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BY

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AALBORG UNIVERSITY
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SUMMARY IN ENGLISH

This dissertation addresses the challenges found in the business angels' investment processes with entrepreneurs. This is achieved by answering the following research question: '*How is business angels' decision-making formed in investment processes with entrepreneurs?*' by introducing four different articles that address different aspects of the question. In working towards answering this research question and attaining plausible explanations to the observations at hand, it was necessary to create an understanding of the practices and actions of, primarily, business angels but also of entrepreneurs and other individuals. This focus led to the adaptation of a middle range theory and practice theory approach, which informed the findings.

The dissertation contributes to the existing body of knowledge by exploring the characteristics of business angels in an unstructured and informal context, such as the one found in North Jutland, Denmark. This exploration illustrates that the characteristics are in fact similar to the characteristics found in more formal and structured business angel investment environments, for example in the UK and the US. Furthermore, this dissertation illustrates how these characteristics can be further explored by the notion of controllability and regarding the investment stage. This dissertation contributes to the understanding of investment processes and decision-making by exploring known challenges, such as problems of poor information quality and the challenge of bad communication. These contributions are achieved by adopting perspectives like value (Powell and Hughes, 2016), business models (Osterwalder and Pigneur, 2010; Oyedele, 2016) and gatekeeper (Paul and Whittam, 2010; Mason *et al.*, 2016). These different theoretical approaches provide insights into how decision-making during the investment process can be understood and, possibly, improved.

This dissertation further illustrates how a qualitative methodological approach can shed light on the existing challenges in the research field relating to investment processes that involve entrepreneurs and business angels and provides a set of alternative approaches to address these challenges. Its contributions provide practitioners and researchers with new ways of understanding and potentially improving the investment process between business angels and entrepreneurs.

DANSK RESUME

Afhandlingen adresserer udfordringer inden for forskningsfeltet der vedrører business angels investeringsproces med iværksættere. Dette bliver gjort igennem forskningsspørgsmålet: ”*Hvordan bliver business angels beslutningsproces formet i investerings processer med iværksættere?*”. Hvilket bliver adresseret gennem fire artikler som har forskellige tilgange til forskningsspørgsmålet. Vejen til at adresserer forskningsspørgsmålet førte til behovet for at forstå praksis og handlinger fra specialt business angels, men også iværksættere og andre individer for at skabe plausible forklaringer på observationerne og ikke bare replicere eksisterende viden. Tilgangen med at forstå praksis og handlingerne førte til adaptionen af middel range og practice theory, som gjorde resultaterne i afhandlingen mulig.

Afhandlingens bidrager med at identificere hvordan karakteristika der kendetegner business angels i en ustruktureret og uformel kontekst er sammenlignelige med karakteristika funder i andre kontekster. Desuden vises det hvordan disse karakteristika kan forstås fra et nyt perspektiv; kontrollabilitet. Ydermere belyses karakteristikaene ved finde forskelle afhængig af business angels investeringsfase. Angående investeringsprocessen bidrager afhandlingen med at belyse eksisterende problemstillinger såsom dårlig informations kvalitet og udfordring med at skabe et deal flow. Dette bliver gjort ved at anvende teoretiske rammeværktøjer såsom værdi, forretningsmodeller og gatekeeping teorier. Disse forskellige teoretiske tilgange belyser hvordan beslutningsprocessen formes i løbet af en investeringsproces og bedre kan forstås og potentielt forbedres via resultaterne i afhandlingen.

Overordnet viser afhandlingen hvordan den kvalitative metode tilgang kan belyse eksisterende problemstillinger i et forskningsfelt og yderligere hvordan forskellige teoretiske tilgange kan belyse disse problemstillinger. Derfor giver afhandlingen praktikere og forskere nye måder at forstå og forbedre investeringsprocessen mellem business angels og iværksættere. Samlet giver afhandlingen svar på forskningsspørgsmålet ved at identificere eksisterende udfordringer, belyse dem fra nye teoretiske og metodiske vinkler og giver plausible forklaringer og forbedringsmuligheder både for praktikere og akademikere.

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The last three years of writing this dissertation have been an interesting journey, and as most journeys into the wilderness go, you get lost sometimes. Finally coming out on the other side and looking back at the journey you have travelled, you realise that you properly would have been stuck in the wilderness if it were not for some helpful and skilful people. I would like to use this section to thank some of these people and apologise in advance if I have forgotten anyone.

First and foremost I am grateful for the time and effort my supervisor Christian Nielsen has contributed. Without his guidance and inspiration, I doubt the dissertation would have ever got to this point. Likewise, Christian established my contact with Robin Roslender, who has contributed greatly to my methodological knowledge and been a big part of inspiring the approach this dissertation ended up taking. Special thanks to Robin for being so patient with me during our many methodological (and linguistic) discussions. I also had the opportunity to visit Professor Roslender at Dundee University and spend a month there getting new inspiration and having discussions with knowledgeable scholars, which I appreciate. Similar thanks go out to all the colleagues and fellow scholars I have met at conferences and PhD seminars.

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During the course of my dissertation, I have had the pleasure of meeting many helpful colleagues at AAU. I am especially grateful to my colleagues in the Business Model Design Center, who have had to put up with me on a daily basis, listening to my ups and downs during the whole course. Christian, Anja, Kristian, Peter, Morten and those who were here on shorter terms, sorry for all the complaining and thanks for your help and understanding. Likewise, a special thank you goes to the people in the Management Accounting and Control group: Thomas, Niels, Thomas, René, Henrik, Henrik and Daniel. These kind people were always prepared to have a discussion with me or help me with new inspiration, even though I somewhat drifted away from your main areas. Furthermore, these people mentioned above and Jesper helped me to finalise the dissertation with their helpful and inspiring comments during my pre-defence; thank you all for taking time out of your calendar for that. Lastly, some people who are often overlooked but are always working in the background to make sure I do not have to worry too much about all the little things: a thank you to all the secretaries at AAU, but especially Vibeke and Susanne.

Everyone who has been through the jungle of a dissertation knows that it might be the supervisor, colleagues and fellow scholars that clear the way or, at least, help you progress. These people also push you forward, and while these nudges were very helpful, the real push came from the people who did not understand what I was doing. A special thank you goes to all my family and friends, who I am sure still do not fully understand what I am doing, but who never stopped loving me and supporting me. The greatest and most heartfelt thank you goes to my beloved and forgiving wife. The stuff she has had to put up with, and yet she still supports me. Thank you so very much, Kirstine, for the love and support since we met, really, but especially in the past few years.

Jesper Chrautwald Sort

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CHAPTER 1. INTRODUCTION

Since the 1960s, the importance of making financial capital available from venture capitalists to entrepreneurs and start-up companies has become an increasingly important subject. While early studies convey the importance of financial capital from venture capital funds to the entrepreneurs, the characteristics of the investment market have shifted as venture capital funds in more recent years have moved on to later stage investments. This shift in venture capital fund investment strategies left start-up companies with a financial challenge (Freear *et al.*, 1992; Mason and Harrison, 1996; Landström, 1998). This financing challenge has been reduced by a rise in the number of informal venture capital investors, and a sub-group of these informal investors is often referred to as 'business angels'. According to Mason and Harrison (1996), business angels have become the main source of financing for entrepreneurs and start-ups worldwide (see also Landström, 1998; Mason and Harrison, 2000), thus creating an interesting field to understand and investigate further.

The arrival of the business angel segment and their rise to becoming an important investor group for entrepreneurial ventures has created a need to better understand the investment environment they constitute, as well as the investment process upon their involvement. This point has been accentuated by a multitude of authors (Lathi, 2011; Mason and Brown, 2013; Hsu *et al.*, 2014; Huang and Pearce, 2015). However, the investment process has proven itself difficult to map out, primarily because business angels are distinctive individuals with very different agendas influencing their investment focus and decision-making. Researchers have tried to open this investment process 'black box' by adopting various methodological and theoretical approaches, however, the area is still regarded as under-researched and in need of new perspectives capable of opening up further aspects of the 'black box' than at present (Sapienza and Villanueva, 2007; Sohl, 2012; Huang and Pearce, 2015).

The early purely economically-based theoretical approaches to the study of the business angel segment had shortcomings. These were evident in that the business angels did not always act according to the expected economic rationale. This led researchers to probe for answers in different ways, using alternative approaches and methods. Landström (1993) and Huse and Landström (1997) were some of the critical voices advocating for new approaches in order to attain a deeper understanding of entrepreneurship and business angel investor-segment. Huse and Landström (1997) advocated that in-depth studies were necessary to '… acquire a deeper understanding of reality, thus facilitating the development of concepts and theories unique to the field.' This has led to a wave of research applying both quantitative and qualitative approaches, which were all alternatives to the rational economic approach.

Previous research has provided a coherent definition of the business angel as an informal investor (Hindle and Wenban, 1999; Sørheim, 2003; Mason, 2007; Li *et al*, 2014). Lerner (2000) provides a commonly cited definition of the business angel as, '*A wealthy individual who invests in entrepreneurial firms. Although business angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutions or other individual investors*'. Even though this definition and characterisation exists, research has shown that the characteristics might be dynamic and, for example, business angels could be shifting towards later stage investments (Sohl, 2010; 2012).

At present, there seems to be an understanding of the written and formal information desired by business angels in their investment process. However, multiple studies have identified that written and formal information is not always sufficient for securing a smooth investment process. For example, the business plan seems to be a less decisive factor than previously thought (Karlsson and Honig, 2009), and informal elements like social capital (Sørheim, 2003), trust (Maxwell and Lévesque, 2010), and 'gut feeling' (Huang and Pearce, 2015) have recently been identified as important factors in creating a smooth investment process. These informal elements contribute to complicating the phenomenon being investigated in this dissertation. Furthermore, the research field under scrutiny becomes further complicated due to the incorporation of external agents and stakeholders, such as consultants and matchmaking facilities (Sohl, 2007) as well as policy-makers (Christensen, 2011; Mason and Brown, 2013). The complexity of the investment process and the shifting characteristics of the investment environment create an ongoing need for research in the field. Continuous improvements in our understanding of the business angels and the investment process are therefore needed in order to keep the sector thriving (Mason & Harrison, 1995; Huang and Pearce, 2015).

These aspects have inspired the present research leading to a contribution of understanding the business angels and their investment process with entrepreneurs in need of capital. The aim of the research is to investigate known theories and challenges within the field, but also to examine alternative approaches to those that generate our existing insights and knowledge. This is done through engaging in non-economic rational theories to explore the investment process between business angels and entrepreneurs, especially from the business angels' perspective. Huse and Landström (1997) prompted some initial thoughts around this subject and subsequent research has shown that business angels use gut feelings (Haines *et al.*, 2003; Huang and Pearce, 2015), subjective factors (Hsu *et al.*, 2014; Jeffrey *et al.*, 2016) and heuristics (Harrison *et al.*, 2015). This confirms and further elaborates on Huse and Landström (1997) in respect of the fact that business angels' decision making cannot be regarded as purely economically rational.

The research is inspired by a qualitative approach to the investment process, with the aim of attaining a deeper understanding of the phenomenon at hand. Previous research in this field has primarily applied more quantitative approaches, according to Sapienza and Villanueva (2007), in turn somewhat neglecting more qualitative approaches. A qualitative approach allows for the exploration of meaning around more subjective measures, such as gut feelings and decision-making heuristics which, as previously stated, are important in the business angel decision making. The objective of the dissertation is therefore to obtain an understanding of the practices of the individuals involved in the investment process, especially the business angels. This will lead to the adoption of alternative theories and perspectives within the field to explain the observed practices, meanings and decision-making by the business angels, and likewise the practices of the entrepreneurs and local government agents attempting to act as enablers in the process. This ambition should lead to new perspectives and provide insights about the business angels and their investment processes, addressing both known and new challenges.

The interest generated from the theoretical, methodological and practical conundrum will be addressed through the following research question:

‘*How is business angels’ decision-making formed in investment processes with entrepreneurs?*’

The research question is based on a consideration of the challenges present in the investment market of business angels. It was inspired by the academic literature and initial discussions, workshops and interviews with business angels, entrepreneurs, researchers, matchmaking agencies and other related stakeholders.

Theoretically, the research question is based upon an initial literature review, which showed interesting topics in the research field that might warrant further investigation. The above sections have already stated the aim of applying non-economic theory through a qualitative approach, but the overall research question and the articles were likewise based on some domain theoretical considerations. First and foremost, the aim is to understand business angels and the investment process they engage in with entrepreneurs. This also means that the dissertation will be primarily regarding theory and literature regarding business angels and the investment process. Furthermore, suitable theories about the entrepreneurial perspective will be integrated when these contribute explanatory power. The choice was made to focus on the business angels as the primary unit of analysis in the investment process, but as they interact with the entrepreneurs it may become relevant to reflect and draw upon this aspect as well.

The first theoretical area focused on is the investment process of business angels, as this lays the basis for the related investigations, and such investigations have been called for in the literature (Haines *et al*, 2003; Carpentier and Suret, 2015). The attention was drawn to the specific business angel investment process as stated by Paul *et al*. (2007), who elaborates on the general investment process of venture capitalists by Tyebjee and Bruno (1984). A further clarification will be provided later in the dissertation. Investigating the investment process identified a rather well-known overall process, but studies warranted more explanations as to the different stages of the investment process (Hsu *et al.*, 2014; Souitaris and Zerbinati, 2014; Huang and Pearce, 2015). Furthermore, it was found that most studies are performed in contexts with business angels networks and formal structures, but little has been done in countries with few or non-existing business angels networks and characterised by informal structures. The latter, which is elaborated on later, characterises the Danish context, which is why this was chosen as an interesting context to consider.

Considering a relatively new context could mean the individuals in the setting would be different to those found in different settings. Previous studies show that business angels' characteristics are dynamic and somewhat different in various countries (Månsson and Landström, 2006; Lathi, 2011). Furthermore, the characteristics have scarcely been investigated in the Danish context; therefore it was decided to begin the dissertation with a characterisation study of the Danish business angels. This was done to address theoretical questions, such as what characterises business angels in different contexts (Sørheim, 2003; Lathi; 2011; Li *et al.*, 2014) and does the contextual setting influence the characteristics (Spliid, 2013).

The first article explores the characteristics of the business angels in the informal and unstructured context of North Jutland, Denmark and investigates if these business angels have similar characteristics to those identified in previous studies, as well as other comparative international studies of business angels. This is done to examine if the Danish business angels and their characteristics are different or similar to those found in other contexts. Furthermore, the article contributes by elaborating on some of the well-known characteristics of business angels and providing new insights regarding possible connections between certain characteristics.

The next step in the dissertation was to study the investment process as it happened, following the methodological choices made to understand the practices occurring during the investment process. A theoretical question in the literature concerns the high search costs of business angels in finding investment opportunities (Mason and Harrison, 2002), providing the "right information" towards business angels (Mason and Stark, 2004) and the communication challenge between business angels and entrepreneurs (Cornelissen *et al*. 2012; Huang and Pearce, 2015). These theoretical considerations provided the basis for article two investigating the initial contact stages in the investment process, to understand what is regarded as the right information and how entrepreneurs can communicate this to the business angels.

Article two studies the above mentioned challenges by exploring the investment processes between business angels and entrepreneurs, firstly by understanding which information is determined as the ‘right’ information by the business angels. Secondly, the information used by the entrepreneurs is explored to identify differences to that expected of the business angels. Furthermore, applying business models as a common understanding framework is introduced to explore if this enhances the communication, information and decision making between the business angel and entrepreneur. Evaluating the possible enhancements of applying business models is done through feedback from the business angels and field observations from the investment processes. The article contributes by illustrating how a framework can help alleviate some of the informational and communicational challenges previously established in the literature and hence improve the investment process.

The next theoretical consideration made in the dissertation in relation to the research question concerns the decision-making occurring during the investment process. Previous studies have investigated the most important aspects in the decision-making process (Mason and Stark, 2004; Maxwell *et al.*, 2011). However, an area such as subjective factors in the decision making is still a troublesome one in the literature (Hsu *et al.*, 2014; Carpentier and Suret, 2015). This led to the theoretical question if a different understanding frame could provide new insights into the decision-making occurring during the investment process between business angels and entrepreneurs. This consideration led to article three.

The third article investigates the decision making of the business angels and entrepreneurs during an investment process with most attention towards the business angels. During the investigation, it was found to be useful to try and explain the decision-making processes as they were occurring and, furthermore, from an individual value perspective rather than using business plans (Mason and Stark, 2004) or retrospective evaluations (Mason and Harrison, 1996). The article introduces a value perspective inspired by Powell and Hughes, (2016) to explore why acceptance or rejection are occurring during the investment process. The article contributes by identifying five decision-making activities during the investment process, where value is essential to a positive decision rather than a rejection and termination of the process. This contributes to understanding both the subjective factors occurring during the decision making as well as the acceptance and rejection arguments from business angels and entrepreneurs.

The research question likewise inspired the theoretical question of whether other factors influence the business angels’ investment process with entrepreneurs. The literature has increasingly begun to consider the role of a gatekeeper function between business angels and entrepreneurs as a key enabler of investment processes (Paul and Whittam, 2010; Mason *et al*, 2016) and possibly a facilitator of them. In those prior studies, the gatekeeping function was investigated in business angel networks, and not in other contexts. This led to the question of whether a gatekeeping function would have the same role in the informal context and the same positive and negative influences on an investment process. This became the point of departure for article four.

Article four investigates the gatekeeping function in a government matchmaking project called *Matching for Growth*. The ambition was to observe the gatekeeping function and the business angels, entrepreneurs and other individuals affecting the function. This was done to elaborate on the general knowledge of the gatekeeper role in the business angel marketplace. The article contributes by showing how the role is somewhat different compared to previous studies in different settings, but elaborates on how the function can influence the connection and communication between business angels and entrepreneurs.

The theoretical considerations and articles explained above contribute to answering the overall research question by exploring different elements of the research questions originating from non-economic theories. Initially, this is done by investigating the characteristics of the primary unit of analysis, the business angels, to establish if they are similar or different to those found in different contexts. In addition, the investment process is investigated from different theoretical points of view such as decision making, communication and information and finally the role of external facilitation in the process is investigated. Together, the contributions illustrate how the decision making and investment process of the business angels are influenced by the external individuals, such as a gatekeeper. Decision making and factors like information and communication are further investigated and the dissertation contributes by finding that decision making can be understood by applying a value perspective and business model framework. This shows how decision making are influenced during the investment process and findings show how the investment process can potentially be better understood and improved by the findings.

Structure of the dissertation

The section above introduced the general field of research, the objective, the research question and briefly presented the contributions of the articles and the dissertation. The following section will aim to set the theoretical scene of the dissertation by introducing the main literature and theoretical inspiration used in the dissertation and the four articles that constitute it. Following the theoretical section, the methodological choices will be explained to clarify the approach adopted in the dissertation and applied in the empirical setting. Next, the general empirical context is presented to give an overview of the setting in which the investigation is carried out. Following this section, the four articles forming the backbone of the dissertation will be introduced before each article is presented in full length. The section following the articles will summarise the findings of the articles and those made in the dissertation. Finally, the section will state the conclusions and answer the research question, as well as presenting the limitations and ideas regarding further research.

1.1. LIST OF ARTICLES

Title	**Objective**	**Method and empirics**	**Contribution**
1) The characteristics of business angels: Qualitative insights from Denmark	To explore and compare the characteristics of the business angels in an informal and unstructured setting such as the Danish context and investigate if the characteristics of the business angel in other studies are comparable. Furthermore, to explore if new insights can be achieved from the setting and the qualitative approach.	The article compares previous studies from 2002 and 2015 with the 16 interviews obtained in the current study.	Identifies whether business angels in an informal and unstructured setting have somewhat similar characteristics to business angels in different settings. Furthermore, elaborates on their characteristics and some possible connections between them.
2) Using the business model canvas to improve investment processes: Structuring information, communication and discussion	To explore the communication and information challenges in the investment process between business angels and entrepreneurs and how this can be mitigated by a common understanding framework such as business models.	Adopts a qualitative approach via interviews with 16 business angels, 11 key stakeholders in the field and by further observing 13 investment processes, including preparation of the entrepreneurs to meet the business angels.	Investigates the communication and information challenges that occur during the investment process and explores how the process can be improved by introducing a common frame of understanding, such as the Business Model Canvas.

3) Deal or no deal? Activities that determine acceptance and rejection in investment processes between business angels and entrepreneurs	To investigate the business angels' and entrepreneurs' acceptance and/or rejections during the investment process by introducing the notion of value and surplus to explore their decision-making process	Adopts a qualitative approach by interviewing 16 business angels, observing 13 investment sessions and including field notes from feedback sessions with the business angels and entrepreneurs following the investment sessions.	Advances our understanding of why business angels and entrepreneurs accept and/or reject each other through a value perspective. Furthermore, it illustrates the varying importance of value during five activities that occur during the investment process.
4) Gatekeepers in the business angel market: Understanding the role of the gatekeeping function outside business angel networks	To investigate how the gatekeeper role is influencing the investment process by following the gatekeeping function in a government matchmaking project between business angels and entrepreneurs.	Adopts a qualitative approach through observing the gatekeeper function, interviews and feedback with 16 business angels, 11 key stakeholders and observing 14 meetings between representatives from the project *Matching for Growth* and municipal business councils.	Illustrating how the gatekeeping function takes a more proactive and facilitating role than in business angel networks. Further contributing by showing the importance of the gatekeeping function in a government project and in the investment process.

CHAPTER 2. SETTING THE SCENE – THEORETICAL BASE

The aim of the dissertation is to investigate some of the phenomena surrounding the investment process of business angels, such as their interaction with entrepreneurs and how this occurs in an informal and unstructured context. This research area has been investigated in different contexts; however, the current literature illustrates how findings are going in different directions within the research field. This could be because the research field of investments made by business angels is a relatively new one. The research field of investments made by investors, especially venture capital, dates back to the mid-1960s, while the investments of business angels or informal venture capital only dates back to the mid-1980s. Research aiming at studying the interaction between the investor and investee revealed the notion of agency problems to be an inherent topic. Specifically, the notion of information asymmetry between the individuals has inspired researchers. Both agency theory and information asymmetry have inspired research to apply different approaches and are still directly inspiring studies (see, for example, Hsu *et al.*, 2014). Furthermore, the notion of information asymmetry can be found in other work investigating different elements of information asymmetry, such as human capital (Davidsson and Honig, 2003; Sørheim, 2003) and different forms of strategic readiness (Mason and Harrison, 2002; Mason and Stark, 2004; Souitaris and Zerbinati, 2014) and how these elements are influencing the decision making of the business angels. The information asymmetry and the above-mentioned elements have likewise been an inspiration to this dissertation.

