory and Agency Theory (Portes, 1998; Meckling and Jensen, 1976). We show how our four main dimensions (Relational, Cognitive, Structural, and Decision Making) fit within Social Capital Theory, demonstrating their dynamic operation across the entire angel investment journey. This mapping gives us a unified view of the process and reveals specific mechanisms like rapid referrals, charismatic signalling, and the use of weak ties for market validation. These insights significantly enrich current social capital models in the context of angel investing.

While Agency Theory explains how business angels reduce risk in early investments, our

findings show that angels adjust their strategies based on various factors. These include their perception of an entrepreneur's ability or the arrival of new investors, all aimed at lowering performance and relationship risks (Söderblom et al., 2016). Our research complements existing knowledge within the Decision Making dimension and the framework of Agency Theory. We uncover how angels balance formal checks, like structured checklists, with their intuition and gut feelings. This reveals how relational contracting and risk sharing can exist alongside concerns about moral hazard and adverse selection, ultimately extending Agency Theory into the complexity of uncertainty. In addition, our study makes key contributions through the knowledge it brings about informal mechanisms, trust through referrals, peer-based network checks and intuition. These informal approaches help reduce information gaps, which might challenge the strong emphasis on formal controls in Agency Theory.

Regarding Social Capital, we identify important structural and cognitive processes. We show how weak ties are crucial for market validation, and how stronger ties are vital for evaluating founders. This enriches our understanding of existing relational, structural, and cognitive capital ideas. While we built upon concepts of signalling and trust, we demonstrated how founder signals such as team quality, charisma, personal attributes, and the specific offer provide a more dynamic view of how well entrepreneurs and investors fit together. Finally, by mapping the investment journey in our conceptual model (including relational, cognitive, structural, and decision-making levels) from initial opportunity discovery through screening and due diligence, we offer a clear, process-oriented understanding of the entire investment timeline.

6.3 Practical Implications

Based on our four-level framework and what we learned from real experiences, angels should actively nurture trust through regular check-ins and knowledge sharing, as relational capital is crucial. Practically, angels should use due diligence templates to thoroughly cover financial, legal, and market aspects. This helps reduce any information gaps. It's also important to invest in teams, not just ideas. Look for diverse skills and resilience in founders. Encourage solo entrepreneurs to build their teams before pitching.

And importantly, signal your tolerance for smart failures; it creates a safer environment for innovation. For entrepreneurs, manage your referral pipeline by focusing on getting quality introductions and building genuine relationships. When a referral comes through, be transparent and responsive. Remember, over-communication can go a long way in building trust.

6.4 Ethical Consideration

This study followed ethical standards for qualitative research. Before each interview, we provided our name and made it clear that the research was for the purpose of the master's thesis of Entrepreneurship & Innovation program at Lund University. The interviewees' identities remain anonymous, and the data collected will only be used for the purpose of the current research. Participants gave informed consent for video and/or audio recording and were made aware of their right to reserve any information and withdraw at any time. Transcriptions were made using an online transcription tool (see Appendix C), and each transcript was reviewed by us manually to ensure accuracy and reflect participants' words faithfully. These steps align with established practices in ensuring ethical handling of qualitative data and protecting participant confidentiality (Orb et al., 2001; Guillemin and Gillam, 2004).

6.5 Limitations and Future Research

Throughout the research, we have identified some limitations for sampling and data collection. First, business angels often have limited availability, which makes it difficult to schedule long interviews or follow-up sessions. As a result, interviews were kept within 45 to 75 minutes, which may have limited the depth of responses. Shorter interviews are a common constraint in qualitative research, especially when working with time-pressured professionals (Long and Johnson, 2000). Second, due to the sensitive nature of investment-related information, participants were sometimes hesitant or unable to share specific examples or details due to confidentiality concerns. This may have limited the richness of the data. Third, most participants were recruited through the researchers' professional and academic networks, often within the same incubator connections or invest-

ment ecosystems. Specifically, our samples are almost entirely Swedish-speaking business angels located in southern Sweden, with only few participants originated from outside Nordic area.

The homogeneity of our context may limit the generalisation of our findings. Most of the interviewed angels came from the same region and shared networks, indicating consistent cultural norms and investment environments. While we aimed for variation in investment experience, many participants had similar backgrounds or operated in overlapping environments. This could introduce sampling bias, as discussed in qualitative sampling literature ([Marshall, 1996](#)). However, the shared ecosystem context also allowed for clearer comparisons and identification of common patterns across interviews. Lastly, all interviews were conducted in English, which was not the first language for most of the participants, nor interviewers. This can lead to some cultural content and expression being simplified or even lost in translation.

Based on the limitations of this study, we have formulated suggestions for future research. First, we suggest future researchers to conduct case studies that allows longer interviews and deeper conversations with business angels. Conducting case studies can also build interpersonal relationships with interviewees, which can eventually lead to trust, in-depth conversation, and insider information. Second, validate our conceptual model in other regions, countries, or even cultural contexts to see how national culture and differences between formal controls and trust-based methods play a role. Further conduct interviews in investors' native languages to better capture unique expressions. Finally, since we primarily sampled individual business angels from similar backgrounds, with the majority being male, while only 3 female participants. Future research should explore how investor demographics, such as gender, age, ethnicity, and background can effect business angels' decision making within the investment process.