Since the two research fields of business angels and venture capital investments are similar, the field of business angel investments has adopted theories primarily from the venture capital investment research. The distinction between the two types of investors and theory directions will be described later in this section. The close relationship between the two fields requires some understanding of the venture capital field to understand the field of business angels. Therefore, this section will briefly introduce the background and general literature in the field of information asymmetry, venture capital and business angels. The specific theory will be introduced in the articles and therefore is limited in this section to reduce redundancy.

The rest of the section will be structured as follows: the next part will introduce the different definitions used throughout the dissertation to provide a common understanding of the key terms and individuals. Following this, the general agency theory and information asymmetry will be introduced, and subsequent theories in the field of venture capital will be introduced before discussing the specific research field of business angels.

2.1. DEFINITIONS IN THE FIELD

Institutional venture capital / Formal venture capital

It is difficult to find one general definition of institutional venture capital, but the characterisation is that the investors are intermediaries between larger companies, pension funds, wealthy families, government funds, etc. and unquoted companies (Landström, 2007). An often-used definition is provided by Mason and Harrison (1999 p. 16): '*The institutional VC industry comprises full-time professionals who raise finance from pension funds, insurance companies, banks and other financial institutions to invest in entrepreneurial ventures. Institutional venture capital firms take various forms: publicly traded companies, "captive" subsidiaries of large banks and other financial institutions and independent limited partnerships*.' Mason and Harrison (1999) point out that a formal venture capital fund can have different organisational forms, but commonly they seek to invest in companies and maximise the return on behalf of the stakeholders who have capitalised the fund.

The people who fund the formal venture capital generally have very little to no direct involvement in the investments or investment processes, relying on the management in the venture capital organisation to act in their interest. The size of the management and general organisation will vary with the size of funds in the investment fund. Venture capital has a growing dominance in the US and even more so in Europe (Sohl, 2012). However, the venture capitalists (VCs) investment focus has shifted to more established companies in contrast to the previous situation, when the VCs predominantly invested in start-up companies. In this dissertation, these investors are referred to as venture capital or venture capital funds.

Corporate venture capital

Corporate venture capital is when a company invests either internally or externally in new ventures. The main difference between formal venture capital and corporate venture capital is the source of the funding. A formal venture capital may have several sources of funds while corporate venture capital will rely on the company as the funding source (Souitaris and Zerbinati, 2014). Corporate venture capital can be regarded as a tactical part of a company's investment options and is used for both internal ventures as well as external ventures. The investments are a way for the company to either grow organically by supporting new ideas within the organisation or by acquisitions of external companies perceived to have synergy with the existing company (Landström, 2007).

Informal venture capital/business angels

The term informal venture capital encompasses a range of investors, from family and friends to professional investors looking for a high return on their investments. Most commonly, the informal venture capital is related to the term business angels, originating from the first wealthy individuals who invested in Broadway productions with a very high risk of failure (Mason, 2007). Thus, the difference between informal venture capital versus the corporate and formal venture capital is that the latter have organisations attached to their definitions. These organisations often consist of multiple people. In contrast, informal capital is normally associated with individuals. A general definition is provided by Lerner (2000 p. 515), stating that a business angel is '*A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional or other individual investors'*. An elaboration of the investments made by business angels is found in Mason (2009), explaining that the characteristics of the investments made by business angels are different to other investors. Business angels have a different cost structure than institutional venture capital, which allows them to make smaller investments. Furthermore, the business angels are widely distributed geographically, which means they contribute to alleviating regional financing gaps. Finally, they provide management assistance to the businesses in which they invest in, in addition to the finance they provide (Mason, 2009).

The definitions provided by Mason (2007, 2009) explain some of the differences between the different types of investors. Furthermore, they reveal that informal capital encompasses a large community ranging from family investment to highly professionalised individuals with an investment portfolio of unlisted companies. There have been debates within the research community regarding whether friends and family should be excluded from the definition of informal investors, since family and friends base their rationale on different criteria than external investors. Therefore, the term of business angels predominantly excludes family and friends, while the term informal investor does not necessarily do so. Henceforth, the primary term used to describe the wealthy individuals studied in this dissertation will be business angels, which excludes the family and friends perspective.

The following table summarises some of the main differences between the three types of investors:

	Institutional venture capital	Business angels	Corporate venture capital
Source of funds	Primarily institutional investors who act as a limited partner	Invest their own money	Invest corporate funds
Legal form	Limited partnership	Private individuals	Subsidiary of a large company
Motive for investment	Equity growth	Equity growth Intrinsic rewards	Strategic and equity growth
Investment	Experienced investors Large investment capacity Extensive due diligence	Experience varies Limited investment capacity Limited time for due diligence	Experience within industry/technology Large investment capacity Extensive due diligence
Monitoring	Formal control	Informal control	Corporate control

Table 1 – Characteristics of institutional venture capital, business angels and corporate venture capital. (Landström, 2007)

The table highlights the main differences between the three types of investors. It conveys the primary distinctions such as the source of funds, legal form, motive for investment, investment and monitoring. The business angels are special because they invest their own money as private investors, motivated both by monetary gains and by intrinsic rewards. However, the business angels face challenges due to limited funds and time. Limited time creates problems in the due diligence process and business angels often lack formal control. The focus of this dissertation is on the investment process from contact to negotiation. Hence, the areas of monitoring, legal form and source of funds are less relevant. The table above illustrates how the investors are significantly different compared to each other, which explains why different theoretical frames have emerged in the different research fields. The topics and theories in the dissertation are connected to the investment process between business angels and entrepreneurs, and the theoretical inspiration of such will be elaborated in the following sections.

2.2. INFORMATION ASYMMETRY

The notion of information asymmetry was part of the original inspiration to investigate the decision making of the business angels enabling an understanding of the choices made during the investment process. This section will introduce information asymmetry as a general scope of the elements investigated in the dissertation. This includes a general introduction to information asymmetry, specific considerations in the current setting and a reflection upon the use of non-economic rational.

The agency problem of information asymmetry

The agency literature has roots in the economic literature addressing the risk sharing between individuals (see e.g. Wilson, 1968). The purpose of the theory is to investigate the risk sharing problems that occur when individuals have different perceptions towards risk (Eisenhardt, 1989a). However, agency theory has broadened out to include agency problems arising between individuals with different goals (Jensen and Meckling, 1976). The aim of agency theory is to describe the relationship between the agent and the principal, usually using a metaphor called a contract (Jensen and Meckling, 1976).

Agency research is normally framed as addressing the problems occurring when *A)* the principal is delegating work to an agent (Jensen and Meckling, 1976); *B)* the principal's goals conflict with the goals of the agent (Eisenhardt, 1989a); and *C)* the difficulties and expenses for a principal to monitor the agent when there is information asymmetry between the agent and the principal (Eisenhardt, 1989a). The main interest relates to the principal being unable to verify the behaviour of the agent and, secondly, the problem of risk sharing when the principal and agent have different preferences of risk. The focus of agency theory, therefore, becomes determining the most efficient way or 'contract' in the agent and principal relationship (Eisenhardt, 1989a). This, in turn, leads the principal to use mechanisms to control and thereby reduce the agency risk (Fiet, 1995).

Generally, two branches of agency theory exist: the positivist agency theory and the principal-agency theory. Within positivist agency theory, the main theme has been investigating how governance mechanisms mitigate goal conflicts between agents and principals (e.g. Jensen and Meckling, 1976). The principal-agency theory explores how the relationship between the agent and the principal are explained and potentially can be theorised (e.g. Harris and Raviv, 1979). The principal-agency theory has a broader focus, whereas the positivist agency theory mostly investigates the CEO/owner relationship in larger organisations (Eisenhardt, 1989a). In the next section, the principal-agency theory will be introduced further, as of the two, this theory is the primary inspiration in this dissertation. The positivist agency theory will not be further explained. For a further distinction between the two theories, see Jensen (1983) or Eisenhardt (1989a).

The Principal-agency theory

The section above introduced the principal-agency theory as primarily regarding the relationship between the agent and the principal. The theory has inspired investigations of the relationship from different approaches to indicate various contract alternatives, regarding different conditions such as information, uncertainty and risk aversion (Eisenhardt, 1989a). One main field within the theory is research on the relationship and information asymmetry between agents and principals (Lambert, 1983). Lambert (1983), among others, identified how a long-term relationship between an agent and principal will enable the principal to more consistently assess the agent's behaviours. Similarly, this also means that short-term relationships will often mean higher information asymmetry between the agent and principal, which has to be mitigated by the principal. Emphasising the main risk in such relationships originates from the agent possessing more information than the principal.

The notion of information asymmetry and the associated challenges relates back to the work of Ackerlof (1970), describing how 'lemons' affect the price and marketplace. The concept behind Ackerlof's 'market for lemons' is the basic dilemma of uncertainty and risk between a buyer and seller, where the seller possesses more information about the commodity than the buyer. Ackerlof (1970) exemplifies this through a simplified market for new and used cars, where some cars have malfunctions and, therefore, are bad, giving them the name 'lemons'. Regarding the new cars, no one knows whether or not it is a lemon, so the buyer knows there is an inherent risk it is a lemon. However, in the market for used cars, the seller has obtained information about whether or not the car is a lemon. Therefore, the buyer will pay a lower price for any used car, whether it actually is a lemon or not, because of the existence of information asymmetry. This leaves the buyer the option of either trusting the seller or doing what he or she can to reduce the information asymmetry between him or her and the seller.[1]

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[1] For further reading on the subject see Akerlof (1970)

The thoughts of Ackerlof (1970) likewise apply to the field of innovation where, in the most extreme situation, projects might vanish if the information asymmetry becomes too big of a problem when investors (principals) cannot mitigate the risk (Hall, 2010). The 'market for lemons' is, likewise, one of the reasons agency theory has become particularly interesting in the field of venture capital research. Within the field, the use of principal-agency theory has been applied as a theoretical framework for many years in different ways (see e.g. Fiet, 1995; Gompers, 1995; Van Osnabrugge and Robinson, 2000; Hsu *et al.*, 2014).

The agency problem of investors and investees affecting the decision-making

The agency problem of investments occurs in a market-based economy when the people who manage companies do not have the means to finance the activity or new activities. This assumption implies that people asking for funds and people having funds available will have an information gap between them, especially in innovative investments (Hall, 2010). The marketplace for investments in innovation is particularly characterised by this challenge with information asymmetry, as it can be costly and even impossible for investors to evaluate the quality of the investment opportunities (Fazzari *et al.*, 1988). This means the buyers or investors take different measures and decisions to try and mitigate these challenges, as in Akerlof's (1970) marketplace for lemons.

According to Hall (2010), the information regarding innovative investments has different characteristics. One is the fact that information is mainly possessed by the entrepreneur, and the success or failure is only revealed over time. This creates information asymmetry in the investments where the investee or entrepreneur has better information about the innovation project, for example, regarding the chance of success over potential investors (Hall, 2010). Therefore, the marketplace for investments in innovations or new ventures is characterised by being highly uncertain and with a risk of opportunistic behaviour from the entrepreneur (Fiet, 1995). However, the main risk affecting the decision making is perceived differently by the various investors, such as venture capital funds (VCs) and business angels (BAs) (Mason and Harrison, 2002; Mason and Stark, 2004). The venture capital funds are primarily concerned with market risks, whereas agent risk is the main concern of business angels (Fiet, 1995).

Different agency problems to different investors

The primary agency problems between investors and entrepreneurs are tied to the difficulty of the investors verifying the information provided by the entrepreneurs (Fiet, 1995; Landström, 1998; Van Osnabrugge and Robinson, 2000). Furthermore, this is emphasised by the problem of entrepreneurs often being overconfident when communicating their information, especially when considering young ventures (Hall, 2010). One way of mitigating this risk is by using networks; however, the networks of the business angels are usually smaller than a venture capital fund, which means that information validation is harder to obtain for a business angel (Lerner, 1994). The use of networks to gain information is only one-way as the investors are trying to mitigate the information asymmetry and form their decisions.

The use of due diligence, in which the investors perform a thorough investigation of the company they want to invest in, is another option for mitigating information asymmetry. One of the related challenges is that business angels might perform due diligence, but often it is not very rigorous (Van Osnabrugge and Robinson, 2000). On the contrary, the venture capital funds normally perform extensive due diligence as part of their investment process (Landström, 2007), as a useful tool to mitigate the risk as part of their decision making. Instead of the thorough and resource-demanding due diligence carried out by venture capital funds, the business angels apply more subjective measures, such as trust (Fiet, 1995) and strategic readiness relating to the entrepreneur (Hsu *et al.*, 2014) in their decision making. This means that business angels are more attentive to human risk than market risk (Fiet, 1995; Hsu *et al.*, 2014). In other words, the venture capital funds have better options and resources to evaluate and confirm the information provided by the entrepreneurs. On the contrary, business angels must rely on more subjective evaluations and their 'gut feeling' (Mason and Rogers, 1997, Van Osnabrugge and Robinson, 2000) due to limited resources (Landström, 2007).

Studies investigating the different kinds of risk and evaluations applied by different investors show that business angels and venture capital funds rely on different kinds of information (Mason and Stark, 2004) and use different decision-making factors (Hsu *et al.*, 2014). The business angels usually rely on passion and strategic readiness; whereas VCs aim for economic potential as the main decision factors (Hsu *et al.*, 2014). This is emphasised by the venture capital funds often not caring about a fit between the investor and the fund, whereas the fit is an important part of the assessment made by business angels (Mason and Stark, 2004). This fit selection of the entrepreneur and his or her capabilities is the business angel's response to the information asymmetry challenge (Hsu *et al.*, 2014). This section illustrates some of the inherently different risks perceived by investors and how they mitigate them in different ways. The next section will examine further the business angel's specific information asymmetry challenges and how they mitigate them.

The mitigation of information asymmetry and effects on decision-making

The previous section established that business angels are generally more concerned with the human risk aspect of information asymmetry between themselves and the entrepreneur in their decision making. The business angels attempt to mitigate this information asymmetry risk by performing different actions / using different controls, e.g. putting weight on the entrepreneur's human capital and strategic readiness for funding (Hsu *et al.*, 2014). Understanding and monitoring the risks in the investment process gives the business angel a way to mitigate the risk and evaluate whether or not to accept or reject a given deal or ‘contract’. This illustrates how the mitigation becomes an important aspect of the decision-making of the business angels during the investment process. As the strategic readiness for funding and human capital are the main factors in a business angel’s evaluation and attempt to mitigate the risk, these terms will be further explained.

Strategic readiness for funding

The challenge of validating written information often leads the business angel to use relationship-driven methods to try to mitigate the information asymmetry (Landström, 1998). Evaluating the strategic readiness of a venture is an oft-used approach to evaluate the investment opportunity in a venture for business angels (Hsu *et al.*, 2014). Strategic readiness for funding is the assessment of whether or not the entrepreneur and venture have the necessary resources to grow (Hsu *et al.*, 2014) and/or the scale business (Brush *et al.*, 2012). Furthermore, strategic readiness can encompass the networks of the entrepreneur, which has been shown to be a decisive factor in obtaining investments (Landström, 1998; Sohl, 2012). Strategic readiness in the context of entrepreneurs and business angels has, for example, been measured using customer track records (Brush *et al.*, 2012). Analysing the strategic readiness for funding information is, likewise, done to evaluate whether the information from the entrepreneur is credible (Van Osnabrugge and Robinson, 2000). Again, emphasising the perception of credibility and strategic readiness for funding is a subjective assessment performed by the business angel as part of the investment process.

Human capital

Human capital includes the experience, skills and knowledge of the entrepreneur, which have shown to be important in entrepreneurial processes (Unger *et al.*, 2011). Regarding obtaining funding, studies have shown that human capital, such as entrepreneurial experience and industry knowledge, is important to business angels (Feeney *et al.*, 1999). The human capital of the entrepreneur, especially in new ventures, and whether or not he/she possesses the right resources, becomes an important factor in the assessment by the business angels (Mason and Harrison, 1996; Huang and Pearce, 2015). The business angels often act from a relational distance, although a relatively closer relational distance than venture capital funds (Landström, 1998). The human capital of the entrepreneur hence becomes an important factor for the business angel in determining the potential degree of relational distance (Hsu *et al.*, 2014). In other words, the higher degree of the specific human capital of the entrepreneur lowers the risk and the need for involvement by the business angel.

Why move beyond the pure economic rationale?

The section above shows how economic literature and theory, especially regarding agency research, has had a big influence on the research on venture capital and advanced the field. However, the application of the pure economic theories in venture capital has been questioned as the only viable approach by for example Landström (1993). Landström investigated and demonstrated how the rational economic theory would fall short in many instances, especially when regarding informal venture capital and their decision making. As the field of informal venture capital is rather young, the argument is that there is a need for qualitative research to give a better understanding of the field through generating concepts and models (Huse and Landström, 1997). The reason Huse and Landström (1997) call for more research using a qualitative approach is due to the need to improve the understanding of reality, which, they argue, qualitative and pure rational economic theories have little opportunity to capture. The challenge for the research field is to use more interactive research, rather than investigating from afar, so the research can follow the construct of the endeavour (Steyaert, 1997)

Following the notion that the rational economic theory might have its time and place but also its limitations, studies have identified several areas where the economic rationale falls short. This is despite the fact that the investment situation for both formal and informal venture capital is characterised by being constrained by time and uncertainty, and investors often choose the option with the higher outcome (Matusik *et al.*, 2008). This argument is contradicted by studies showing that investing is characterised by the investors using a subjective and informal rule of thumb to find acceptable solutions to problems (Busenitz and Barney, 1997). Furthermore, the interesting use of acceptable solutions identified by Busenitz and Barney (1997) is in contrast to the right or ideal solutions found in the rational literature (Jensen and Meckling, 1976). However, the investments, as described in the previous section, differ among the investors, whereby venture capital focuses more on economic factors compared to business angels (Hsu *et al*., 2014).

As the above illustrates, the focus on the pure economic outcome and finding the ideal solution from an economic rational standpoint is questionable, especially when addressing informal venture capitals decision making. Another notion illustrating the limitations in using the pure rational economic theory is provided by the rigours in information gathering. The ideal in the rational economic theory is to try and achieve full and objective information (Fiet, 1995), however investment situations do not always allow for thorough due diligence to get objective information (Landström, 1997). Furthermore, the notion of objectivity is difficult identify with informal venture capital, as they tend to use subjective measures (Hsu *et al.,* 2014) and gut feeling (Haines *et al.*, 2003). Furthermore, studies show informal investors have a tendency to rely on the most significant feature of a category, rather than applying an exhaustive set of features (Harrison *et al.*, 2015), further questioning the rigours of information gathering indicated by rational economic literature.

An argument could be made that the application of the rational economic theory is dependent on the stage in the investment process. This is true to a degree, as the initial stages sometimes involve more rational, and later stages more subjective, factors (Jeffrey *et al*. 2016). However, others argue that the "rational" used by investors in the early stages is a result of the investors' experience and hence a matter of subjective heuristics (Harrison *et al*., 2015). This once again questions the appropriateness of pure rational economics, especially when regarding informal venture capital as set out by Landström (1993)

In the dissertation, as presented in the introduction, the focus is on business angels as a subcategory of informal investors. The above illustrates how the pure rational economy theory has its limitations within the field of informal investors' decision making, and why the approach in the dissertation will be following the recommendations of investigating what is going on in practice or reality (Huse and Landström, 1997). Furthermore, it aims at investigating the interaction that occurs during the investment process between the investor and investee (Steyaert, 1997). The presentation of the chosen theoretical approach will follow once the next section introduces the general research into venture capital.

2.3. RESEARCH ON VENTURE CAPITAL

The research on informal venture capital and business angels has its origins within venture capital research. As such, venture capital research will briefly be introduced to provide a broader perspective on the business angel literature. The venture capital industry dates back to around the 1940s (Ante, 2008) while the research field of venture capital dates back to the mid-late 1960s, as exemplified by Briskman (1966). The research in venture capital was, in the beginning, inspired by the dominant economic theories in other fields of research, whereas organisational approaches were just emerging and making their way into different fields.

From the beginning, the research field of venture capital evolved in two distinct directions. One direction was concerned with the decisions and efficiency of venture capital as an investment institution and how they assessed entrepreneurs. The other direction related to the entrepreneurs and their access to funding and the characteristics of the entrepreneurs seeking funding. These two distinct directions evolved separately before researchers began to show an interest in the process of venture capitalists and entrepreneurs forming a new venture together (Sapienza and Villanueva, 2007). The empirical research on entrepreneurs and venture capitalists creating new ventures mainly addressed the most promising ventures, and, in the beginning, no one was interested in the broader investment environment. The broader perspective was picked up later, and today the research area of venture capital is a diverse and important part of the investment, management and entrepreneurship literature.

During the development of the research field, different theoretical approaches have been taken. The field has encompassed economic theories such as game theory, resource-based and knowledge-based views and agency theory. Further macro-organisational theories have been used, such as population ecology, institutional theory and network theory. Lastly, micro-organisational approaches have been applied, such as social exchange theory, social capital theory, learning theory, cognition and cognitive bias theories, psychological contract theory and procedural justice theory (see further elaboration in Sapienza and Villanueva, 2007). The multifaceted development has created a research field with many different theoretical inspirations and hence a diverse theoretical setting in the studies. The researchers starting to investigate the field of informal venture capital have adopted this variety of theoretical approaches.

Different theoretical approaches

While many different theoretical approaches were applied from the beginning of the research into venture capital, some have been more dominant than others. The most dominant theories have been rational economic ones and frameworks (Landström, 2007). However, as explained previously, Landström (1993) questioned the applicability of a pure form of rational economic theory in all fields during the 1990s. This can be attributed to Landström's focus on informal venture capital, where the purely rational and economic agency theories are arguably less applicable than within institutional venture capital. This created the need to identify new theories to accommodate the research field of informal investors such as business angels, which had slowly begun 10 years earlier.

Research on informal venture capital

Regarding the origin of the research field of informal venture capital, many refer to Wetzel (1983) as conducting the first seminal study that began the field. Following Wetzel, researchers tried primarily to incorporate the theories known from venture capital, which often focused on quantifying and describing the informal venture capital market. This led the early research to be descriptive and focused on three main questions (see Landström, 2007), stated below in chronological order:

- How large is the informal venture capital market? – The market scale
- What characterises the informal investors/business angels? – ABC of angels (Their attitudes, behaviour and characteristics)

- How can a more efficient venture capital market be created? – Policies and information networks.

The market scale, as the name indicates, is researchers trying to estimate the size of the informal venture capital market, which has proven to be a very difficult task. Wetzel had already outlined in 1983 that the informal venture capital market is '*unknown and probably unknowable'*, but this has not stopped researchers from trying. The main challenge concerning the market scale of the informal capital market is that investments are not disclosed anywhere, so researchers have used different methods and approximations, resulting in widely ranging estimates (Mason and Harrison, 2000). Furthermore, the approximations differ regarding whether or not to include family and friends, and the sample sizes are often small with low response rates, forcing other researchers employing convenience samples to accept the bias complications. In summary, Landström (2007, p. 52) concludes: '*Thus, the estimates made in the various studies must be considered very crude calculations of the informal venture capital markets in different regions.'*

ABC of angels - Informal venture capital is heterogeneous in its nature, inspiring researchers to characterise these individual investors with special regard to business angels. The characterisation of the wealthy individuals labelled business angels can likewise be traced back to the 1980s, when the research began in the US. The primary concern was to understand business angels in different regional settings of the US, and the research area grew to incorporate the rest of the world from the late 1980s (Kelly, 2007). Although there has been a fair amount of research in the area, a 'one definition fitting all' has proven difficult because of the heterogenetic nature of the business angels. However, some characteristics have been agreed upon: '*the typical angel investor seems to be a middle-aged male with a reasonable net income and net worth and previous start-up experience, who makes about one investment a year, usually close to home'* (Landström, 2007 p.53). The research on the characteristics has been ongoing for more than 35 years, but much can still be achieved to understand the varieties and peculiarities of the informal venture investors in different contexts.

Policies and information networks – Another direction within the research field concerns investigating the great inefficiency the informal venture capital market is experiencing. The challenges often revolve around too few active investors in a murky investment market, so the investor and investee have challenges finding each other (Landström, 2007). The policies trying to accommodate these problems are often some sort of tax incentives introduced by governments worldwide. The UK has especially focussed on this area, and research performed by Mason and Harrison (1999a) show positive results in the number of investments made by informal investors due to the tax incentives. Alternative policies have likewise been investigated, such as only supporting the strongest investees (Mason and Brown, 2013) and matchmaking networks (Sohl, 2010). Other authors (Armour and

Cummings, 2006; Murray, 2007) have pointed out the problems of government trying to stimulate an inherently high-risk market, which could foster an imbalanced market.

Information networks were introduced to close the gap between the investors and potential investees or entrepreneurs. This has led to different initiatives being tested to support and complement the tax initiatives. Wetzel himself started the venture capital network (VCN) in New Hampshire in 1984 as a service to create a channel to introduce investors to the entrepreneurs or companies. This form of introduction service or network has since prospered all over the world, and many countries now have official business angel networks (BAN). The various networks, introduction services and government initiatives have displayed different levels of success (see for example Mason and Harrison, 1999a; Christensen, 2011; Mason and Brown, 2013).

2.4. INVESTMENT PROCESS OF VENTURE CAPITALISTS AND BUSINESS ANGELS

An aim of this dissertation is to investigate parts of the investment process of, in particular, business angels. This section will provide an introduction to the investment process and which parts of the investment process the dissertation addresses and how. There have been several calls for understanding the general investment process by, for example, Freeney *et al.* (1999) Haines *et al*. (2003) and calls for investigating specific parts in depth from Sapienza and Villanueva (2007) and Paul *et al*. (2007). The literature regarding the investment process has shown different attempts to map the process, for example, Amatucci and Sohl (2004) developed a three stage process; Haines *et al*. (2003) illustrated an eight-stage model while Van Osnabrugge and Robinson (2000) likewise showed an eight-stage framework. Many of these frameworks or models have been inspired by the literature on the investment process by venture capitals.

Different researchers have revealed differences in the investment process by varying investor types, however there is general agreement regarding the investment process, consisting of four general stages (Sapienza and Villanueva, 2007). Tyebjee and Bruno (1984) developed one of the often used models derived from venture capital, naming the four stages “origination”, “screening”, evaluation” and “structuring”. Furthermore, they noted that the investment process would entail post investment activities. This general model has since been developed and refined in different directions, for example Fried and Hisrich (1994) examining specifics for venture capitalists. These inspirations likewise led Paul *et al*. (2007) to create a model more specific towards the investment process of business angels. The illustrations below show the models of Tyebjee and Bruno (1984) and Paul *et al*. (2007):

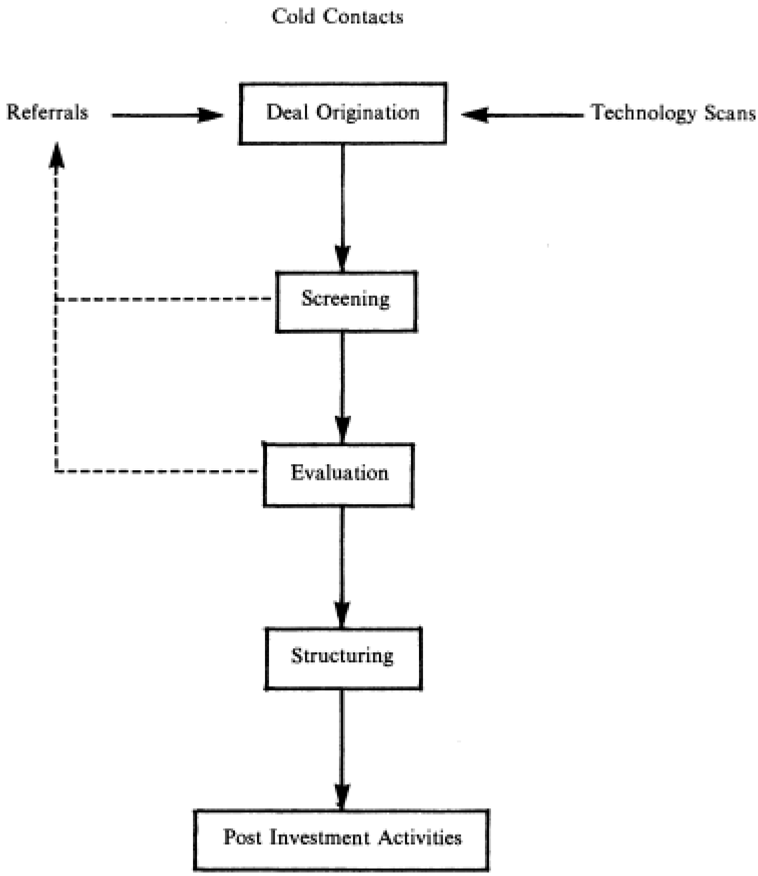

Figure 1 - Tyebjee and Bruno's (1984) model of venture capitalists' investment process

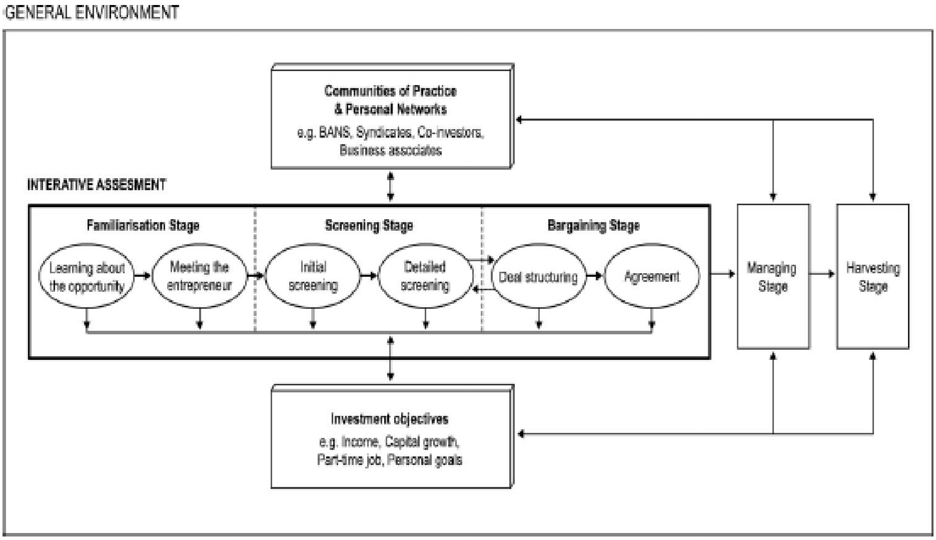

Figure 2 - Paul *et al*.'s (2007) model of business angels' investment process

The illustrations above show two similar models of the investment processes, both sequential. Both models include the point of departure when the investor learns about an investment opportunity, labelled the deal origination stage by Tyebjee and Bruno (1984) and the familiarisation stage by Paul *et al*. (2007). The next stage is labelled the screening stage in both models. The final bargaining stage in the Paul *et al*.(2007) model encompasses both the evaluation and structuring stages in the Tyebjee and Bruno (1984) model. The first model then illustrates the post investment activities that exist, whereas the latter elaborates on this by depicting a managing and harvesting stage. Furthermore, both models highlight the importance of referrals and communication with the personal network of the investors. Finally, Tyebjee and Bruno (1984) illustrate that the venture capitalists are performing a technology scan in the initial stages, whereas Paul *et al*. (2007) explain how the investment objectives play a role for the business angel investor. The model developed by Paul *et al*. (2007) is further divided into underlying activities in the first three stages.

Even though the models could appear rather similar, several studies have highlighted the differences in the decision-making occurring during the investment process of venture capitalists and business angels. The sections "definitions in the field" and "information asymmetry" have already presented some of the differences between the two types of investors and their decision making occurring during the investment process. Furthermore, some of the articles in the dissertation will examine this topic further; however, some of the main differences will be presented presently.

The venture capitalists operate in an area of information rich environments (Shepherd *et al*., 2003) whereas business angels have little notion of, for example, historic performance data informing their decisions (Freear *et al*. 1992). Utilizing the information rich environment leads the venture capitalists to perform extensive due diligence which often determines their decision making (Wright and Robbie, 1996). The full resourceful demanding due diligence is often not an option for business angels, who will perform a "due diligence" but one that is often not very rigorous (Van Osnabrugge and Robinson, 2000). Instead, the business angels rely on more subjective measures such as their ability to understand the business they have been presented to (Huang and Pearce, 2015) and their "gut feelings" (Mason and Rogers, 1997). Furthermore, venture capitalists will aim at economic potential as the main decision factor, whereas business angels often emphasise strategic readiness and passion by the entrepreneur and the proposal (Hsu *et al.*, 2014). A further elaboration on which information and factors matters the most to different investors can be found in Mason and Stark (2004).

The subjective decision making of business angels is also one of the reasons why Paul *et al*. (2007) has called the main process in their model an interactive assessment. The business angels will go back and forth many times during the process and both the length and time in each stage will vary a lot from one investment process to the next (Paul *et al*., 2007). Generally, the business angels will reject the majority of opportunities at the initial part of the investment process (Carpentier and Suret, 2015). After the initial screening, the model illustrates the importance given by business angels to the entrepreneur meeting, which will occur early in the investment process. Following this stage, the initial and detailed screening will involve different assessments by the business angels depending on their previous knowledge and experience (Mason and Rogers, 1997). This stage likewise encompasses how the business angel can identify himself in the deal as an active party (Kelly, 2007).

The screening stage will, likewise, often consist of more meetings with the entrepreneur and consulting the personal network of the business angels and identifying how this fits into their current position and investment objectives (Paul *et al*., 2007). Should the investment process proceed to the bargaining stage, this will entail, for example, a discussion regarding the financial terms and equity share and legal terms in order to close the deal (Paul *et al*., 2007). The two later stages in the model are regarding managing the business after a successful decision-making process and, finally, leading to an exit or harvesting stage in the model (Paul *et al*., 2007).

Investment process in the dissertation

The research question of this dissertation has the aim of investigating the business angels' investment process with entrepreneurs, especially from the business angel perspective. The plan is to gain an in-depth understanding of the business angels in the context and the specific stages of the investment process during the different articles presented in the dissertation. This has been inspired by academic research by, among others, Sapienza and Villanueva, (2007); Hsu *et al*., (2014) and Harrison *et al*., (2015) identifying a gap and the importance of further understanding the different stages in the investment process. Several studies have already investigated this from different angles (Mason and Stark, 2004; Hsu *et al.*, 2014; Souitaris and Zerbinati, 2014; Huang and Pearce, 2015), however they all still call for further research to enhance the knowledge of the investment process. The specific theoretical gaps and proposed contribution of the dissertation will be further discussed in the section entitled "Theoretical gaps and theory applied in the dissertation".

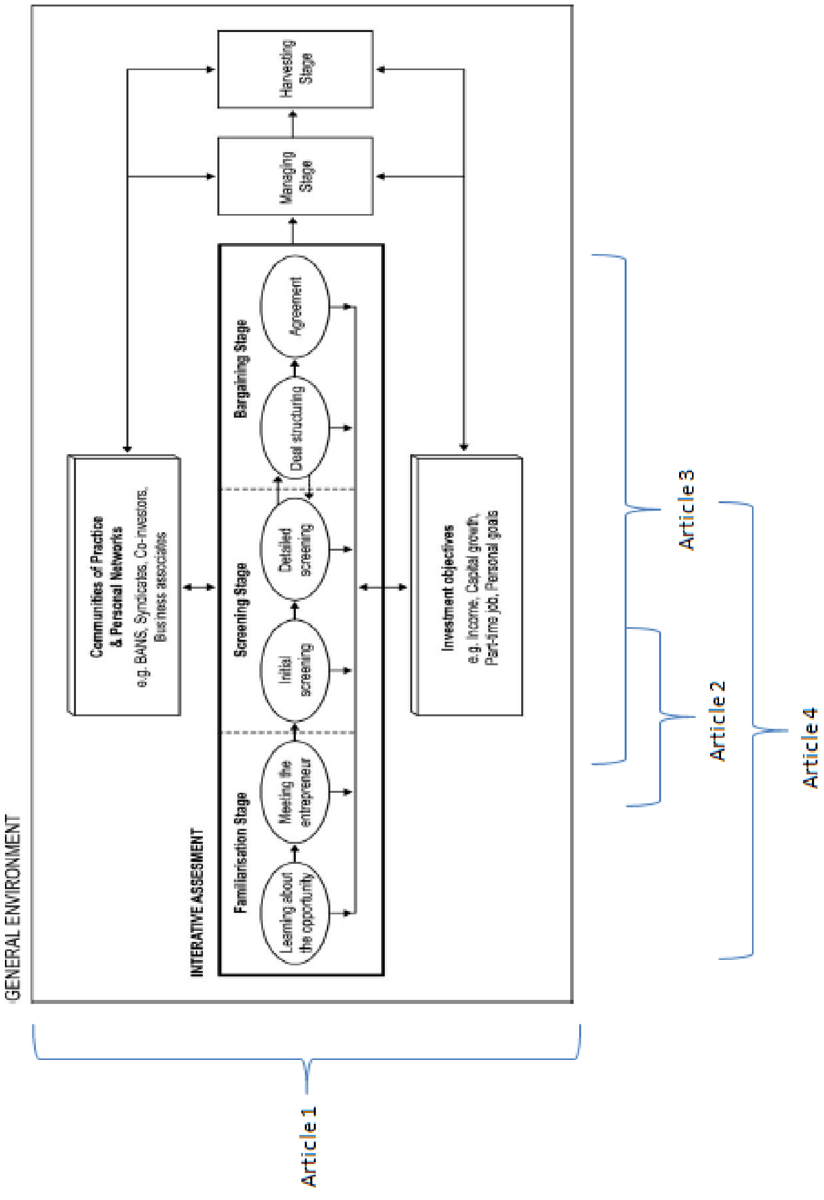

Figure 3 - The focus of the articles regarding the investment process

The dissertation consists of four articles covering different parts of the investment process, as the figure above illustrates. The first article is a more generic article covering the business angels in the current context, though also understanding the characteristics that are necessary in order to understand their actions (Sørheim; 2003, Månsson and Landström, 2006; Ding *et al*., 2015). The second article goes more in-depth, especially regarding the second part of the familiarization stage; meeting the entrepreneur and to a certain extent the first part of the screening phase; and the initial screening. The article aims to investigate how the introduction of a new framework can improve the sense making between the business angel and entrepreneur, inspired by studies such as Zachariakis and Shepherd (2005), Navis and Glynn (2011), Cornelissen *et al.* (2012) and Hsu *et al.* (2014).

The third article covers a wider range of the investment process, as it investigates the different practices or activities that occur within it, leading to a rejection or acceptance from a value perspective. This article primarily focuses on the screening stages and, to an extent, the bargaining stages, investigating what the business angel and entrepreneur values during the these stages, leading to either acceptance or rejection of the investment proposal from either side. This research has been inspired by other studies trying to determine what influences the decision of acceptance or rejection during an investment process, for example Souitaris and Zerbinati (2014); Harrison *et al*. (2015), Huang and Pearce (2015), Devigne *et al*. (2016) and Powell and Hughes (2016).

The final article primarily investigate the initial stage of the investment process, in particular the familiarization stage and how this stage can be influenced by how the business angels learn about the opportunity. Studies show that business angels have high search costs and high initial rejection rates (Mason and Harrison, 1995; 2002; Gifford, 1997). This article investigates how a gatekeeping function in a matchmaking project influences the resources used in the initial search for opportunities in the familiarization stages. This mitigation has been investigated from different perspectives, such as facilitating meetings (Aernoudt, 1999) and through business angel network associations (Paul and Whittam, 2007; Mason *et al*., 2016). In addition the articles follow the gatekeeper role during the screening parts of the investment process to see if the gatekeeper is influencing this. As previously stated, the presentation of the specific theoretical gaps and a more in-depth explanation of the applied theory will be given in the following section.

2.5. THEORETICAL GAPS AND THEORY APPLIED IN THE DISSERTATION

The previous sections have indicated some of the theoretical gaps and contributions made in the dissertation. The presentation of these gaps was within the context of the specific topics, whereas this section will give a more general overview and explanation of the gaps and contributions that have been discovered. The aim is to explain how the gaps were found, why they are important and how the dissertation will contribute to explaining or closing the gaps. Finally, how these gaps have been formulated into the general research question will be explained.

During the initial literature review, and talking with practitioners in the investment environment, it became apparent that a possible gap existed concerning the connection between business angels and entrepreneurs in the investment process. The findings led to a desire to further investigate what and why there were problems when business angels and entrepreneurs entered into an investment process together. Investigations such as this have, in the literature, been referred to as like trying to open "the black box" of the investment process (Mason & Harrison, 1996; Sørheim, 2003; Lathi, 2011; Hsu *et al.*, 2014; Jeffrey *et al.*, 2016). Attempts to investigate the current context of Denmark led to the first indications of a possible gap.

Investigating an unstructured investment environment

In the past decade, studies have shed much light over the investment processes in different contexts, especially regarding venture capital funds (Landström, 2007; Ante, 2008). However, studies have likewise identified the lack of research regarding informal venture capital (Sapienza and Villanueva, 2007). Though research has accrued investigating informal venture capital, a substantial amount of this has been based on contexts such as Great Britain (Mason and Harrison, 1996; Harrison *et al.*, 2015), Australia (Hindle and Wenban, 1999) and North America (Robinson and Cottrell, 2007; Dutta and Folta, 2016). As explained in both Mason and Harrison (1999) and Dutta and Folta (2016), such investigations often benefit from tapping into business angel networks and similar structured forms of business angel activities. These structured investment environments do not exist in all countries. Denmark is, for example, a context in which a business angel network was established but struggled once government funding was terminated (Christensen, 2011), and this unstructured setting was confirmed by practitioners in the field during the initial informal talks and interviews with key stakeholders in the area.

The section above identifies that there might be an interesting contribution in investigating the investment process in an unstructured context. Furthermore, studies have shown that the characteristics of the business angels are dynamic and changing (Månsson and Landström, 2006; Kelly, 2007; Sohl, 2012). Most studies have shown the general definitions of business angels are alike (see previous sections and e.g. Mason and Harrison, 2000; Landström, 2007) and how business angels are different in their decision making from other investors (Mason and Stark, 2004; Hsu *et al.*, 2014). This agreement on a general level is always open to question on a more detailed level and the actions of the business angels are subject of their characteristics (Ding *et al.*, 2015). However, Spliid (2013) identifies that Nordic investors should have different characteristics when compared to their North American counterparts, which gives rise to the question of whether the Nordic business angels are likewise different from other European and North American business angels. Further adding to the topic of the nature and characteristics of the business angel, Sohl indicates that business angels are shifting their focus from early stage to later stage investments (Sohl, 2010; 2012) which, to an extent, can be found among characteristic studies in, for example, Finland (Lathi, 2011).

The above summarises the considerations in the previous sections and highlights the theoretical gap revealed in the theory and as such in practice. Regarding both business angels in an unstructured context and specific concerns of whether Nordic investors are similar to their counterparts, an interesting gap was revealed. The theoretical gap is addressed in the dissertation through investigating business angels in Denmark, and specifically North Jutland, to characterise the nature of business angels in an unstructured context and identify similarities and differences to those found in other contexts.

The investment process and decision making of business angels

The section 'Investment process of venture capitalists and business angels' has already shed some light on the theoretical gaps identified and addressed in the dissertation. Investigating the investment process and decision making of business angels, it became apparent that business angels and venture capitalists have different approaches (Mason and Stark, 2004; Huang and Pearce, 2015). The previous section explained the articles relating to the investment process and some of the crucial issues in the different stages. Investigating the different stages is important in order to address calls for further research by, for example, Sapienza and Villanueva (2007) and Paul *et al*. (2007) who advocate that there is still much that can be learned about the process. Paul *et al*. (2007) state that the venture capital investment process is well documented, whereas the business angel investment process is still under researched. The dissertation contributes by further investigating these specific stages and following these stages in the business angel investment process, and investigating the decision making performed throughout.

Even though there is general agreement in the field that business angels are different from venture capitalists, there is disagreement about how to understand and possible create a better investment process around the business angels. Some look towards the business plan as an initial key component (Bouwman *et al*. 1987; Mason and Stark; 2004), whereas others try to identify and clarify the subjective measures used by business angels (Hsu *et al*., 2014; Huang and Pearce; 2015) and some investigate the interaction between the investor and investee (Zachariakis and Shepherd, 2005; Cornelissen *et al.*, 2012). Though the literature points in somewhat different directions, they generally agree upon the fact that information asymmetry in the decision making is the major problem, but disagree on the means to lessen or solve the problem. This has led to multiple calls for further research (Mason & Stark, 2004; Sapienza and Villanueva, 2007; Carpentier and Suret, 2015; Huang and Pearce, 2015). The dissertation contributes to the gap regarding understanding the investment process and the decision making by using both known approaches but likewise investigating approaches found in other disciplines.

The contributions are made through adopting existing frames of the investment process proposed Paul *et al*. (2007) and then using different theoretical lenses to investigate the decision making in the investment process. The dissertation introduces a value framework to the investment process inspired by Bowman and Ambrosini (2000) and Powell and Hughes (2016). This is done to make a contribution to understanding the subjective measures business angels apply during their decision making of whether to accept or reject an opportunity during the investment process. In addition, the dissertation explores the notion of a common understanding framework to try and mitigate some of the communication and information challenges affecting the decision making and hence often terminating the investment process. The contributions will highlight how business angels value different pieces of information during the investment process and hence are affecting the acceptance of rejection choice during the decision making.