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Appendix A: Interview Invitation Email

Dear Potential Participant,

My name is Mei-Yu Chen, and I'm a Master's student in Entrepreneurship and Innovation at Lund University. Together with my thesis partner, Irina Martin, we're researching how business angels use social networks in their investment decisions.

We'd love to invite you for an interview (around 45–60 minutes) at your convenience. Your insights would be incredibly helpful for our study, and we'd be very grateful for your time.

The interview will cover:

- **Your Background** – A brief introduction to your experience as a business angel.
- **Finding Investment Opportunities** – How you source deals through personal and professional networks.
- **Evaluating Startups** – How trust, referrals, and shared vision influence your decision-making.
- **Due Diligence** – How you balance informal insights from your network with formal evaluation methods.
- **Reflections & Advice** – Your thoughts on leveraging networks effectively in angel investing.

All information will be handled confidentially, and the data collected will only be used for this research. Here's our calendar link so you can pick a time that works for you, but I'm happy to schedule another way if that's easier:

<https://cal.com/irina-martin-2fkxv9/60-mins>

Kindly let me know if you have any questions, and thank you so much for your time. It's very appreciated!

Best regards,
Mei-Yu Chen

Appendix B: Interview Guide

Questions	Theory & Concepts
Introduction and Demographics	
Could you please share your age or age range, location, and a brief overview of your current or past industry experience?	Context Setting
Do you have any additional background that you feel is relevant? For example, educational background, career milestones, etc.	Professional Background
Investment Opportunity Identification	
Structural Social Capital (Network Ties)	
Can you describe your experience as a business angel? For example, how long have you been a business angel? Number of startups invested in? Typical industries?	Structural Social Capital; Industry Background
How do you typically discover new investment opportunities? For instance, how do you obtain opportunities sourced from your personal and professional networks?	Weak vs Strong ties; Opportunity Discovery
Can you share an example where a referral, either from a strong or weak tie, played a key role in identifying an opportunity?	Trust Through Referrals; Credibility Signals
Relational Social Capital (Trust and Reputation)	
Referrals are often considered trust signals. In your experience, how important is trust in prompting you to explore an opportunity?	Relational Social Capital; Trust as Gateway

Could you describe a specific instance where a referral based on trust or reputation influenced your decision?

In-Person Relationship Building; Network Influence

What criteria or contextual cues do you use to assess the trustworthiness or reputation of an entrepreneur or startup when the referral comes through your network?

Reputation as Social Currency; Trustworthiness Cues

Cognitive Social Capital (Shared Vision and Language)

How crucial is it for you to share a common vision or language with the entrepreneur when considering an investment?

Cognitive Social Capital; Shared Vision and Language

Can you provide an example where a shared understanding or alignment of values positively impacted your decision?

Founder's Fit; Values Alignment

In what ways does an entrepreneur's background or mindset, as communicated through your network, affect your initial interest in an opportunity?

Entrepreneur's Background; Perceived Founder Grit

Screening and Due Diligence

Leveraging the Network for Information Asymmetry

How do you use your network to verify information about a startup during the due diligence process?

Informal Due Diligence via Network; Peer-Based Confirmation

Could you share a scenario where insights from industry peers or other contacts helped you overcome information gaps?

Structural Capital

Assessing Moral Hazard

What steps do you take to evaluate whether an entrepreneur will act in the best interest of the startup and investors? Agency Theory - Moral Hazard; Founder-Centric Monitoring

How does your personal relationship with an entrepreneur influence your perception of their commitment and trustworthiness? Relational Social Capital; Trust as Investment Criteria

Guarding Against Adverse Selection

When screening startups, how do you leverage reputation and network signals to evaluate growth potential? Agency Theory - Credibility Signals

What key indicators (e.g., previous success, business model viability) do you consider before moving forward in the screening process? Competency Evaluation; Market Validation

Balancing Informal and Formal Due Diligence

Beyond insights from your network, what formal due diligence methods do you apply? (e.g., financial reviews, contractual milestones) Structured Evaluation Practices

How do you balance the information you gather informally with structured due diligence in making your final decision? Information Evaluation Practices

Have you encountered challenges or biases when relying on network information? How did you address them? Bias Acknowledgment in Network Reliance; Skepticism Toward Cold Outreach

Reflection and Recommendations

Reflecting on your overall experience, in what ways has your network shaped your investment decisions? Structural Capital Interplay

What advice would you give new business angels about building and effectively leveraging their networks for both sourcing and evaluating opportunities? Best Practices; Trust and Due Diligence Blend

Is there anything that you think we didn't consider and you would like to add? Improve Understanding; Enhancing Content

Appendix C: AI Usage

During this research, some AI tools are utilised to facilitate our research. Following are the AI tools used and how it as used:

Table 3: AI Tools and Usage

AI Tool	Usage	Link
ChatGPT	Grammar correction, rephrase paragraphs, format content in LaTeX	ChatGPT
Gemini	Grammar correction, rephrase paragraphs	Gemini
Restream	Transcribe interview recordings	Restream
Scopus AI	Search for relevant articles	Scopus AI