Furthermore, the dissertation contributes by investigating the communication and interaction occurring between the business angel and entrepreneur during the investment process, primarily to understand the business angels' decision making. This is achieved by adopting a common understanding framework in order to understand the communication between the business angel and entrepreneur. Specifically, the framework of business models is applied in order to identify whether or not this terminology effects the communication between them. The contribution is made by showing how the entrepreneurs and business angels are currently communicating in different directions, but the introduction of a framework like business models has the ability to create more understandable communication between the parties.

Investigating other factors influencing the investment process and the decision making of the business angels, the dissertation will likewise investigate the role of external individuals. More specifically, the role of business angels will be investigated according to the notion that gatekeepers hold an important role (Gao *et al*., 2016) and especially during the initial stages of the investment process (Paul and Whittam, 2010; Mason *et al*., 2016). The influence of gatekeepers will be investigated to explore their role in the informal context and find similarities and difference to the role found in business angel networks (Mason and Botelho, 2016). Furthermore, this is explored to enlighten the gatekeepers' influence on the investment process and the decision making of the business angels.

The theoretical gaps are hence concerned with areas in-depth as well as across the different stages of the investment process, in order to further understand the decision making of the business angels. Understanding the decision-making includes areas such as information, communication, external individuals and more subjective factors to enrich the understanding of the investment process and why the acceptance or rejection occurs during different stages.

2.6. THE THEORIES IN THE ARTICLES

The section above introduced the theoretical gaps and theory applied in the dissertation; this section will briefly state how the theory is conveyed into the separate articles. The section 'introducing the articles' will provide a more general introduction to the articles; however, this section will briefly explain how the different theories are applied in the articles. The first article revisits the ABC and human capital of business angels by exploring their characteristics. This is performed to investigate if the characteristics of the Danish business angels in the informal and unstructured context are similar to studies in other contexts, hence (Sørheim, 2003; Kelly, 2007; Landström, 2007; Lathi, 2011; Li *et al.*, 2013). The study is performed by comparing previous Danish surveys (Vækstfonden 2002, 2015) with the data collected from interviews with business angels and further comparing them to international findings. Furthermore, the investigation is inspired by theories showing a potential shift in the characteristics of the business angels (Sohl, 2012) and that Nordic private equity is different from the rest of the world (Spliid, 2013).

The second and third articles aim for a deeper understanding of the business angels' investment processes, the decision making and the information asymmetry between the business angels and entrepreneurs. These articles both use the investment process theory (Paul *et al*., 2007) to go in-depth with stages and going across stages as recommended by, for example, Souitaris and Zerbinati (2014), Shepherd (2015); Shepherd *et al*. (2015) and Harrison *et al*. (2015). These articles investigate how different factors affect the investment process and decision making, hence contributing to the existing body of literature (Mason and Stark, 2004; Hsu *et al.*, 2014; Souitaris and Zerbinati, 2014; Huang and Pearce, 2015). Previous studies have shown both positive elements and challenges of the investment processes. However, the investment processes could still benefit from a greater mutual understanding between business angels and entrepreneurs (Zachariakis and Shepherd, 2005; Cornelissen *et al.*, 2012; Hsu *et al.*, 2014; O'Neil and Ucbasaran, 2016). The articles both touch upon what human capital and strategic readiness business angels are looking for in their decision-making process. Furthermore, they consider how this information can be communicated with different approaches during the investment processes using theories regarding business models (Osterwalder and Pigneur, 2010; Oyedele, 2016) and value (Powell and Hughes, 2016).

The fourth article investigates how the business angels' investment process is influenced by external individuals, such as gatekeepers. The gatekeeper can create both positive and negative barriers in an investment market (Suchman and Cahill, 1996), where the positive aspects are regarding breaking down barriers and facilitating connections (Barzilai-Nahon, 2009; Gao *et al*., 2016). The gatekeeper function has, likewise, proven to be an important role initiating investment processes between business angels and entrepreneurs (Paul and Whittam, 2010; Mason *et al*., 2016). The importance of gatekeepers has led researchers to call for further research on the role they perform in the investment market (Paul and Whittam, 2010; Mason and Botelho, 2016). The overall aim of adopting the different theoretical approaches in the articles is to provide new insights into the theories and topics, thus building the foundation to address the research question from the articles and in general.

CHAPTER 3. RESEARCH DESIGN

The aim of this section is to clarify the methodological choices made in the dissertation in addressing the research question. Investigating any research question includes multiple approaches for a researcher in formulating the research question, which could lead to different answers. The goal of this section is to demonstrate how the research process and question have been influenced by the methodological choices and to describe some of the explicit and implicit approaches influencing the dissertation.

The choices made are part of a process influenced by different factors, some of which will be explained in this section. Some philosophers would say that methodological choices are inherent to the human nature of the researcher, and in some sense, the researcher does not make a choice, as it is in his/her nature (Golsorkhi *et al.*, 2009). This way of looking at the researcher's choice is substantiated by researchers having preferences for applying the same methodological choices repeatedly. A different reasoning is that researchers make the methodological choices they find most suitable to address a research question. This approach means that the researcher, in formulating the research question, will reflect on how they can investigate the question at hand using a specific methodological approach. However the methodological choices are made, they will affect the process of answering the research question, and a different choice could lead to a different process and probably a different answer.

The aim of this section is not to go further into the discussion of whether methodological choices come from the researcher's nature or are selected to address a given research question. This section will introduce which methodological choices have been made during the research process, so the choices are made explicit and in context. An explicit explanation follows the advice of Bourdieu (1977; 1990; 1998), who identified the need for the researcher to understand the field(s) he/she is studying as well as their own scientific field. This explicitness should further ensure that the readers are wearing the same methodological and theoretical 'lenses' as intended by the author, and are reading the text bearing this in mind. This is done because a variety of options exist when addressing a research question, and not one can be said to be the one true approach. However, the chance of misunderstanding/misinformation between the reader and the writer should be substantially smaller when the writer clearly states his or her ambitions and the choices made.

3.1. OVERALL RESEARCH APPROACH

The process of forming the dissertation from a traditional methodological perspective will depart from the social science. The choice to enter the realm of social science was from the beginning a natural choice as the social sciences focus on human life and the environment, which is an important part of the research at hand. This encompasses the ambition to investigate the business angels and entrepreneurs in their environment to understand the actions occurring before, during and after the investment processes. The social science and especially the interpretive paradigm will, through the next section, be illustrated as suitable to enable the findings and address the research question. In this section, the assumptions about the methodology will be explained in the context of the dissertation. This is performed trying to exemplify how these choices are enabling the findings and contributions of the dissertation. Furthermore, the choice of social science and further interpretivism gives both advantages and limitations to the research, which will be explained in the following sections. Achieving this ambition, the section will take its departure in presenting Burrell and Morgan's (1979) definitions of the functionalist and interpretive paradigms as a basis for explaining the overall research design choices made in the dissertation.

The functionalist paradigm

The functionalist paradigm is where much of the previous research has been done in the research field regarding business angels, entrepreneurs and the investment process. The functionalist paradigm is characterised by having an objective point of view. This means the paradigm primarily regards knowledge as something that can be observed or has a positivism epistemology approach and realism ontology. Studies with these approaches often set out to find universal explanations to the phenomena being nomothetic in their methodology and further regarding human beings as a product of their environment or determinism in the human nature. Examples of this can be found in the many survey-based studies made in the field, see for example Mason and Stark, 2004; Hsu *et al*., 2014; Carpentier and Suret, 2015; Gompers *et al*., 2016. The functional paradigm has long been the preferred approach as originating from the long tradition found in natural science and within the social science context seeking rational explanations of social affairs.

The functionalist paradigm has the ambition to investigate concrete empirical artefacts and relationships, which they are identifying by using measured approaches inspired from the natural sciences (Burrell and Morgan, 1979). The idea is to generate models that can understand and explain the individuals, their different actions and predict them to say what is going to happen in the future. In other words, the ambition is to understand the facts surrounding the social world outside the individuals' consciousness and how these influence the individuals' activities (Burrell and Morgan, 1979). Applying such approaches in the current research field can be found in articles exploring the decision-making of business angels (Carpentier and Suret, 2015) and the characteristics of business angels (Månsson and Landström, 2006).

While the functionalist paradigm is the major approach within the research field, it does not fulfil the requirements of the dissertation. The functionalist paradigm has its power in finding structures and models within the social world. This has enriched the field a lot during the last decades, but the ambition of this study is an in-depth investigation of business angels decision-making and investment process with entrepreneurs. The choice was, therefore, to create a better understanding of the individuals and their understandings and practices during the process. The assumption in this is that each investment process is unique and is created by the individuals engaging in the process. Furthermore, this ambition was spurred by calls for an interpretive and in-depth investigation in both the investment literature (Landström, 1993; Huse and Landström, 2007; Sapienza and Villanueva, 2007) and within entrepreneurship (Hindle, 2004; Neergaard and Ulhøi; 2007). An approach that facilitates such an ambition will be presented in the following section.

The interpretive paradigm

The interpretive paradigm will be the approach applied in the dissertation. The interpretive paradigm is especially useful when the environment is seen as an emergent social process created by the individuals affected by it. In other words, the paradigm has an anti-positivism epistemology and nominalism ontology. The objective is to try and dive into the depths of the individuals' minds and understand their subjectivity in the environment having a voluntarism human nature. Furthermore, the paradigm emphasises understanding the individuals' interaction with other individuals having an ideographic methodology. Examples of interpretive studies are found in the literature, such as Freeney *et al.*, 1999; Sørheim, 2003; O'Neil and Ucbasaran, 2016, but are still regarded as under-researched.

The interpretive paradigm has the ambition to investigate the social world as it is seen and experienced from the level of the subject (Burrell and Morgan, 1979). The approach regards the social world as an emergent social process that does not exist on its own but is created by the individuals situated in the world (Burrell and Morgan, 1979). Therefore, the answers to understand the activities of individuals and their interactions with others can only be found through delving into the consciousness and subjectivity of the individuals. Studies that apply such or similar approaches can be found in the current research field with examples being Sørheim (2003) investigating the human capital influence of business angels in the investment process and partly in Huang and Pearce (2015) investigating the 'gut feeling' of business angels.

The interpretive paradigm enables the ambition of the dissertation to understand the individuals and their engagement in the investment process and the constructs occurring during the processes. The reason for choosing this approach is the opinion that events and actions occur during the investment process that cannot be understood outside the specific context of the situation. The ambition is hence not to create universal laws, as found in the functional paradigm, but rather understand the specific situation and give insights on why these specific phenomena are occurring between the specific individuals. Applying this approach will enable the dissertation to elaborate on previous findings from the functionalist paradigm with deeper and more enriched insights, which is difficult to obtain within that paradigm. Furthermore, the interpretive approach can be used to investigate new phenomena arising for example during the investment process, which are rarely achieved within the functionalistic approach deriving results from known theory and hypotheses.

The dissertation for example investigates the communicative challenges between the business angels and entrepreneurs. Applying the interpretive approach to this topic allows the researcher to investigate the elements of symbolism, meaning and understanding of the individual's own perception and subjective apprehensions. This observation of symbolism and meanings is very difficult to achieve through the functionalist paradigm, which is why research in this direction can be forced to use words like 'gut feeling' when unable to quantify the results into meaningful measures. The nature of interpretivism allows the researcher to investigate further and explain the phenomenon that cannot quantifiably be explained by previous research done in the functionalist paradigm. However, this should not be read as studies within the functionalist paradigm being useless, but recognising the limitations of such research and how interpretive research is positioned in comparison.

However, the dissertation does not apply a purely inductive approach within the interpretive paradigm, whereas the functionalist paradigm would suggest a deductive approach. The dissertation will be situated in the interpretive paradigm but will be influenced by middle range thinking, which will be explained in the following section.

Middle range thinking/theory

The interpretive paradigm has been developed over the last decades. From the mid-2000s, a new wave of interpretivism found a foothold, with the new thoughts of middle range theory and practice theory (Roslender, 2015). The interpretive approach used in this dissertation is based on the newer influences of interpretivism. This section will go further into detail on the newest approach within interpretivism regarding middle range thinking and theory, which will lead to explaining the adoption of practice theory.

From the mid-2000s, a new wave in interpretivism started after some time in which researchers had applied other paradigms as their preferred approach (Roslender, 2015). This new wave of interpretivism took its foothold in the new thoughts of middle range thinking/theory, which brought along different theoretical lenses that researchers could apply. Defining middle range theory brings it back to the original thoughts of being an uprising against that 'one' can only be seen as either objectivistic or subjectivistic. This, among other things, means that the middle range does not reject the reality or the real word per se, but believes that it can only really be understood in the communication between the individuals living in the reality. This approach can be exemplified by the words of Latour (1999, p. 15): '… *there is no outside world; this does not mean that we deny its existence, but, on the contrary, that we refuse to grant it the ahistorical, isolated, inhuman, cold, objective existence'*. This quotation illustrates middle range theorists' standpoint of not denying an outside or real world as pure subjectivists could do, but on the other hand, they do not regard reality without a context as pure objectivistic researchers argue. Trying to identify the middle range thinking in regard to the two contrasting points of subjectivism and objectivism, Laughlin (1995; 2004) developed a framework to illustrate some differences:

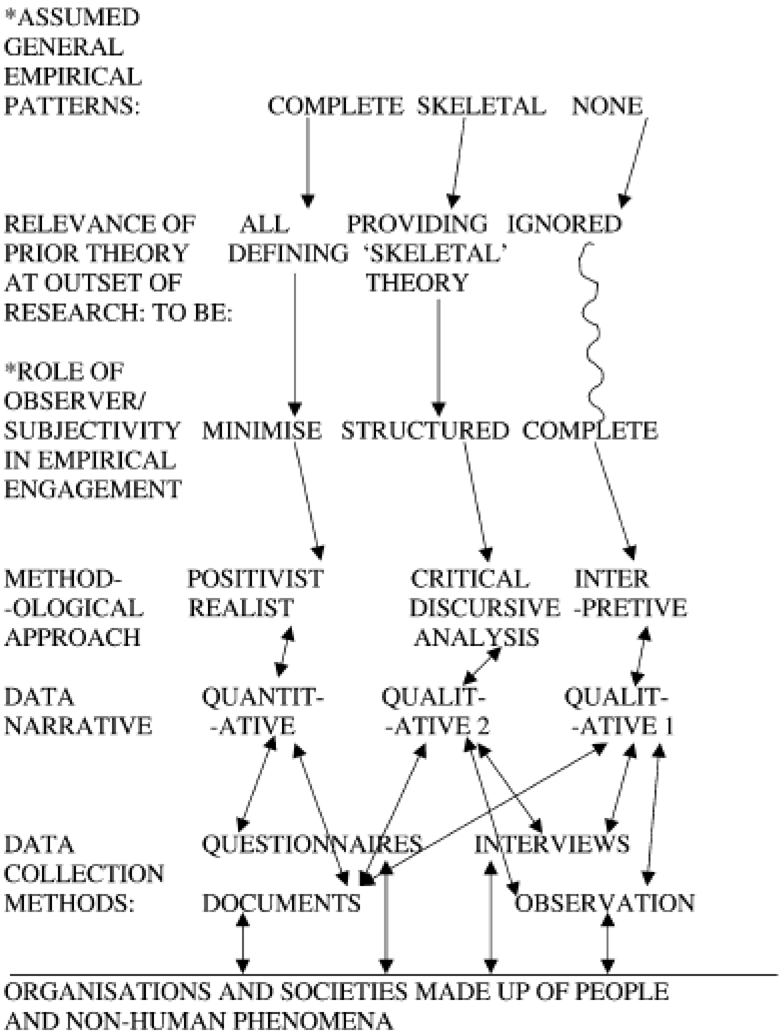

Figure 4 - Alternative research approach assumptions (Laughlin, 2004, pp. 272)

It is important to emphasise that Laughlin does not imply new middle range thinking as the right way in all circumstances, but he offers a way of positioning it in comparison to the two contrasts of pure objective and subjective. Furthermore, the figure should not be seen as definitive standpoints but rather viewpoints along a line from the objectivistic standpoint to the subjectivist with the middle range thinking in between. Some of the differences between the middle range and the two 'extremes' are illustrated by the way middle range thinking addresses the empirical patterns and the relevance of prior theory. In the middle range, there is a reasoning in identifying some patterns in the empirical data and comparing them with the existing literature, but only regarding existing findings as skeletal, and hence not either all defining or of no relevance at all. The idea is, in Laughlin's (2004) words, to try and 'flesh out the skeleton', which is the main intention of doing the empirical work. In the same manner, the role of the observer is in the extremes to either minimise the involvement or achieve a complete involvement. The goal of the middle range is to find the balance where the involvement can be structured to identify how the involvement affects the research but at the same time recognising that the researcher's involvement and possible influence are necessary.

The methodological approach of middle range theory in Laughlin (2004) should to an extent be regarded the same as interpretivism by Burrell and Morgan (1979) regarding the analysis of research. Methodologically, the middle range is advocating a critical discursive analysis approach, with the process being to develop critical theorems; trying to provide insights to the context and selecting a research strategy (see Laughlin, 1987 and Broadbent and Laughlin, 1997). Finally, the figure illustrates the difference in data narrative and data collection methods. The main group of collection methods is the same for the middle range thinking and the subjectivist standpoint, but differences exist in how the data narrative is performed. The difference in the two data narrative techniques is connected to the previous assumptions. This results in the middle range creating narratives regarding the previously mentioned skeletal structures whereas the subjective approach will create 'pure' narratives without incorporating any theoretical notions. This positioning emphasises how middle range thinking positions itself between the pure objective and subjective standpoints.

Middle range thinking/theory offers some unique opportunities to address the research question in the dissertation. The ambition of the research question is both to look at the existing literature as well as current practice in trying to provide new insights. This aim encompasses both applying known as well as new theories and approaches to the research field. The middle range theory provides a set of knowledge and a framework to support this ambition. For example middle range theory allows the research to explore theories as skeletal examples and contribute to the research field by adopting new approaches and/or empirics to further 'flesh the skeleton'. This approach allows the dissertation to go into depth with areas that have not been visited previously, partly due to the methodological choices of the majority of studies. For example this can be found in article three, where the known aspects of decision-making during an investment process is utilised but the middle range approach inspired finding new theoretical insights to create better understandings than existing theories offered. This led to the value understanding applied in the article to explain better the activities occurring during the investment process.

The sections above have stated how the dissertation is concerned with understanding the individuals and their activities to create insights into the phenomenon occurring in the given context. The middle range thinking explains how the dissertation does not depart from a purely inductive approach but is inspired by previous research. Furthermore, the ambition is to understand the activities or practices of the individuals again contrasting to the functionalist paradigm. Authors have advocated visiting the middle range, as it offers both theoretical and methodological options for understanding the practice in social sciences more widely (Ortner, 1984; Schatzki *et al.,* 2001; Whittington, 2011).

Practice theory

Practice theory is the principal way of seeing adopted in the dissertation to address the research question. The reason for applying practice theory as the primary frame in the dissertation relates to the ambition of providing further in-depth understandings of what happens during the investment process of business angels with entrepreneurs. Applying practice theory methods has been requested in different areas to investigate further the practice of different phenomena, like the call from Bygrave (1989) in entrepreneurship. The literature regarding venture capital and business angels likewise showed possibilities to investigate further the practices surrounding the investments. Sapienza and Villanueva (2007) state: '*We believe that theory that is not informed by practice is neither useful nor interesting; similarly, practice without theory is particularised and uninformative.'* This quotation emphasises the need for empirical work, and the new wave of middle range thinking and theory offers a frame to look at the practice in the field from a practice theory perspective. This approach has only been applied to a small extent in the field of venture capital research.

Practice theory offers an approach to creating meaningful contributions to the understanding of different issues (Whittington, 2011). Applying practice theory can enhance the understanding of for example the social scientific sense of human activity, meaning and rationality including the character of language, power, organisation and transformation of social life (Schatzki *et al*., 2001). In other words, practice theory offers an understanding of human activity as an array of practices. Schatzki *et al*. (2001, pp. 2) offers an example of what joins practice theorists: '*Despite the diversity, practice accounts are joined in the belief that such phenomena as knowledge, meaning, human activity, science, power, language, social institutions and historical transformation occur within and are aspects or components of the field of practices. The field of practices is the total nexus of interconnected human practices.'* This quotation illustrates how the research question can be informed by adopting this approach to understand what is 'happening' between an entrepreneur and business angel before and during the investment process. An investment situation can be described as the involvement of two different individuals trying to understand each other and will be a meeting of different practices trying to integrate with each other. Even though practices are individual to the different individuals, there is still a set of shared practices in a field given they are organised around shared practical understandings (Schatzki *et al*., 2001). Both the individual and the shared practices in the field are interesting to understand better to identify what 'really happens' during an investment process between the business angel and the entrepreneur.

What are practices, then? The understanding of practices and the field of practice in this dissertation will include such actions and interactions as communities and societies, both at a microlevel between the business angel and entrepreneurs to a broader perspective on how different individuals affect the interaction between the business angel and the entrepreneur. Moreover, investigating how these individuals in the communities and societies convey their practices through knowledge, tacit understandings, skills and dispositions. These practices can be expressed through different manners, such as language, writings, actions. The observation of such is, however, not enough, as it is important to ask why, how and when the individuals perform the actions and what they try to achieve through them (Barnes, 2000). The reason practice theory offers an opportunity to understand what goes on in an investment process could be explained by this quotation from Schatzki *et al*. (2001, pp. 51–52): '*What people do often reflects formulations of which they are aware. For what makes sense to them to do often reflects their understanding of (or desire to circumvent) specific rules. Indeed, practices harbour collections of rules that practitioners (or subsets thereof) are supposed to observe*.' The quotation illustrates how a practice theory approach holds the potential to provide insights to practices occurring by and between individuals. In the context of the dissertation, the practices of the entrepreneur and business angel is of interest, especially in relation to the investment process.

Rouse (2007) and Whittington (2011) are advocating some areas in which practice theory is especially relevant. These areas are similar to those found in the ambition of the research question regarding understanding language and discursive practice and the practice of decision-making. Furthermore, the ambition is to understand the communication and actions occurring during the process and how the individuals perceive the situation. The inspiration of practice theory can be found throughout the dissertation. Article one is an example of how practice theory has contributed to the dissertation. The inspiration of practice theory led to the ambition to understand in more depth the characteristics of the business angels, which led to preliminary findings regarding involvement and investment size that are in practice tied to the controllability desired by the business angels. Likewise, the approach allowed the role of the business angel function to unfold in a different manner than found in studies done within for example the functionalist paradigm. This has contributed to new insights into the gatekeeping role in the informal context and further detailed elaborations on how this role is performed for example by business angels and entrepreneurs being matched using 'investor profiles'. Furthermore, the practice theory approach led to the introduction of business models as communication in article two, as the business angels' practices revealed how they would like to receive information matching this thinking and further the knowledge they already had within this field.

3.2. RESEARCH STRATEGY

Field studies and case studies

Following the lines of both the middle range thinking/theory and practice theory, it will be expected to engage in an empirical field to understand 'what is going on'. This is likewise the ambition with the research question and further to identify different approaches to address it. Both case and field studies have their roots in ethnography, with the aim to give further insights on what happens in the specific situation and context. The ambition of adopting the case study approach is to observe and understand individuals and/or groups in their world (Berg and Lune, 2012). The application of case studies is chosen as it fits the overall ambition of the dissertation to understand individuals and investment processes as cases to investigate in depth. This allows an understanding of the uniqueness of each case and furthermore to see if practices or patterns are unique to each case or patterns can be found among the cases (Yin, 2009). The approach will be explained further in this section.

The reason this section introduces both the terms field studies and case studies is that in different disciplines they can have a slightly different meaning. Field and case studies are both part of the field research approach, which shares the same methodological viewpoints as described in the sections above (for further reading on this see, e.g. Ahrens and Chapman, 2006). The difference between the field and case can be explained by field studies consisting of a higher number of cases, and hence being more general than case studies, whereas case studies consist of a few cases and exploring them in depth. They are both still situated in the qualitative domain of research and share the same research approach in most cases. This has led authors like Cooper and Morgan (2008) to state that both are under the general term 'case studies' because the methods are so similar. Field studies are for example applied when the research has an exploratory nature to investigate a field from several viewpoints (see for example Roslender and Hart, 2003), instead of investigating a single case and trying to understand this case in depth (see for example Weick, 1993). Following the ambition of the research question, the research at hand will take advantage of both approaches. The field study inspiration can be found in the ambition to explore a larger number of cases and from different perspectives. Other aspects will be investigated individually and more in depth with the approach inspired by the case study method. Because these two approaches methodologically are very similar, the rest of the section will describe the research approach but under the same term: 'Case studies'.

Case studies have a long tradition within the social sciences and have an established position when conducting research (Silverman, 1985). Case studies have many different definitions in different research fields; Stake (2000) gives one definition as: '*Case studies are a research approach, a systematic and organized way to produce information about a topic, as well as the product of this approach, for* *example, a paper.*' In the words of Copper and Morgan (2008), '*For us, case study research is an in-depth and contextually informed examination of specific organizations or events that explicitly address theory.'* Both quotations illustrate that the case study does not limit which other methods or theories can be involved in the process. Choosing to adopt a case study approach, the researcher's ambition is to investigate a phenomenon in depth within the specific context and inform these through an appropriate theoretical frame. Case studies are often the preferred approach when investigating phenomena with many non-quantifiable variables; actual practices that contain descriptions of ordinary, unusual and/or infrequent activities; and the context around a phenomenon that has influenced or affected the phenomenon being studied (Copper and Morgan, 2008).

The description above could be interpreted as the case study has the span to do research in whatever manner the researcher sees fit. Eisenhardt (1989; 1991), Lukka (2005) and Eisenhardt and Graebner (2007), however, advocate that a case study approach should only be undertaken in the right circumstances. Eisenhardt (1989; 1991) and Eisenhardt and Graebner (2007) explain how theory can be developed from case studies. Eisenhardt (1989) described the theory building from case studies as, '*Building theory from case studies is a research strategy that involves using one or more cases to create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence.'* The main emphasis is that the theory has to be situated in and around the patterns within and across the cases and follow their underlying logical arguments (Eisenhardt and Graebner, 2007). The emphasis is that each case serves as an example of the theory used in the case study, so each case holds the potential to develop or expand the theory further. The usefulness of case studies in developing theory is further emphasised by the possibility of case studies to take either an inductive or a deductive approach (Eisenhardt and Graebner, 2007).

The case study approach in the dissertation is used according to the above-mentioned recommendations. The use of case studies in the dissertation was chosen mainly because of its capability to investigate in depth and contextually individuals or occurring activities. These aspects were for example important when investigating business angels in the Danish context, which is somewhat unique compared with research performed in other countries. For example the case study approach in article four enabled the findings regarding the gatekeeper role within the project Matching for Growth. The case study approach showed how the gatekeeper function is performing different activities than found in previous literature and different contexts. Furthermore, the case study was chosen for both in-depth understanding of each investment process and comparison of the investment processes to find patterns among the investment processes. A survey or other functionalist approach would not regard specifics of each process but accumulate the findings. The case study approach allows finding a context-specific explanation for each investment process as well as finding holistic explanations.

3.3. DATA COLLECTION TECHNIQUES

The dissertation will include different empirical data and hence use various data collection techniques, which will be described in the following section. A dissertation working within the interpretive paradigm and with practice theory, middle range thinking and case studies implies an interest in an empirical investigation. The often-rich empirical context of doing case studies is frequently based on a variety of data sources according to Yin (2009) and Eisenhardt and Graebner (2007), which is also the case in this dissertation. In studies using empirical data, it is important to describe how the data are collected to understand how this has informed the different cases following the lines of Ahrens and Chapman (2006), Eisenhardt and Graebner (2007) and Yin (2009).

Collecting the empirical data in this dissertation has been achieved through interviews, field observations, field notes and archival data. The data collection was performed with the aim to uncover practices of the entrepreneurs and business angels during the investment processes. Because of the inherent confidentiality in following investment processes, some events are documented better than others, depending on the level of confidentiality demanded by the business angels and the entrepreneurs as well as a decision by the researcher. This section will first present the theoretical considerations regarding the different data collection techniques before explaining the empirics obtained and reasons for the specific empirical data collection.

Overall considerations

The sampling approach in the dissertation aims at achieving both theoretical saturation (Eisenhardt, 1989; Eisenhardt and Graebner, 2007) and exploring new findings and hence being data-driven (as found in Glaser and Strauss, 2009). The ambition of such sampling was to understand the theoretically known challenges in the field and to pursue new findings. Using both types of sampling has also been termed purposeful sampling by Patton (1990). Purposeful sampling was adopted in line with the general approach of middle range theory and practice theory explained in the methodology section.

Building upon previous experience (Landström, 1993; Hindle and Wenban, 1999) and according to theoretical recommendations (Berg and Lune, 2012) the choice was to sample primarily through a targeted snowball sample method. The reason for this is that business angels are hard to identify, as no official databases exist. Furthermore, the ambition of getting rich information about the subject is complemented by snowball sampling (Neergaard, 2007). Initially, the sampling and data were gathered in connection with the project Matching for Growth, but the respondents were asked if they could point towards other individuals of interest in the field again to achieve both theoretical and data saturation. The following section will introduce the data collected during the dissertation and how it is applied in the different articles, as the articles utilise different parts of the data.

Preparation of the researcher

Early in the study, it was decided to start with a wide range of different individuals in the field of investments to get a general as well as an in-depth understanding of the context and empirical field. The initial engagement with the empirical field was to give the researcher the right 'language', so the later engagement with the key stakeholders would become more fluent (Berg and Lune, 2012). Before the initial contact was performed with the empirical field, general knowledge was achieved through archival data and literature in the field of business angels and investments– regarding both academic and non-academic material. The material studied included academic journals and articles, but likewise OECD and national reports of investments and different books/publications relevant to the research. The idea was to obtain a general knowledge of the field before entering it and engaging with the different key stakeholders, the business angels and entrepreneurs.

Data collection and the project Matching for Growth

The dissertation was partly financed by a government project called Matching for Growth, which was a collaboration between Aalborg University, private stakeholders and the government (Vækstforum). The collaboration between the parties enabled the researcher to gain access to an otherwise anonymous and difficult environment. The researcher was part of the project trying to help understand and identify how the project could be improved by introducing knowledge from the existing academic literature. Furthermore, the interviews and observations were given to the project so that the project would benefit from the information and potentially could improve its ambition of matching private investors and entrepreneurs. The nature of the project will be briefly described to explain the aim of the project and the collaboration with the researcher.

The project Matching for Growth's aim was to ensure a better matching between investors and companies with a growth potential. This would be achieved by increasing the invested capital, both knowledge and financial, to the entrepreneurs and company owners. The objective of the project was to understand the business angels in North Jutland and create a matchmaking platform for business angels and entrepreneurs. The project was started from scratch trying to identify both known business angels in the area as well as trying to reach those wealthy individuals who were interested in making an investment in a non-listed company. These wealthy individuals with a desire to invest are regarded as business angels that have not found the right opportunity or virgin business angels. Activating these individuals could potentially improve the overall investments made in the region.

This involvement with the project allowed the researcher to join all meetings and perform interviews with people inside the Matching for Growth network. At the end, the project had encompassed more than 40 stakeholders, 60 private investors, 150 potential entrepreneurs, having workshops with approximately 20 entrepreneurs and arranging more than 10 investment meetings. It was from this network that the samples for the different articles and investigations were drawn, which is further explained in the following and each article.

Interviews

Much of the primary empirical data has been collected through interviews in different formats, including individual, group and workshop session interviews. The individual interviews were performed with business angels and central stakeholders in the investment milieu in Denmark and North Jutland. The group interviews involved business angels and the investment processes between business angels and entrepreneurs. One of the reasons that interviews are the preferred data collection technique in research using case studies is, according to Eisenhardt and Graebner (2007), that they are a highly efficient method of collecting rich data. Interviews are often chosen to ensure plausibility and 'thickness' in the data when the ambition is to go in depth with a single individual or using numerous knowledgeable individuals with different views of the phenomenon (Eisenhardt and Graebner, 2007; Lukka and Modell, 2010).

Interviews are often considered retrospective sense making. This entails that the interviewees are relying on their memories, which might give modified perceptions of the 'story' they are telling. The interviewee might recall positive aspects of his/her own decision, whereas for example decisions with negative results or outcomes might be neglected (Berg and Lune, 2012). This might be intentional or unintentional as the interviewee could have had a different recollection of what happened during a specific event, not on purpose but simply because of the interviewee's perception of things. Furthermore, if the information the interviewee is sharing is of a confidential or sensitive nature, the interviewer needs to develop a position of trust to obtain the information (McKenzie, 2007). In other words, the information obtained might sometimes be factually inaccurate.

However, retrospective sense-making bias can be mitigated when combining retrospective and real-time cases (Leonard-Barton, 1990). The problem of ensuring thickness and avoiding retrospective sense making are concerns that have been addressed during the data collection process. This has been achieved by using multiple interviews with different individuals in the investment milieu, ensuring different perspectives on the queries and not relying on one sole informant. Similarly, the problems and challenges addressed by business angels and entrepreneurs were investigated through the investment meetings and the interviews, hence mixing the sense making of the individuals with real-life cases, as previously advised by Leonard-Barton (1990).

The individual interviews and facilitating of the workshop interviews was performed using a semi-structured interview approach with the interviewer having created an interview guide before the meeting, but allowing the conversation to flow to relevant topics in line with Kvale (1996), Kreiner and Mouritsen (2005) and Berg and Lune (2012). The same approach was applied in the focus group interviews, but here the interest, in line with Berg and Lune (2012), was to try and facilitate discussions around certain topics. The first of the group interviews was also arranged so the researcher could learn ‘the language’ of the business angels. Different interview guides were developed with the inspiration theory, fellow researcher colleagues and the individuals/practitioners in the field. Before an interview guide was used in an interview, the guide would be discussed both with fellow researchers and practitioners trying to ensure the intended data were obtained. Following each interview, a quick summary was made to capture the most important aspects of the interview and to note anything that the voice recorder did not capture such as body language, following the recommendations of Eisenhardt (1989).

The approach mentioned above of discussing the interview guide with colleagues and practitioners was chosen to try to mitigate some of the bias inherent to the interview technique (Kvale, 1996). One of the challenges of interviews is the interviewee would subconsciously try to give representative answers to the questions, meaning giving answers that are ‘right’ within the boundedness the interviewee is situated in and sometimes using opportunism (Kreiner and Mouritsen, 2005). This challenge was mitigated during the interviews by repeatedly asking for practical examples of the answers given by the interviewee, thus enhancing the probability of practical answers instead of representative answers (see Czarniawska, 2001). Likewise, the findings of the interviews were discussed with practitioners, researchers and again with the interviewees to ensure that the understanding was correct.

Empirical

The interviews used in the dissertation consist of 11 interviews with key stakeholders and 16 with business angels. Besides these interviews, a lot of interaction and informal talks were performed, this will be explained in the ‘field observation’ section. The interviews were always performed at the convenience of the respondent, which could be at an office, private home or the researcher’s university. The interviews with the key stakeholders were conducted at the beginning of the investigation from late 2012 to early 2013. The interviews with the business angels were conducted in the period early 2013 to early 2014. The specifics regarding each group will be explained in the following sections.

Key stakeholders

The 11 interviews were performed with different stakeholders around the investment market in both the local and national context. The goal was to get a broad understanding from the national stakeholders and an in-depth understanding of the local stakeholders. This ambition led to interviews with for example the national interest organisation for business angels in Denmark, the Danish Venture Capital and Private Equity Association. Going from the national to a more regional perspective, different stakeholders were interviewed, like regional business angel community managers. This was performed to understand potential differences between the national and regional levels and to provide a further understanding of the investment market. Following this, interviews were conducted with local stakeholders like business councils, corporate executives who invested in local companies and local business brokers.

The sampling strategy was to interview key stakeholders until information became redundant and little extra was added by each interview, hence achieving ‘thickness’ in the desired knowledge (Eisenhardt and Graebner, 2007). The knowledge desired included topics such as the state of the investment market with a focus on private equity, current initiatives to help entrepreneurs achieve finance with a focus on business angels, plus how the different stakeholders themselves navigated the investment market in Denmark and their experiences in doing so. Furthermore, the ambition was to verify the data collected from the key stakeholders through archival data when possible to address the limitations in interviews as stated in the section above.

The following table illustrates the 11 formal interviewed stakeholders. Because of confidentiality, all names are anonymous. Numbers in brackets explain different organisations as BA network (1) is the same, but BA network (2) is different from BA network (1).

CM	63:59	Central government organisation
CL	82:41	Venture capital manager (1)
NN	60:01	BA network (1)
JR	79:45	BA network (2)
PF	84:36	BA network (1)
TV	75:18	Business Council and BA network (3)
JV	52:25	CVC investor (1)
UH	57:50	CVC investor (1)
GP	48:07	BA interest organisation
SP	83:15	Venture capital manager
LJ	67:37	BA network (4)

Table 2–Interviews with key stakeholders

As previously stated, further meetings were attended and stakeholders spoken to, but the above includes the formally interviewed stakeholders, which has primarily been used as the empirics in the articles. It is acknowledged that the general information obtained from the other meetings inspired thoughts and ideas but as a part of the researcher's general knowledge.

Workshops and focus groups

Before conducting the interviews, three workshops were attended with key stakeholders and business angels, in the context of the project Matching for Growth. These workshops were attended to give a deeper insight into the individuals before conducting the interviews. The knowledge obtained from the workshops inspired different parts of the interview guide applied during the business angel interviews. These focus groups were attended in late 2012 and early 2013. The intention in attending the focus groups was to achieve the knowledge and language of the business angels as proposed by Berg and Lune (2012) before engaging in face-to-face interviews with the business angels and somewhat the key stakeholders as the focus groups overlapped with the interviews with the key stakeholders. The participants at the workshops were primarily business angels, potential business angels and some key stakeholders.

The first workshop was an open session where all people could attend, as an open invitation was sent out through various media. Thirty-three people attended, representing researchers, business angels, business owners, government representatives and interest organisations. The general topic was regarding funding of SMEs in the Danish context and how to achieve this. The workshop was both a promotion of the Matching for Growth project but also a chance to have initial discussions among a variety of different stakeholders. The discussions raised during the open session would initiate the formation of practical knowledge about the field for the researchers and project representatives. The session was likewise used to create connections with different stakeholders in the investment field, which could be utilised when invitations and future interviews would be conducted.

The second workshop started with an open session where the invited individuals could come with input regarding the investment market in Denmark and in particular North Jutland and what a matchmaking project could be like in this area. The invitation was sent out through key stakeholders such as representatives of government funds, banks, accountants, interest organisations and personal network of known business angels. As previously mentioned, the workshops were a part of the Matching for Growth project and were primarily concerned with topics related to this, but also of relevance to the researcher. After the plenary session, the attendees were randomly divided into four different groups, which would discuss the topics introduced and raised during the plenary session. The topics included barriers to being an investor in the current context, how it could be easier, how could potential investors be activated or more active and similar topics. At the second workshop, 28 persons attended with 24 being potential business angels and 4 primarily key stakeholders. The knowledge of this session would be carried over to the third workshop, contributing to the interview guide towards the business angels and to the general knowledge of the researcher.

The third workshop was regarding getting more detailed information regarding the decision-making and important information for the business angels and similar venture capital investors. At the session of 13 business angels, 4 venture capital managers and 1 representative from a government growth fund, the business angels were invited from the second workshop and the rest were the choice of the Matching for Growth management. The ambition with ‘sampling’ the business angels who also attended the second workshop was to build on the knowledge already obtained from them. The attendees were split into two equal-sized groups. The workshop was used first to let the different investors reflect upon which information was the most important during the investment process and their decision-making and later turned into the focus of private investors, such as business angels. This, in turn, would help both the project and the researcher understand preliminarily which information is relevant during the investment process. Furthermore, the benefit of using the focus groups was acquiring insights through the discussion the investors had with each other regarding which information was most important and why. These discussions would carry over into themes in the interview guide towards the business angels and further add to the researcher's knowledge helping understand situations occurring during the investment sessions later in the project.

The workshops contributed overall to the dissertation by improving the general knowledge of the researcher and contributed to forming the topics in the interview guide alongside theoretical considerations. The focus groups were an interesting initial information source as the discussion happening during these sessions cannot happen during face-to-face interviews. Furthermore, the initial workshops allowed access to the key stakeholders and access to their networks, which could be used for the targeted snowball sampling applied at the second workshop and the interviews with the business angels.

Business angels

The approach towards the main individuals in the dissertation, the business angels, has likewise been achieved in different ways, both formal and informal. The main interview data used in the articles and the dissertation is the formal interviews with the business angels. The approach was like the previously described semi-structured interview approach having prepared an interview guide, but allowing the conversation to go into relevant themes in accordance with Kvale (1996) and Kreiner and Mouritsen (2005). As stated in the above, the interview guide was both inspired by the workshops but likewise from the theoretical considerations found through the literature review.

The sampling of the interviews followed a snowball sample (Neergaard, 2007) as previously stated, and the interviews were conducted until a satisfying thickness was achieved in the data (Eisenhardt and Graebner, 2007). However, it was chosen to limit the formal interviews to business angels engaged in the Matching for Growth project. The reason being that following the business angels in the project would allow the researcher to follow them through the investment process as being part of the ambition of the dissertation. This would cause potential bias in the findings of the sample. Trying to mitigate the bias, the sample was compared with previous findings in the Danish context, which evolved into article 1. This showed that the snowball sample was representative compared with the general findings, but still a limitation of the chosen sample strategy. Furthermore, at the different meetings and arrangements, informal conversations would occur with other business angels who confirmed findings of the sampled business angels and the findings regarding these.

In the context of the matching and investment processes, informal conversations would regularly happen with the interviewed business angels. When such informal conversations happened, field notes would be taken either during or after the interaction. The interviews and the follow-up conversations during the investment processes with the business angels will be further explained in the field observations section.

The following table illustrates the 16 formal interviews with the business angels. Because of confidentiality, all names are anonymous.

ES	63:59	BA
KK	83:00	BA
CØ	60:00	BA
LK	60:31	BA
SK	49:07	BA
CH	57:27	BA
AJ	42:43	BA
JW	69:01	BA
OK	65:07	BA
KS	57:46	BA
JR	38:30	BA
NJ	79:46	BA
BP	67:48	BA
MK	59:14	BA
TS	79:07	BA
PA	71:11	BA

Table 3–Interviews with business angels

Field observations and notes

The field observations are applied in the dissertation to obtain real-time data from for example the investment processes. Field observations are particularly suited for investigating processes (Brundin, 2007). The aim was to collect the data as it occurred during the events, including data such as expressions, feelings and articulations, as these can be important signs during decision-making processes. Hence the emotions were important to capture, which is difficult to do outside field observations. Field observations and notes were made on several occasions, whether it was by choice of the researcher, an act of circumstances or because the interviewee would not allow voice recording. However, when these circumstances arose, the researcher tried to make 'running' notes of what was going on, both involving observations and interpretations by the researcher following the guidelines of Van Maanen (1988) and Eisenhardt (1989). Eisenhardt (1989) especially emphasises the importance of both writing down the observations and further what the researcher thinks or observes is going on. This is in line with the thoughts and recommendations when applying a practice theory approach (see the section on practice theory about the observed and not observed).

After each field observation, the researcher would write a quick summary, noting what the researcher would have in fresh memory as the most important elements of the meeting/observation (Eisenhardt, 1989). The field observations were applied for example when the researcher met with people outside the formal grounds, which could happen anywhere at any time. Each time the researcher would try to make a note of it as a summary after the meeting. This approach was also taken when the meeting had a more informal character, and the researcher did not want to disturb these settings, for example when the researchers had meetings with the business councils in the different parts of North Jutland. This approach was chosen because the meetings had an informal nature and the researcher sitting and taking notes could affect the meetings. Furthermore, the meetings with the business councils became interesting after comparing the field notes written after each visit where some interesting patterns started to appear (see article 4).

Furthermore, the presence of a researcher will often have a certain influence on the individuals. The influence of a researcher is called the Hawthorne effect, where the individuals will alter their normal or usual routine because of the presence of the researcher. Most of the time, awareness of the researcher is short lived and the behaviour returns to normal, however, the researcher needs to be aware of the possible alterations. The alterations might include aspects as over-performing or doing actions that are in the individual’s favour, which could be consciously done or even subconsciously. The influence of the researcher in the observations was attempted to be minimised as the aim was to disturb the meetings as little as possible. Reducing the influence of the researcher was done to create the most natural setting and natural behaviour from both the entrepreneur and business angels, so their practices would be more similar to the situations not observed by a third party. For example during the investment meetings it was always planned so the entrepreneur would make their pitch at the beginning, after which the presence of the researcher was not perceived to influence the individuals.

Empirical

The dissertation collected data from a variety of different investment processes. The ambition was to follow all the investment processes occurring during the Matching for Growth project. The number of entrepreneurs engaging in the investment processes amounted to 20, but seven of the processes was quickly terminated due to not being able to meet the criteria or not being relevant to the business angels. Hence, the number of actual investment processes that were observed as a process and not just an initial meeting amounts to 13. These 13 investment processes were observed over a period of around two years from mid-2013 to late 2015.

Furthermore, meetings with municipal business councils were attended again to understand the investment market, but the observations were likewise chosen to see any emotions and symbolics occurring during the meetings with the Matching for Growth representatives. The emotions were important in these instances as the government participants often have to be representative of the government demands, but might show differently in their attitudes. The meetings with the business council occurred from early 2013 to late 2015, with a total of 14 meetings observed.

Investment processes

While the business angels are regarded as the primary individuals, the investment processes are regarded as the primary events from which data were collected. The investment processes involved both the business angels and the entrepreneurs. Furthermore, sometimes facilitators from the project Matching for Growth would be present during the processes. While the business angels were formally interviewed, such formal interviews were not conducted with the entrepreneurs. The involvement of the entrepreneurs was documented as part of the investment process. Some entrepreneurs only had a short interaction period before being rejected, while others had a full duration and obtained an investment from the business angels. The entrepreneurs that were either rejected by the project or whom themselves declined to meet with the business angels never became an 'investment process' in the data collection.

In total, the data collection included 13 investment processes. Following the previous explanation regarding the business angels, the sampling strategy in the dissertation was only to use the investment processes within the Matching for Growth project. The argument is that these processes would involve the known business angels and hence the decision-making occurring during the process would be better understood and could elaborate further on the findings regarding both the business angels' decision-making and the investment process in depth. The researcher attended a few other investment processes; however, these were at different stages of the investment process and with no previous knowledge of the individuals. These were used to confirm to the researcher that the investment processes observed during the Matching for Growth project were similar to processes found in different contexts. Because these other investment processes were not recorded or followed at length, the decision has been to not include these as data in the dissertation but acknowledged as part of the researcher's general knowledge.

The investment meetings were the data points with the most detailed data collection. The investment meetings would ideally have been video recorded; however, in some instances, either the business angels or the entrepreneurs were uncomfortable with this, so instead a voice recorder or field notes would be chosen.

The meetings were captured in the most detailed way possible, which meant that five investment meetings were video recorded, four were voice recorded and four with only field notes possible. Likewise, the investment meetings were used to ensure quotations from the entrepreneurs and business angels, which were used in the articles. Outside the investment meetings, a variety of data were collected from the investment process using field observations and notes. It was not possible to record such spontaneous sessions, but the researcher would make notes of the event as soon as possible. These sessions were used to validate the data obtained during the investment meetings and the general impressions from the different individuals participating in the investment processes. The ambition was always to try to get instant feedback from the participants in the investment meetings and further follow-up via telephone or mail. This would be done to achieve more thickness in the empirical findings and validate the observations occurring during the investment meetings. These observations will be used to describe the process in rich detail, but only rarely will be used to provide quotations, as the notes rely on the researcher's memories and not on a recording that can be revisited.

The following table illustrates the 13 investment processes and their status at the end of the project Matching for Growth. Because of confidentiality, all names are anonymous.

Case	Industry	Invest. Meeting in GC	BA Interest	BA investment	Other investment
1	Electronics		X	X	
2	Safety equipment	X	X		
3	Manufacturer				X
4	Electronics	X	X		
5	Software	X	X	X	
6	Farming equipment	X	X		
7	Furniture	X	X		
8	Sports goods		X	X	
9	Medical equipment	X	X		
10	Food vending	X	X		
11	Logistics	X	X	X	
12	Gaming	X	X	X	
13	Logistics	X	X		

Table 4–Investment processes

Business councils

The data collection from the policy-backed project Matching for Growth was performed to get an understanding of how such a project interacts with the local stakeholders and investment setting. In the informal context found in North Jutland, the business councils are the primary stakeholders that the entrepreneurs turn to for governmental support. This support includes for example getting ready for funding. The meetings attended between the project and the business councils were part of the project's process. Hence, the meetings were not performed as formal interviews.

Instead, it was decided to use observations and field notes during the meetings. During the project and the research, some business councils were engaged more than once, and most of these instances with multiple meetings included one initial meeting and then follow-up meetings. The initial meeting was typical to identify how the business council stakeholders felt about a project like Matching for Growth being implemented in their interest field.

The initial sampling strategy was to interview all municipal business councils in North Jutland, but this was not possible as some declined the invitation. The follow-up interviews were conducted to identify how the business council stakeholders perceived the progress and results of the project. In other words, the second interview was only initiated if the business council had a company that went through an investment process, as those not providing or having suitable companies would not be able to evaluate the project.

The following table illustrates the distribution of the 14 meetings attended and observed with the business councils. Because of confidentiality, all names are anonymous.

Business Council	No. of meetings
Business Council 1	1
Business Council 2	2
Business Council 3	3
Business Council 4	1
Business Council 5	2
Business Council 6	1
Business Council 7	1
Business Council 8	3

Table 5–Business Council meetings attended

Archival data

Archival data were also employed as part of the data collection, as is often seen in case studies (Eisenhardt and Graebner, 2007; Yin, 2009). Archival data include both public and private records of information giving an abundance of information about different aspects. Typically, public records are prepared for a given audience, whereas private records do not necessarily have a targeted audience. The attribute of archival data is that much of the public records are made in standard forms, which is easy to obtain and compare. However, archival data might not always tell the full truth as it can be fabricated for a specific purpose not informed to the audience or tell an incomplete story (Berg and Lune, 2012). This issue regarding archival data was mitigated in the dissertation by comparing the archival data, important to the findings, with other data sources.

Empirical

The aim in using archival data is to follow up on other data with historical documents to identify if the interviews for example tell the same story as the archival data. The archival data in the dissertation were likewise used to explore the background information of the different business angels ensuring the practical examples they gave during the interview could be confirmed. This gave validity to the business angels and likewise helped confirm that the retrospective sense making from the interviews was mitigated to an extent. Furthermore, the archival data were interesting when comparing the difference in the business plan/presentation presented at first to the Matching for Growth project and the business plan/presentation that had developed into the presentation at the investment meetings. These findings have not made it explicitly into the articles, but are implicitly used when addressing the change occurring during the investment processes, such as in articles two and three.

The archival data, however, would also be used in the project as a way to understand better some of the decisions made by both the business angels and the entrepreneurs. An example of this could be talking about a business plan of a specific company with a business angel and asking what is good and/or bad (as seen previously in the field, e.g. Bouwman *et al.*, 1987; Mason and Stark, 2004). However, an explicit account of this has not made it into the articles as little contribution was made, but the insights of this process were for example used by the gatekeeper function in article four when initially considering which investment proposals should be passed on or turned down.

3.4. EMPIRICS IN THE ARTICLES

The articles cover different aspects of the research question with various theoretical approaches. The different approaches mean that different parts of the empirics have been adopted to address the ambition of the article and create plausible findings and contributions. All articles are in various ways using the information gathered through the interviews with the business angels. The overall ambition with the empirics applied in the articles was to achieve thickness in the findings (Eisenhardt and Graebner, 2007), plausible explanations (Lukka, 2005) and theoretical saturation (Eisenhardt, 1989) in each article. The specific application of the data in each article can be found in the given article to avoid redundant reading. However, the next three paragraphs will give a brief overview.

The first article applies the interviews with business angels and the stakeholders in the investment market to investigate the characteristics of business angels in the Danish and particularly the North Jutland context. Further, the article draws on archival data regarding previous findings regarding the characteristics of Danish business angels. The use of the archival data together with the interviews enriches the findings in the archival data as well as producing new knowledge regarding the theories in the field.

The second and third articles likewise use the interviews with the business angels. Furthermore, the articles apply the data collected from the investment processes and use quotes from both the entrepreneurs and business angels. The data collected from the interviews with the business angels together with the data collected during the investment processes are combined to provide insights into the investment process. In the second article, the empirics are used to explore how the investment processes are affected by introducing a different communication framework by comparing findings from the different investment processes. The third article uses the insights obtained from the interviews and investment processes to provide a new value understanding frame to enrich the knowledge about the decision-making going on during investment processes.

Finally, the fourth article applies most of the data to investigate the role of the gatekeeping function in the Matching for Growth project. Initially, the empirics are used to understand the needs for the role through the interviews with key stakeholders and business angels, followed by field observations of the gatekeeper function during the investment processes to explore the activities occurring. The empirical findings hence provide insights on how the gatekeeping role is performed in a context of a matchmaking program such as Matching for Growth.

CHAPTER 4. EMPIRICAL CONTEXT

This chapter introduces the empirical context, being a study confined to Denmark and more specifically the region of North Jutland. First, this chapter briefly explains the setting within the context from a national level regarding entrepreneurship, with a focus on the issues relevant to the dissertation. The aim is not to go into detail regarding the overall entrepreneurial *milieu* in Denmark, as this is outside the scope of this dissertation. Instead, the focus is on the issues addressed in the dissertation. Second, this chapter introduces recent insights regarding the Danish business angel segment and illustrates the differences and similarities between the studies performed in the period 2002 to 2015. Finally, the chapter reflects upon the choice of the empirical context and the topics addressed in the dissertation.

The investment environment in Denmark

The Danish government is highly focused on entrepreneurship and growth in Denmark. These entrepreneurship activities are organised around a central national agency called the Danish business authority. Each of the five Danish regions has its own business development centre and each municipality has its own business council (Erhvervsstyrelsen, 2012). Entrepreneurs, and especially high-growth ventures, play an important role in the Danish economy, enabling job creation, fiscal growth and general development - ensuring new competitive products and concepts (Erhvervsstyrelsen, 2012). The ambition of the Danish system is to have local business councils aimed at assisting local entrepreneurs with relevant problems and solutions and to have more specific knowledge located in the regional centres (Erhvervsstyrelsen, 2016). These local and regional centres should act as intermediaries for a number of programmes and subsidy schemes, which are available for entrepreneurs and SMEs. The local business councils and regional development centres are the backbone of the business services system in Denmark (Erhvervsstyrelsen, 2016).

Denmark has previously been one of the top OECD countries regarding high start-up rates for both new enterprises and new employers (Erhvervsstyrelsen, 2012). However, recent statistics show a declining tendency during the period 2008 – 2012, where Denmark went from 10% new start-ups to less than 8%. This is a relatively high loss compared to the other Nordic and European countries, which have only gone down to around 4-5% (Erhvervsstyrelsen, 2012). A natural reason for stagnation or decline in many countries was the global financial crisis from 2008 to 2014. Furthermore, in recent years Denmark has experienced some issues regarding generating high growth companies; the percentage of high-growth companies was 0.3% in 2009, which is very low compared to the average of OECD countries (Erhvervsstyrelsen, 2016). One obstacle to high growth companies is access to venture capital (Erhvervsstyrelsen, 2012). A possible way to alleviate this problem is through private equity or venture capital (DVCA, 2016).

Denmark is traditionally an attractive place for entrepreneurs to start new ventures and has a consistently high score on the OECD list of general conditions for entrepreneurship (Erhvervsstyrelsen, 2012). Denmark in particular scores highly in factors such as general market conditions and knowledge edifications (Erhvervsstyrelsen, 2012). Even though Denmark in general scores highly in the OECD scores, the statistics reveal a trend that “access to finance” is the lowest scoring part of the general conditions in the Danish context (Erhvervsstyrelsen, 2012; OECD, 2016). This is substantiated by a report from the Danish Venture Capital and Private Equity Association (DVCA, 2016) using OECD numbers to illustrate that Denmark is falling behind in the ability to create new entrepreneurs, because of the limited access to venture capital compared to other OECD countries. Addressing the problem regarding access to finance is not a new phenomenon and has been emphasised previously by Christensen (1998), Vækstfonden (2002) and Erhvervsstyrelsen (2012), to mention a few. The Erhvervsstyrelsen (2012) report identifies “access to finance” as an important focus for the Danish government and would create initiatives to support entrepreneurs who face the challenge of obtaining finance for their ventures. One way of addressing these problems could be to enable more business angels, as this segment has unfulfilled potential compared to other countries (DVCA, 2016).

North Jutland

North Jutland is a region of Denmark and is in the context of entrepreneurs and investment known for being a high-functioning ICT-cluster (BrainsBusiness). Entrepreneurship and new entrepreneurial ventures are most located around the biggest city Aalborg, but are spread-out throughout the region (Vækstforum, 2015). A report by the regional council states that more than 1,000 companies in North Jutland are growth companies, however they only make up six percent of the overall total of around 18,000 private companies, which is why the council concludes there is huge potential to create more growth companies in the region (Vækstforum, 2015). Furthermore, the report shows that the growth-companies are essential to the region, as they contributed with over 4 billion kr. to the gross value added to the region, equivalent to 75% of the total growth within the private sector (Vækstforum, 2015). A little over 50% of the companies in North Jutland have been in contact with the business support system being either the local business councils or the regional centres when they needed assistance in any form (Vækstforum, 2015).

The region of North Jutland is currently facing some of the same barriers regarding access to finance, previously mentioned as being nationwide problem. A report regarding the entrepreneurial landscape in North Jutland argues that companies in the region are facing constraints regarding access to finance but are on average with the rest of Denmark (FORA, 2007). However, the report does identify that the region has a particular weakness regarding infrastructure in the entrepreneurial environment (FORA, 2007). The growth-companies and potential growth-companies face problems when they have to obtain finance for their further development. This is especially the case for knowledge intensive companies (FORA, 2007). These companies also face barriers regarding obtaining relevant knowledge capital for their companies, when having to expand or grow beyond their entrepreneurial team (FORA, 2007).

Danish SMEs and business angels

The number of Danish SME's seeking finance was at a very low point in 2014, where only 15 percent were looking for a financial investment. The numbers were 27 percent in 2010 and 23 percent in 2007. (Vækstfonden, 2015a) This could be due to the companies being more robust after the financial crisis or because the companies expect to be rejected by the bank (Vækstfonden, 2015a) However, it does pose the question of whether the SMEs are aware of all the potential opportunities for obtaining external financing to initiate their potential growth trajectories. The companies that do seek finance mainly look towards bank financing as 75 percent are following this option and only 25 percent are trying other types of financing such as venture capital, crowdfunding and so forth (Vækstfonden, 2015a). Furthermore, the statistics show that the smaller the balance sheet total of the company, the harder they have getting bank finance (Vækstfonden, 2015a). This illustrates the Danish investment market where the smaller SMEs have the highest difficulties getting finance in terms of the traditional method of bank finance.

The investments made from other sources than the banks are typically in the form of venture capital funds and business angel investments. In 2014, the venture capital funds invested around 2.000 million kr. in Danish and foreign companies and around 2.800 million kr. in 2015 (Vækstfonden, 2016) However, it should be noted that around 700 million kr. is from two large funds, Novo and Lundbeck, who primarily invest in foreign companies (Vækstfonden, 2016). Of the total investments around 450 million kr. in 2014 and 500 million kr. in 2015 were invested in Danish companies (Vækstfonden, 2016). The investments primarily (80 percent) go to seed and start-up companies and of the 500 million kr. 96 million kr. go to new investments (Vækstfonden, 2016).

Business angels in the Danish context

There have been some studies of the Danish business angels with different aims, some made by consultants in regional areas (Keystones, 2014;), an organisation (DVCA, 2016) and some on a national basis (Vækstfonden, 2002; Vækstfonden

2015b). There has not been any systematic data collection in relation to business angels from the UK, USA and other countries. The first nationwide study was conducted by Vækstfonden (2002) and examined the characteristics of business angels in Denmark. It sampled 76 business angels from the Danish business angel networks, whereas the second nationwide survey Vækstfonden (2015b) is an aggregated report sampling 82 business angels in different contexts. In the following section, the studies are presented to provide a general introduction to the business angel segment in Denmark.

Findings in the nationwide reports Vækstfonden (2002; 2015b) illustrate the role and characteristics of the Danish business angels. They are generally males in their 40-50's who have excess capital to invest in non-listed companies. The majority of business angels have capital assets to the amount of 20 million kr. or less. Of this capital, they have reserved approximately 30% to non-listed companies, however 45% of the business angels have only utilized 10% of the capital they are willing to invest with (Vækstfonden, 2002). This amounts to a total investment size of 1,5 billion kr. from the sample of 76 business angels. This indicates a rather large unexploited potential among the Danish business angels. In 2002 business angels invested 325 million kr. (Vækstfonden, 2002) and 120 million kr. in the first half of 2015 (Vækstfonden, 2015b).

The number of business angels in Denmark is difficult to estimate. Christensen (1998) estimated 1,000 in 1998, whereas Vækstfonden estimated 1,700 in 2002. Vækstfonden's (2002) results show that the 76 business angels have contributed to establishing 200 companies during their time as investors and invested in more than 500 companies in total. Furthermore, their primary source of financial capital originates from the sale of other companies. Business angels are motivated by a financial return on investment, but also emphasise motivational factors, such as personal satisfaction and "having fun" (Vækstfonden, 2002). The business angels identified in the survey by Vækstfonden (2015b) make, on average, two investments per year and with an average investment of 2-4 million kroner a piece. The general focus of the business angels leans towards ICT, with over 50 percent having made investments in this sector.

The Danish business angels invest within almost all industries in Denmark and are looking at companies in all growth stages and give no preferences to small or big companies (Vækstfonden, 2002). The 2015 study (Vækstfonden, 2015b) elaborates on this, as their results show business angels investing in ICT are primarily investing in seed companies (46%) whereas business angels with a preference towards industrial companies typically invest in later stage ventures. The investment horizon the business angels are looking at is typically around 3-6 years, during which time they most often have an active involvement in the company, spending ½-3 days a week as part of the board of directors in their companies (Vækstfonden, 2002).

The geographical distance to the companies the business angels have invested in plays an important role, as 66% of them indicate they prefer investments “close to home” so they more easily can have an active involvement (Vækstfonden, 2002). This is elaborated by the 2015 survey (Vækstfonden, 2015b), which shows that the highest population of Danish business angels is located around the capital Copenhagen, with 41% of the respondents living here, opposed to six percent in North Jutland and two percent in the Seeland region.

The business angels aim for different sizes of equity when investing in companies, where the primary objective is to have enough equity to secure an influence (Vækstfonden, 2002). More specifically, the 2002 study show that 33% of the angels prefer a share of 10-25% ownership, 25% expect a share between 25% and 50% and 21% state that the size of ownership is not important (Vækstfonden, 2002).

The 2002 study of the business angels shows they typically expect a yearly ROI around 10-30%. Whereas, the 2015b study shows the ROI expected by the business angels fluctuates quite a lot, ranging from 29% expecting a multiplication effect of 3-5 of their invested capital to 24% not having a specific ROI demand and 13% not knowing. Generally, the business angels have a strong investment preference, but can diverge from this if they perceive the entrepreneurs as particularly trustworthy or have a very positive intuition about the investment case (Vækstfonden, 2002).

Concerning the deal flow, the Danish business angels received approximately three business plans a month in 2002, primarily originating from private networks; they made an investment in four percent of the cases (Vækstfonden, 2002). This has declined in the 2015 study, showing that the business angels in general receive around 14-21 investment cases a year, whereas the more experienced (more than nine years) receive higher amounts (Vækstfonden, 2015b). 41% of the business angels argue that it is hard to identify possible investment opportunities (Vækstfonden, 2002).

A preference towards syndicating is present among the business angels, as 66% in 2002 were looking to syndicate their investment and 79% were trying to do so in 2015. On the other hand, eight percent of the business angels would prefer to invest alone in 2002, whereas the number in 2015 was 21%. The reason for syndication is often trying to attract additional capital or competences, as well as to spread investments and to reduce the risk for the individual business angel (Vækstfonden, 2002).

CHAPTER 5. INTRODUCING THE ARTICLES

The dissertation consists of four articles that provide the primary findings. Each article has its own contribution and combining the findings of the articles will inform and answer the research question. The articles are all related to the research question and originate from the general theoretical and methodological setting previously described. The articles examine different aspects of the investment processes, decision making and environment of business angels from different perspectives, both theoretical and methodological. The aim of each article will briefly be explained in the following section to create an overview, but kept brief with the goal of avoiding too much redundant data.

Article 1)

The first article is a classic study within the research field regarding the nature and characteristics of business angels. However, the study is investigating an informal and unstructured context, which has received little attention in Europe. This context is found in Denmark and especially in the region of North Jutland, which is why this was chosen as the primary data collection area. The aim of the study is to explore the characteristics through comparison between previous Danish surveys (Vækstfonden, 2002, 2015) to the findings in the data collected through interviews. This is done to find similarities and differences both within the Danish context and with the characteristics of business angels around the world, in order to provide insights into the scarce research done in the informal and unstructured context. This is achieved by adopting a qualitative approach, interviewing 16 business angels. The research contributes with new insights: largely similarities, but also some differences between the findings among the Danish and international business angels. Moreover, the article investigates some preliminary findings regarding connections between some characteristics and the notion of controllability. Furthermore, the article investigates the characteristics according to their investment stage, inspired by Sohl (2012) and identifies some early indications of different characteristics considering the investment stage.

Article 2)

The second article investigates how communication and information are conveyed between the business angel and entrepreneur during the investment processes affecting the business angels' decision making. Studies have shown how inferior information quality is an investment barrier between business angels and entrepreneurs (Fiet, 1995; Mason and Harrison, 1996; Mason and Stark, 2004; Hsu *et al.*, 2014). Likewise, studies have shown how business angels look for different information than other types of investors (Mason and Stark, 2004). Furthermore, studies have shown that the traditional business plan is not as important as previously perceived (Karlsson and Honig, 2009). Instead, business angels put a greater emphasis on entrepreneurial credibility (Maxwell and Lévesque, 2010) and the perception of the entrepreneur (Huang and Pearce, 2015). This credibility and general perception of the entrepreneur affects the decision-making in the investment process, especially in the communication with the business angel. To investigate this information and communication challenge, the second article adopts a novel way of understanding this by introducing a common understanding framework, inspired by Huang and Pearce, (2015) and O'Neil and Ucbasaran, (2016).

The article introduces the theoretical framework to develop an understanding of the communication and information challenge. Initially, the article identifies traditional problems such as poor quality information (Mason and Stark, 2004; Hsu *et al.*, 2014) and bad communication (Cornelissen *et al.*, 2012; Huang and Pearce, 2015) that are present among the Danish business angels, thus affecting their decision making. This changed with the introduction of a mediator or a common understanding framework between the entrepreneur and business angel, which enables a better understanding between them. The framework chosen to best suit the demands of the business angels was the business model canvas (Osterwalder and Pigneur, 2010; Oyedele, 2016). The article is executed by interviewing 16 business angels, 11 key stakeholders and further observing and following 13 investment processes. The article contributes to the growing literature of a common understanding between business angels and entrepreneurs during investment processes that is affecting the decision making of business angels in a positive manner (Huang and Pearce, 2015; O'Neil and Ucbasaran, 2016). Furthermore, the article illustrates how the introduction of business model thinking and business model canvas, as a framework to create the common understanding, is one relevant approach to overcome the communication and information challenges.

Article 3)

The third article is introduced to investigate how and what business angels and entrepreneurs value when entering an investment process. Previous articles have identified the acceptance and rejection of business angels from survey-based approaches (Mason and Harrison, 1996), informational points of view (Mason and Stark, 2004), agency theory (Hsu *et al.*, 2014), and exploratory points of view (Freeney *et al.*, 1999). This study introduces a new theoretical framework to explain the decision-making process of, in particular, the business angels during the investment process. The frame adopted is based on the notion of use-value, value-exchange and surplus inspired by Powell and Hughes (2016). This frame enables the study to gain a deeper understanding of the decision-making process occurring during the investment process, based on different value attributes the entrepreneur offers to a business angel and vice versa.

The third article adopts a qualitative approach to investigate the research question in the article. The data collection consists of interviews with 16 business angels, observing 13 investment sessions and field notes from feedback sessions with the business angels and entrepreneurs following the investment processes. The emphasis in the data collection was to obtain as rich data as possible about the perceived value of the investment opportunities from both business angels and entrepreneurs and their practices when accepting or rejecting an opportunity. The findings led to the identification of five distinct practices: 1) value creation via strategic fit, 2) value creation required for investment, 3) agreement on strategic direction, 4) surplus-driven investment decisions, and 5) incremental value lowering the investment cost. These practices illustrate how the business angels and entrepreneurs appraise different value creation and value sharing dimensions during the investment process. However, the final decision from both the business angel and the entrepreneur comes down to the perception of surplus.

Article 4)

The fourth and final article investigates the influences of other individuals on the investment process and decision making of business angels. This is performed by observing the gatekeeping function in a government matchmaking project in the Danish context. This follows notions of the importance of gatekeepers as being enablers or disablers in many instances (Barzilai-Nahon, 2009; Gao *et al*., 2016). In the context of business angels, the gatekeepers have an active role in enabling the investment process, which has been investigated especially within business angel networks (Paul and Whittam, 2010; Mason *et al*., 2016) and how the actions of the business angels influence the investment process (Mason and Botelho, 2016). The investigation is carried out by using 16 interviews with business angels and feedback from these regarding the gatekeeping function. Furthermore, interviews are conducted with 11 key stakeholders and there are observations of 14 meetings with municipal business councils. In addition, the gatekeeping function was observed during the matchmaking project and during 13 investment processes. The findings show that the gatekeeping function has a similar role to that found in other contexts, however performing more within the linking role. The gatekeeping function has an important role in both initiating and facilitating the investment process. Moreover, this role in facilitating the investment process is often affecting the decision making of the business angels in a mostly positive manner, as found in previous studies (Mason *et al*., 2016). Finally, the study reveals that the government matchmaking project and gatekeeping function have the potential to alleviate some of the issues regarding informal networks of the business angels in the Danish context.

Methodology in the articles

The methodological approach, as explained in the methodology section, is specifically concerned with understanding the practices of business angels and not getting broad or representative answers. This, of course, has its limitations on how much the results can be generalised. Generalisability is, however, not the primary concern in the dissertation, but giving rich, elaborate, plausible explanations to both known and unknown observed phenomena in the area is the focus. The aim of understanding the actual practices has the potential to give new understandings and insights to long-lasting problems in the area. The qualitative methodological approach has been adopted by other studies, however, in this research field, it is still under applied as explained in several studies (Huse and Landström, 1997; Sørheim, 2003, Sapienza and Vileneuva, 2007, Spliid, 2013). The contribution and reflection of the chosen methodological approach can be observed during the articles, but a more general notion will be given in the summarising section following the articles.

As previously stated, the collection of articles will inform the research question through different approaches to give plausible explanations for both new and known phenomena in the research field. In the following sections, the individual articles will be presented, and their individual conclusions will be made. The inspiration for the articles originates from the research question in the dissertation, but each article will have its own focus area, as explained previously. The contributions from the individual articles will be carried over into the general findings and conclusions in the sections following the articles.

CHAPTER 6. ARTICLE 1

THE CHARACTERISTICS OF BUSINESS ANGELS: QUALITATIVE INSIGHTS FROM DENMARK

Abstract

The characteristics of business angels have long been investigated, and the field has advanced considerably since the first studies in the 1980s. However, some people argue that the characteristics of business angels are changing over time. Most current research focusses on business angels in formal and structured contexts, leaving business angels in informal and unstructured markets under-researched. However, it remains unknown whether the context of the market, structured or unstructured, affects the characteristics of the business angels. This study compares national surveys in Denmark from 2002 and 2015 in addition to a qualitative approach. The qualitative insights are based on interviews with 16 business angels in order to explore the characteristics of Danish business angels situated in an informal and unstructured contexts. The study also utilises the qualitative data to explore new insights regarding relations between the characteristics and aspects of controllability. The findings show that business angels in the Danish context have comparable characteristics to business angels in structured contexts. However, there are minor differences that could be explained by the contextual setting. These implications suggest that researchers and practitioners could profit from using these characteristics to better understand and grasp the decisions that business angels make in investment processes.

Keywords: business angels, business angel characteristics, informal and unstructured context, investor profile

Setting the scene

Understanding the underlying characteristics of business angels is important to improve research into the field of business angel investments. Mason and Harrison (1995) note that 'It is vital to understand these informal investors to keep this segment flourishing and becoming more efficient'. This quote emphasises the importance of identifying who these business angels are, what characterises them, and what their differences might be. A number of reports and research papers indicate that business angels contribute a larger volume of financial capital to companies and start-ups than, for example, Venture Capital funds (Freear *et al.*, 1992; Mason and Harrison, 1996; Landström, 1998). The importance of business angel capital for seed and start-up companies has created a wave of research that is studying the characteristics of business angels (Sørheim and Landström, 2001; Sørheim, 2003; Lathi, 2011; Li *et al.*, 2014).

This research has advanced our understanding of the business angel segment considerably since Mason and Harrison's (1995) seminal study. However, a later literature review by Sapienza and Villanueva (2007) argued that informal investors, such as business angels, are still regarded as under-researched. Landström (2007) argues that it is important to understand the underlying characteristics of business angels to better comprehend their investment and decision-making processes and, in turn, recent studies have been identifying new characteristics, which is still advancing our knowledge of this special investor segment (Hsu *et al.*, 2014; Li *et al.*, 2014; Ding *et al.*, 2015). Studies have indicated a shift in the characteristics of business angels, potentially affecting the investment market for seed and start-up companies. The first evidence of this was identified among US business angels, who started to invest in later-stage companies instead of their usual focus on start-up companies and companies needing seed capital (Sohl, 2010; 2012). Sohl (2012) identifies this as a possible local phenomenon in the US. However, in the same period, Lathi (2011) reported similar findings among Finnish business angels, who were acting to reduce their risk by investing in more mature ventures than previously. This tendency to shift focus to later-stage companies could be a sign of business angels having other characteristics than previously assumed.

In a recent article, Spliid (2013) argues that it is important to gain an understanding of business angels who operate in informal and unstructured contexts because US-based theories concerning private equity are inappropriate in, for example, the Nordic context. Hence, there seems to be a lack of research into the contextual setting of informal and unstructured business angel investment markets. According to Spliid (2013), the difference between Scandinavian and American business angels could be due to the lack of formal structures and the fact that business angel networks are close to non-existent in Scandinavia, unlike in America (Sohl, 2007) and most other European countries for that matter (Christensen, 2011). Whether this lack of structure potentially affects the characteristics of business angels has not yet been investigated.

Following these indications of an under-researched area concerning business angel characteristics and shifting investment characteristics, this study investigates the characteristics of business angels in an informal and unstructured context found in Denmark. Inspired by the studies of Månsson and Landström (2006) and Lathi (2011), this study investigates the possible changes among business angels in a national context. The objective is to explore and compare previous findings concerning Danish business angels and thereby to add qualitative insights regarding the characteristics of the business angels. For this purpose, the study uses interviews conducted with 16 business angels to get an in-depth understanding of the business angels and thereby address the research question: 'What are the characteristics of Danish business angels, and can a qualitative approach provide new insights regarding these characteristics?'

The remainder of the paper will be structured as follows: the introduction will discuss the field and the current context. The following section will describe the applied method; the fourth section will present the empirical findings, and the fifth section will discuss these findings. Finally, the conclusion and implications will be presented.

Literature review

Defining business angels

One of the reasons the field of business angels has become an emergent research topic is because venture capital funds (VCs) used to be highly involved in seed and start-up companies. This involvement has, however, changed, and now the VCs are investing in less risky and later stage companies, and in their place, informal venture capitalists have been prospering (Mason and Harrison, 1995; Lathi, 2011). Studies have shown that the investments by informal venture capitalists have surpassed the investments of VCs (Freear *et al.*, 1992). The investments of business angels amount to $17,6 billion in US (Sohl, 2010), £426 million in the UK (Mason and Harrison, 2010), $3.5 billion in Canada (Riding, 2005), between 385 and 450 million Euro in Sweden (Avdeitchikova, 2008) and between 1,2 and 1,9 billion DDK in Denmark (VækstFonden, 2010). These figures show that business angels have become an important part of venture financing, further accentuating the need to understand their characteristics to better comprehend this investment market.

Business angels are a diverse and heterogeneous group and, accordingly, a range of different definitions of them and their characteristics exist. The differences have stimulated an increasing amount of research mapping to understand business angels and the investment market. Early research in this field has defined business angels as a subgroup of informal venture capitalists. Avdeitchikova *et al.* (2008) have, among others, reflected upon the question: 'what do we mean when we talk about business angels?' trying to separate business angels from the broader definition of informal venture capitalists. Defining business angels has provided different interpretations, but most follow the lines of Mason and Harrison (2000 pp. 221): '… termed "business angels", defined as private individuals using their own money directly in unquoted companies in which they have no family connection'. This particular definition identifies a business angel as a person having private capital, which he/she is willing to invest directly in a non-listed company, without any family ties to the company. This definition provides a clear distinction from other early stage investors such as family and friends, who are often encompassed in the definition of informal venture capital.

The financial investment from business angels is only a small part of their engagement when investing. In most cases, the financial investment from the business angels is complemented by their knowledge, competence and experiences (Mason, 2009). The combination of financial and knowledge-based investments is why business angels are often regarded as a good option for start-ups. This is exemplified by Mason and Harrison (1995), who argue that all investments in seed or start-up companies per se require an active, knowledgeable involvement from the investor. The active involvement, including knowledge, often identifies business angels as primarily regional investors (Mason, 2009) but the characteristics are influencing the approached of the business angels (Ding *et al.*, 2015). The special characteristics described above further illustrate that business angels are different from other investors in the financial market. These differences amplify the importance of understanding the business angels' characteristics and nature to better comprehend the investment process and investment market. As characteristics can shift over time and local differences often reveal new aspects of the business angel and the investment market, such investigations are important to produce on a regular basis.

The characteristics of business angels

During the past two decades, many studies have investigated and characterised business angels in different countries (Mason *et al.*, 1991; Månsson and Landström, 2006; Lathi, 2011; Li *et al.*, 2014), which has provided the following commonalities: 1) A business angel is generally a male in his 40s who has previous experience starting new ventures and gets his investment opportunities from informal networks such as friends and business partners; 2) He makes his investment based on the expectation of a financial return but is likewise motivated by nonfinancial stakeholders such as 'having fun', 'contributing to knowledge' and 'seeing new ventures rise'; 3) He normally makes his investments close to home and is mostly attracted to opportunities where he can contribute his knowledge along with his money. These commonalities are neatly summarised in Mason's

(2009) definition: '…characteristics of the investments made by business angels: they have a different cost structure than institutional venture capital allowing them to make smaller investments; they are widely distributed geographically, which means that they contribute to alleviating regional financing gaps; and they provide management assistance to the businesses in which they invest in addition to the money they provide'.

The above consistency in the characteristics of business angels across borders is interesting, as it could indicate that the research field is well-developed, and the problems of understanding the empirical field are minimised. However, a noticeable problem concerns the context. A majority of the prior research has been conducted within structured business angel environments such as the US and to some extent the UK (Lahti, 2011; Spliid, 2013). This has spurred questions such as whether the US and, for example, the Nordic countries could be said to have the same prerequisites for private equity, which does not seem to be the case according to Spliid (2013). This made Nordic authors in the field of business angel research such as Sørheim (2003), Månsson and Landström (2006) and Lathi (2011) call for further research on the characteristics of business angels in the Nordic setting. Such research will identify similarities and differences from the business angels in the US, UK and other European settings. This has been achieved to some extent in other Nordic contexts. However, little research has been done in informal and unstructured settings, for example, countries with little or weak business angel networks, which characterise the Danish context (Christensen, 2011). This could potentially enrich the understanding of this unique context and bring forth new insights into the characteristics of business angels compared to those from the traditional studies in structured markets found in the UK and the US.

Changing characteristics of business angels

Studies have shown that the overall definition of business angels has been consistent over time (Mason and Harrison, 2000; Lathi, 2011; Li *et al*., 2014 Mason *et al*., 2016), but the characteristics of business angels have changed over time. For example, between 1992 and 2004, Swedish business angels have moved from fewer investment opportunities expecting longer holding periods to more investment opportunities expecting shorter holding periods (Månsson and Landström; 2006). Similarly, a Finnish study shows that Finnish business angels went from three percent considering themselves as passive investors in 1998 to 42 percent considering themselves as passive investors in 2006 (Lathi, 2011).

Furthermore, studies have indicated that business angels could be moving towards later stage investments (Sohl, 2012). Sohl's (2010) findings of the US business angels illustrate that their investments in seed and start-up companies have declined from 35 percent to 26 percent from 2009 to 2010. This decline had started earlier as the average was 47 percent in the period 2002-2008 (Sohl, 2010). These are a few selected examples to illustrate that the characteristics of business angels can shift over time and why it is important to be aware of these changes to correctly address the business angels' current situation.

The above-mentioned European studies were conducted in countries with developed business angel networks. These studies showed similar characteristics as those found in US studies, and Lathi (2011) showed findings resembling the later stage investments found in Sohl (2012). However, few studies have investigated the possible changes in characteristics in settings with little formal structure around the business angels, such as lacking business angel networks. Furthermore, these studies investigate the characteristics on a more general level using surveys. These approaches are applicable for understanding the general characteristics of business angels, but few studies have applied qualitative approaches to gain a deeper understanding of the characteristics and possible changes as called for by Sørheim (2003), among others.

The contextual setting of the paper

The Danish government is highly focussed on entrepreneurship and growth in Denmark. There is a central national stakeholder, the Danish business authority, as well as five regional business development centres. Finally, there are also business councils in each region (Erhvervsstyrelsen, 2012), typically one for each municipality. Entrepreneurs and especially ventures with high-growth prospects play an important role in the Danish economy, enabling job creation, growth and general development and ensuring competitive new products and concepts (Erhvervsstyrelsen, 2012). Denmark has previously been one of the top OECD countries when measured on start-up rates for both new enterprises and new employers (Erhvervsstyrelsen, 2012). However, between 2008 and 2012, the numbers show that Denmark went from 10% new start-ups to less than 8%, which is a relatively large decline compared to other Nordic and European countries (Erhvervsstyrelsen, 2012). Despite being a generally attractive place for entrepreneurs, one major obstacle in Denmark is access to venture capital (Erhvervsstyrelsen, 2012), such as business angels.

The North Jutland Region is known for its well-functioning ICT-cluster (Brainsbusiness) and maritime industry (Marcod). Entrepreneurship and new ventures are found throughout the region, with the majority located around the biggest city in the region, Aalborg (Vækstforum, 2015). A report by the regional council states that more than 1.000 companies in North Jutland are growth companies; however, they only consist of six percent of the overall total of around 18.000 private companies. Because of this, the council concludes there is a vast potential to create more growth companies in the region (Vækstforum, 2015). Furthermore, the report shows that growth companies are essential to the region, as they annually contribute with more than DKK 4 billion to the gross value added to the region, or 75% of the total growth within the private sector (Vækstforum, 2015).

The North Jutland region is facing some of the same barriers regarding access to finance as other regions. A report concerning the entrepreneurial landscape in North Jutland argues that companies in the region are facing constraints in terms of access to finance, and that this is equivalent to the rest of Denmark (FORA, 2007). However, the report does identify that the region has a particular weakness concerning infrastructure in the entrepreneurial environment (FORA, 2007). The growth companies and potential growth companies are facing issues obtaining finance to further their development. This is especially the case for knowledge intensive companies (FORA, 2007). These companies are also facing barriers obtaining relevant knowledge capital when they have to expand or grow beyond their entrepreneurial team (FORA, 2007).

The focus on business angels is relatively new in Denmark, and the subject had not received much attention until Christensen's (1992, 1998) early studies and later government reports (Vækstfonden, 2002; 2015) showed that the Danish business angel community was comparable with foreign communities regarding their characteristics. However, due to the withdrawal of government funding (Christensen, 2011), the official business angel networks were more or less shut down, leaving the question of how this has affected the business angels and their characteristics. Therefore, the context in Northern Jutland is especially suitable for the goal of the paper to investigate the characteristics of business angels in an informal and unstructured setting.

Data and method

The purpose of the paper is to examine the characteristics of the business angels in an informal and unstructured context. The data collection for the investigation was done using qualitative methods, specifically case studies inspired by Eisenhardt and Graebner (2007), Yin (2009) and Qu and Dumay (2011). The argument for using qualitative methods is to gain practice insights from multiple business angels within a confined space and time in order to understand their characteristics. The data will be obtained by observing the business angels and using semi-structured interviews to have them identify and reflect upon their practices. The case study approach is specifically applicable when working with new fields and exploring theories in new settings (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). The study is based on 16 semi-structured interviews with 16 active business angels, and two are new business angels with no prior investments. All the data are anonymous for reasons of confidentiality.

Data sampling and collection

Many studies have identified the business angel community as difficult to gain access to, and the lack of a formal business angel network structure in Denmark did not make the task easy. Building upon previous experiences (Landström, 1993; Hindle and Wenban, 1999) and according to theoretical recommendations (Berg and Lune, 2012), we chose the sample using a targeted snowball sample method. This involved using the connections between the *Matching for Growth* project (explained later) and key stakeholders with connections to the business angel community. Pilot studies were conducted in order to learn the 'jargon' of the community inspired by Berg and Lune (2012), and likewise, the pilot study should ensure the snowball sample was likely to address the right potential respondents.

All but one of the interviews with the business angels were conducted face-to-face for an average length of 61 minutes. A semi-structured approach was used, so the researcher had prepared an interview guide but allowed the conversation to move to interesting topics following ideas from Kvale (2003) and Kreiner and Mouritsen (2005). The interviewer asked for extensive examples of the stories the respondents told. This technique was chosen to avoid getting representative answers from the respondents, but acquiring practice answers following the guidelines from Czarniawska (2001) and Kreiner and Mouritsen (2005).

The interview guide was divided into sections according to an investment process and recommendations of the key-stakeholders. The final format was chosen after the pilot studies were conducted, ensuring the guide created a natural flow in the interviews, allowing freedom for the respondent and simultaneously covering the topics desired by the researcher. The main topics in the interview guide were derived from the theories in the literature review and previous surveys. The overall sections in the interview guide can be found in appendix 1.

Previous studies

The paper will examine data gathered about the Danish business angels primarily from two national surveys conducted in 2002 and 2015 (Vækstfonden, 2002; 2015). The data about business angels presented in these reports is not systematically collected as seen in the UK, USA and other countries. The first nationwide report by Vækstfonden (2002) was a detailed study about the characteristics of business angels in Denmark. It sampled 76 business angels from the Danish business angel networks. The second nationwide survey by Vækstfonden (2015) is an aggregated report sampling 82 business angels in different contexts. During this period, the business angel networks in Denmark lost government support and to a large extent closed down, as previously described. For this reason, the 2015 survey utilised different channels such as private stakeholders and forwarding the survey to people that had indicated an interest in investing in non-listed companies. The findings in the surveys offer a possibility to explore similarities and differences when compared to the findings of the current study. Furthermore, the current qualitative study will elaborate in further detail on the findings, with the goal to provide richer and more in-depth explanations.

Analysing the data

Following inspiration from Eisenhardt (1989), the researcher wrote a brief summary following the interview to capture the main points of the interview and possible events that would not be noticeable from the recordings. The business angel interviews were all transcribed in full. Afterwards, utilising a deductive content analysis (Berg and Lune, 2012) and pattern matching (Yin, 2009), interesting findings were derived from each interview. The patterns were used to understand the business angels' practices, characteristics and the informal context not only within each case but across cases. The patterns found in and between the cases would then be explored and compared to the existing knowledge in the field using the national surveys and international findings regarding the characteristics of business angels.

The challenge with the chosen approach is that data collection relies on the stories and memory of the respondents, and following Yates (1990); this will often include overconfidence in judgments. This downside is less of a problem since studies (Freeney *et al.*, 1999) have shown that business angels rely on their memory to make investment decisions, so the case of overconfidence should likewise be present in their real practices and decisions.

The Matching for Growth project (in Danish: Vækstkoblinger)

This study has benefitted from a project called *Matching for Growth*, which was a collaboration between Aalborg University, private stakeholders and the regional government. The project was financed by a regional EU funding scheme. The aim of the project was to ensure a better match between business angels and companies with growth potential, ensuring that more knowledge and financial capital would reach the entrepreneurs and company owners. This was achieved through a series of meetings and workshops where both business angels and other key stakeholders were respectfully invited to reach a better solution than is being used today. The collaboration with this project allowed the researcher to follow and observe these meetings and interact with the network of stakeholders. The stakeholders were either part of or knew the business angel community well, thus helping to overcome the problems with business angels being anonymous and hard to identify (Freeney *et al.*, 1999; Hindle and Wenban, 1999; Robinson and Cottrell, 2007).

Investor	Occupational experience	Investment experience	Competence	Stage of company	Industry
ES	Consultant, CEO (multiple)	Multiple investments, own company	General management, team management	Turn-around	Energy, life-science, environmental, food
KK	Board of directors, CEO in SMEs	Some Investments in turn-around	General management, efficiency improvement	Generational succession, turn-around	Manufacturing
CØ	CFO (multiple)	None	Economy, general management	Established companies	Manufacturing
SK	Own company, positions in the financial sector	Own company, few investments	General management, efficiency improvement	Generational succession, established companies	Software, IT, Apps
AJ	Company broker, positions in the financial sector	Company broker, own company, no external investments	Economy, general management, valuation	Generational succession, established companies	Manufacturing
BP	Consultant, CEO (multiple), board of directors	Few investments, found capital for several SMEs	General management	Established companies	Something tangible/understandabl e
KS	Fulltime chairman and member of boards of directors	Multiple investments	Internationalising, acquiring funding, general management	Established companies	Technology/IT
TS	Chief of innovation	Multiple corporate investments	Merging companies, efficiency improvement	Established companies	Technology/electronics
JR	Consultant, organisational development in banks	Own company	General management	Newly founded companies	Innovative growth segments
CH	Own company, consultant, board of directors	Multiple investments, own company	General management, business development	Idea stage, newly founded companies	Electronics
JW	Consultant, director of development	Some investments, own company	Product development, product introduction to marked	Newly founded companies with a product	IT or electronics
OK	Engineer, CEO (multiple)	Multiple investments, own company	General management	Newly founded companies with a business plan	Software
NJ	Engineer, CEO (multiple)	Some investments, own company	General management focus on newly founded companies	Newly founded companies	Technology (not software)
LK	CEO, Company broker, capital finder	None	General management, acquiring funding	Newly founded companies	Cleantech, environmental, IT
MK	CEO, own company	One investment through internal deal	General management	Newer company with a product	IT / semi-knowledge company
PA	CEO, Consultant, Own company	Some investments, own company	Product development, idea realization, product to market	Newer company pref. With a product at least idea	Technology /apps /IT / electronics

Figure 1 – Background of respondents

Inves-tor	Syndication openness	Geo-graphy	Involve-ment	Part in the investment	Capital (mio. DKK)	Owner's share	ROI	Exit-strategy
ES	Already doing with own partners	45 min	High	Director	What is necessary	Majority	Dependent	Dependent
KK	Using venture capital	60 min	High	Director/ board of directors	0,5 - 2	Majority	Factor 2-3	5 years
CØ	Interested	60 min	High	Director	0,5 - 1	A fair share	?	Not important
SK	Searching	90min	High	Director	1 - 10	Majority	Greater than interest rate	Dependent
AJ	Already doing with own partners	Close by	Semi	Board of directors	?	?	10 - 25%	5 years
BP	Interested	None	Semi	Director / board of directors	0,5 - 2	Minority	?	?
KS	Tried and interested	None	Semi	Board of directors	0,5+	Focus on value not share	Dependent	Dependent
TS	Interested	none	Semi	-	0,5 - 5	Majority	Dependent	Dependent
JR	Interested	Denmark	Dependent	Director / board of directors	0,5 - 5	Situational	15 - 25%	?
CH	Already doing with own partners	Denmark	Semi/high	Board of directors	0,3 - 0,5	Situational	25% +	Dependent
JW	Tried and interested	?	Semi/high	Director / board of directors	0,25 - 1	Situational	min. 10 - 20%	Dependent
OK	Always using	Denmark	Semi	Director / board of directors	1 - 1½	Situational	Dependent	None
NJ	Interested	Denmark	Semi/high	Board of directors	0,25 - 0,5	Not relevant	Factor 3-5	3 - 5 years
LK	Interested	Dependent	Semi	Director / board of directors	?	?	?	?
MK	Interested	90 min	High	Director	0,5 - 2	Situational	Less relevant	Dependent
PA	Interested	90min	High	Director / board of directors	0,5 - 2	Situational	Dependent	Dependent

Figure 2 – Profile of the respondents

Empirical data about Danish business angels' characteristics

The Danish business angels' characteristics

Age, gender and origin of capital

The two reports by Vækstfonden (2002; 2015) show that Danish business angels, in general, are males in their 40s-50s who have free capital to invest in non-listed companies. Most business angels have capital assets in the realm of 20 million kr. or less. Of this capital, they have reserved approximately 30% for investing in un-noted companies; however, 45% of the business angels have only utilised 10% of the capital they are willing to invest (Vækstfonden, 2002). This amounts to a total investment size of 1,5 billion kr. from the sample of 76 business angels. In 2002, business angels invested 325 million kr. (Vækstfonden, 2002) and 120 million kr. in the first half of 2015 (Vækstfonden, 2015). This indicates a small decline in investment activities from 2002 to 2015; however, this could be due to the number of stakeholders. Both studies show that the business angels have earned the majority of their capital through selling other entrepreneurial ventures, and being directors or CEOs of companies are the second largest source of capital (Vækstfonden, 2002; 2015).

The business angels in the current sample were all males, ranging in age from 30-55. They had amassed their available investment capital from different jobs/companies. For example, business angel OK said: 'I have made my money (investment capital) from selling my company which I have built up from scratch and owned for many years'. Acquiring investment capital by starting up companies was common, but some never made it to the 'established stage' as explained by JW: 'I got an idea early on and then sold it to a larger company'. This illustrates that JW's capital originates from his company or idea being bought before it became an operating company. A few of the business angels had no previous entrepreneurial experience at all, exemplified by CØ explaining how he obtained his capital: 'I am perhaps a bit abnormal; I have never been an entrepreneur and started my own company, I have worked as a director and on boards for several companies and now have an amount of capital at my disposal'. The latter quotation indicates that the accumulated wealth of business angels with little or no entrepreneurial experience is achieved by possessing higher management positions within established companies.

The surveys and the findings in the empirics show that the respondents are having the same general characteristics regarding age, gender and origin of capital. Furthermore, the characteristics resemble the results of similar studies in other countries (Sørheim, 2003; Månsson and Landström, 2006; Lathi, 2011).

Geographical location and distance to investment

The 2015 survey shows that the highest population of Danish business angels is located around the capital city, Copenhagen, with 41 percent of the responses located there and only 6 percent in North Jutland and 2 percent in the Sealand region. This is similar to findings in the 2002 survey, which showed that 47 percent were from the capital area and 7 percent were from North Jutland. This distribution could be explained by the higher population in Copenhagen, but is not further elaborated upon in the study. The geographical distance to the companies the business angels have invested in plays an important role, as 66% indicate they want investments ‘close to home’ so they can have an active involvement in them (Vækstfonden, 2002). The distance to the investments was not a part of the 2015 survey. The current interviews show a larger spread regarding the distance to the investment, as around half indicate ‘within a few hours’ drive from their home, but the other half indicate the whole of Denmark or not important.

A characteristic difference between the groups is the geographical distance within which the business angels are interested in investing. Previous studies have found that business angels often locate their opportunities within approximately one hour’s drive from home. This one-hour radius fits the later stage investors; however, the early stage investors in the sample operate within a wider radius. The shorter range of later stage business angels was explained by ES: ‘I need to be close by if anything happens and I do not want to waste time on the road as I often go there (to the company)'. This is interesting as the general perception is the business angels primarily invest close to home.

Stage of investment

The Danish business angels invest within most industries in Denmark, look at companies in all growth stages and give no preferences to small or big companies (Vækstfonden, 2002). However, the business angels in 2002 had a preference for start-up companies, as 72% were investing in this stage as compared to percentages in the mid-forties concerning seed, expansion, buy-out and generation succession. The business angels had to indicate their interest and could choose several areas, which is why the 2002 study did not add up to a total of 100% but created a relative score. The 2015 study (Vækstfonden, 2015) elaborates on this as its results show that business angels investing in ICT are primarily interested in seed companies (46 percent) whereas business angels with a preference for industrial companies are investing in later stage ventures.

The current data shows an almost fifty-fifty split among the respondents regarding early or later stage investment. The different answers regarding the choice of stage were typically regarding the competences of the investors. Business angel CH stated ‘I want to get in early so I have a chance to form the company’. This idea about being able to shape or form the company was present in most of the early stage investors. The same notion could be found among the later stage investors explaining their preferences. For example, KK stated: ‘I want a company with potential that I can achieve… by implementing my management style and ideas’. This illustrates the importance for the business angels to be able to shape the company, as they want to achieve success or growth regardless of investment stage.

Degree of involvement

The degree of involvement was not a measure in the 2015 survey, but in 2002, the findings show that 42% of the business angels spend between ½ to 3 days a week in their invested companies with an average of around 1½ days. They would most often spend their time on the board of directors and particularly worked with business plans, attracting new investors and monitoring the financial development of the venture. The degree of involvement by the business angels in our sample is comparable with the survey and other investigations that identify business angels as being active investors who desire to use their knowledge in the investment. One of the business angels, KS, explained this degree of involvement: ‘I do not enter an investment as a passive investor; I am going to contribute with both my experience as well as my money’. This indicates a desire from the business angels to be active in their investments, but it could likewise be interpreted as a necessity, like ES, identified: ‘When I enter a turn-around or a company in need of a succession, I go in to optimise or greatly improve their efficiency, and that requires a high degree of involvement’.

The quotations and the findings, in general, show that the business angels do not see themselves as a type of passive bank-financing; they want to actively contribute with their experience and knowledge. These findings are in line with most studies on the characteristics of business angels (Mason and Harrison, 1995; Sørheim, 2003; Lathi, 2011).

Origin of the deal flow

Concerning the deal flow, the Danish business angels received approximately three business plans a month in 2002, primarily originating from private networks, and they invested in 4% of the cases (Vækstfonden, 2002). This had declined in the 2015 study, which showed that the business angels in general receive around 14-21 investment cases a year, and the more experienced business angels (more than nine years) are receiving a higher amount (Vækstfonden, 2015). The investment cases mostly derive from personal business connections in the 2002 study even though the sample was taken among business angels in the Danish business angel network. Potential investment opportunities were difficult to identify for 41% of the business angels (Vækstfonden, 2002). The 2002 study did not investigate the origin of the deal flow. The deal flow can be found in international studies that range from a structured deal flow in some instances where business angel networks are heavily present (Mason *et al*., 2016). This is opposed to the majority of deals that stem from family and personal connections in countries with little to no business angel networks or formal structure, for example, China (Li *et al*., 2014).

The interviews with the business angels identified different behaviours regarding the deal flow and how the investors obtained their deal flow. The findings in the interviews showed that experienced business angels have established personal networks, securing a proper deal flow. The business angel KS said: ‘I have created a clear profile in my network making sure I get a relevant and steady flow of deals’. The personal network was found to be important to all business angels, but for new business angels seeking a new or their first investment, this proved a problem. MK (business angel) explained: ‘I do not have a personal network within the investment world yet, and I am having trouble… I do not know where to go in the Danish system’. The statements from KS and MK emphasise the dependence on a personal network in the unstructured context, which would seem problematic for new business angels.

The interviewed business angels do have a common organisation called the Danish Venture Capital Association and a few non-formal business angel networks, but none of the interviewed business angels was active members. One business angel[2] labelled the networks in Denmark as ‘coffee clubs where the most important thing was to brag and pad each other on the shoulders rather than investing in interesting cases’. Hence he (and others) chose not to ‘waste their time there’.

Share size

The survey in 2015 did not include this point, but the 2002 survey showed the Danish business angels were looking at different sizes of equity when investing in companies, where the primary objective was to have enough equity to secure an influence (Vækstfonden, 2002). More specifically, the 2002 study shows that 33% of the angels preferred an owner’s share of 10-25%, whereas 25% expected an owner’s share between 25% and 50%, and 21% stated that the size of the owner share is not important (Vækstfonden, 2002). International studies, for example Månsson and Landström (2006), show some diverging findings as the Swedish business angels in 1994 would seek a majority ownership, whereas in 2006 the business angels would primarily be minority investors.

[2] The quotation is completely anonymised at the request of the respondent.

The current empirical data shows that business angels investing in companies have different opinions regarding the size of equity they expect. This ranges widely from majority to minority shareholdings. The difference was explained by SK: ‘The most important part is that my share size does not interrupt with the flow of the existing team and potentially erode the company’. This remark indicates that business angels are aware of the influence that the share size has on the existing owners in the company, whereas in a situation where the company has a well-functioning entrepreneurial team achieving good progress, and only needs capital because their own options are exhausted, different actions are called for. This situation is what SK and others describe as demanding a sensitive decision, as the business angels do not want to enforce a feeling of dilution and disrupt the good progress in the company. The respondents aiming at majority ownership are in most cases expecting to make greater changes to ensure optimising or creating new development in the company. Both patterns indicate business angels are aware of how they potentially influence the investment regarding the share size they obtain in the company and how they want to use the influence.

Motivation

The business angels are motivated by the financial return on investment, but also emphasise motivational factors such as personal satisfaction and ‘having fun’” (Vækstfonden, 2002). The 2002 study shows that 57% of the Danish business angels find the motivational aspect of ‘hav[ing] fun’ very important; 46% find ‘personal satisfaction’ as being very important and 31% find ‘financial returns’ as very important. The 2015 survey does not investigate this aspect. International studies show somewhat contradictory indications, as 83% of Chinese business angels find financial rewards to be the most important and 24% are ‘looking for fun’ (Li *et al.*, 2014). Other studies have shown that being part of the entrepreneurial process is the most important aspect (Avdeitchikova, 2008).

The interviews with the Danish business angels show a focus on ‘making money’ as the key aspect, as it is mentioned in all the interviews. Other aspects mentioned in the interviews include ‘having freedom’, ‘contributing/utilising competence’ and ‘having fun’. As the business angel OK responded, ‘I want to have freedom, but the most important thing is to make money, or else I could not be in the business for long’. Similar quotations are found in most interviews regarding making money, as the respondents are very aware of the need to make money to have a place in the investment environment. The aspect regarding contributing with their competencies was mentioned in most of the interviews, for example, BP mentioned: ‘I have built up a lot of experience and competences regarding running companies, which I think will help most companies’. This likewise supports the notion that business angels are seeking to be active, as this can bring their competencies into play in their investments.

Syndication

A preference towards syndication is present among the business angels, as 66% in 2002 were looking to syndicate their investment and 79% were trying to in 2015. On the other hand, 8% of the business angels would prefer to invest alone in 2002, whereas the number in 2015 was 21%. The reason for syndicating with other investors is often to try and attract additional capital or competencies as well as spread and reduce the risk of the individual business angel (Vækstfonden, 2002). This supports findings in other countries that business angels are looking to syndicate with other investors and most of the time other business angels (Mason *et al.*, 2016).

The interviews show that the majority of this sample of business angels are looking to syndicate with others but also that many have done so before. However, not all are successful in finding investment partners, while others state that it is very dependent on the specific situation if they wish to syndicate or not. In the interviews with business angels focussing on later stage companies, they had syndication partners on a regular basis. ES explained this 'I have some partners that I often draw on when making investments… the size of the investment I am interested in most of the time exceeds my financial possibilities'. The quotation illustrates the opinion of most of the later stage interested investors, as the later stage companies require investments the business angels were not able to make on their own.

The early stage business angels made both solo and syndicated investments, also often depending on the situation. Business angel JW explained, 'I am open to syndication, however, I will only syndicate if the other investors share my ambition or I lack the funds and they want me to lead the syndicate in the investment". The quotation and many similar among the early stage investors often focussed on the need for cohesion in the syndicate for it to be interesting. Finding the right syndicate partners proved difficult in many situations as NJ explained: ' I am very open for this, but sometimes it is difficult for me to find partners, my business connections have their money tied up in other projects and I do not want to turn to random strangers'. NJ is illustrating that it can be difficult in the Danish context for business angels to find a relevant syndication partner.

Return on Investment

Regarding the return on investment, the 2002 study of the Danish business angels showed they typically expected a yearly ROI around 10-30%, with 33% stating they expected 10-20%, and 29% expected a 20-30% return. The 2015 study shows the ROI expected by the business angels as fluctuating a lot, ranging from 29% expecting a 3-5 multiplier of their invested capital to 24% not having a specific ROI demand and 13% not knowing. This indicates that the business angels previously might have had a more precise idea regarding ROI, whereas the 2015 study shows a much greater spread in expectations.

Like the 2015 study, the current findings concerning return on investment fluctuate somewhat. One respondent, KK, stated: ‘Well, of course, I want a return, but it is hard to pin down precisely. It depends on my role in the company. If I am a CEO, I get paid well and will take that into account, if I find the company very interesting and fascinating, then I would also settle for a little less’. However, the interviews show (see table) that business angels, in general, expect between 10% to 100% return per year. Compared to international studies, for example, Li *et al.*, (2014) the ROI expectations are similar, as 32% indicate an expected ROI between 15-20%.

Discussion

This section discusses the empirical findings concerning the comparison between the 2002 and 2015 surveys (Vækstfonden, 2002; 2015) and the empirical findings in the current study. The section mainly presents findings from the interviews that elaborate on the understanding of the characteristics of the business angels and what else should be investigated to further this understanding. The findings show that the Danish business angels largely resemble business angels around the world, however, some distinctions are present which to some degree could be attributed to the Danish context with little or no formal networks around the business angels.

The business angels in general

The business angels in the sample are in general similar to what has been found in previous studies and, as such, fit the definition of business angels set out by Mason and Harrison (2000) and Mason (2009). The business angels in the Danish context are males ranging in age from 30 to 55 with prior entrepreneurial experience and who are seeking an active involvement with their investment. Their high degree of involvement is spurred by a desire to activate both their monetary and intellectual capital, which most often originates from starting, managing and selling one or multiple companies. These characteristics are the same general characteristics as found in previous studies of business angels in Europe and North America (Freeny *et al*., 1999; Månsson and Landström, 2006; Lathi, 2011).

The general similarity in the characteristics is somewhat surprising when compared with Spliid's (2013) results, which argue that the nature of the business angels in Scandinavia was significantly different from business angels in North America; however, this is not supported by the findings in this paper.

Origin of deal flow

Most deals stem from private connections in all instances for the Danish business angels, and few seem to be obtaining deals from the business angel networks. LK explained: 'You are more likely to invest money in someone who has been endorsed by people you know'. The quotation could illustrate that the validation given by someone else is important for the business angels. This validation is an important stakeholder for business angels in business angel networks (Mason *et al*., 2016). In the Danish context there are some public offerings regarding introduction services; however, very few of the business angels made use of this possibility. An explanation for this could be that experienced business angels often do not find public introduction services attractive (Sørheim and Landström, 2001). However, if the experienced business angels are not interested in such offers in informal contexts, this raises another issue about how knowledge from experienced business angels is transferred to less experienced business angels, an aspect that has been important in other contexts (Harrison *et al*., 2015)

The lack of formal business angel networks puts constraints on those who lack personal networks. CØ expanded upon this by stating, ‘I am new in the game and this project *(Matching for Growth*) helps me get to know the right people and through that find a potential investment case’. Several of the inexperienced business angels addressed this problem of lacking a sort of introduction service or mentor scheme as the main barrier to making investments. The experienced business angels likewise reflected upon the problem of not having a personal network as a major obstacle in the beginning of their business angel career. This adds to previous findings (Christensen, 2011) identifying that even though public-backed networks or introduction services are not successful by government performance measurements, they still serve an important purpose.

This immeasurable purpose of networking or creating personal networks is the stepping stone to becoming an active investor in the future when lacking formal structures such as business angel networks. This lack of formal structure around the business angels complicates the government’s and researchers’ opportunities to monitor and investigate the business angels. Even more so, it impedes new business angels in finding an investment flow like experienced business angels and is potentially creating a problem with fewer business angels entering the investment market. However, as the findings illustrate, business angel networks need to have a clear value and purpose for the business angels or they will lose interest very quickly. This illustrates that the Danish government can learn from, for example, findings in the UK regarding how business angel networks are functioning (Mason and Botheldo; 2016; Mason *et al*., 2016).

Motivation

The notion of passion has become a topic in the literature (Hsu *et al.*, 2014), however, ‘passion’ seems to take on different meanings among the business angels. The 2002 survey illustrated that business angels were primarily looking to ‘have fun’ while investing. The interviews showed that both experienced and new business angels identify passion as an important part of making a new investment. Some of the business angels refer to passion as having fun and feeling useful, which is similar to other studies (Sullivan and Miller, 1996).

The findings from the interviews illustrate that the business angels who consider their main driver as being financial gain, and passion as the second driver, are often the most experienced serial investors. The new and upcoming investors express that having fun is the main driver for them. This difference in motivation according to the investors' experience supports findings from Avdeitchikova (2008) that business angels could be divided into groups according to their investment experience and their passion/motivation. However, Avdeitchikova's (2008) findings relating to a connection between the available capital of business angels and their motivation is not supported by the current findings. 'Gut feelings' and 'the right feeling' are often found in the literature, however, the interviews illustrate that this could be an interesting possibility for further investigation. The interviews identify utilising competencies and value creation in the right context as relevant topics, but this should be further researched to see if these aspects could further improve the matchmaking between business angels and entrepreneurs.

Involvement, share size and a notion of controllability

The surveys and the interviews indicate that the Danish business angels can be characterised as active investors with a high degree of involvement, which is also found in international business angel studies. The interviews furthermore elaborated on why the share size demands have changed from 2002 to 2015. The interviews identified that business angels today are very aware of how their share size influences the dynamics of the entrepreneurial team, and just having a majority shareholding for the sake of gaining control could hamper the motivation of the entrepreneurs. This explanation was especially found among investors investing in early stage companies. Furthermore, the interviews explore that there might be a positive connection between the expected ROI and the involvement of the business angel, which is interesting to further investigate if the ROI and involvement are connected.

The approach of close contact and then being a 'strategic advisor' in the background was identified among all of the early stage interested business angels. The key for this group was to frame the right setting for the company to develop it further. The key in this process was the entrepreneurial team, as they possess the knowledge in the early stages to drive the company forward but often need the right setting or frame. NJ explained: 'I needed to give these guys (the entrepreneurial team) the right settings, so this becomes a huge success, but (me) participating in the daily product development would bring nothing good'. This finding is a contribution to the understanding of why business angels put such a great emphasis on the entrepreneurial team when choosing an investment. The team is often the most important stakeholder (Mason and Stark, 2004; Li *et al.*, 2014), but instead of merely monitoring and controlling, the goal of early stage business angels is to facilitate or frame the company to help the entrepreneurial team ensure growth. This high degree of involvement is in contrast to some contexts (Li *et al.*, 2014), but similar to most studies. The difference in the survey studies showing high involvement among business angels is the interviewed business angels in the later stage most often tie the involvement to the need for controllability.

The notion of controllability is also present in regards to other topics of the interviews with the later stage business angels. When addressing the topic of owners' share, the investors often rely on this mechanism to ensure the implementation of the strategy. BP explained: 'Many believe that when you are a CEO you have all the freedom in the world, but many others want to decide… why I want majority of the shares is so I can have the undivided influence'. The quotation underlines the perceived difference of being a CEO with none or minority part of the shares being problematic as different stakeholders want to have influence. Firstly, when the investor gets majority or total ownership, he achieves the position to implement what he wants and believes to be right. This viewpoint was elaborated in different ways during the interviews, but commonly it was the perception that changing a later stage company demanded full or majority ownership. This notion of desiring majority ownership contrasts studies in different contexts (Lathi, 2011).

The notion of being able to ensure or control the company development was the key point. This notion of controllability is inherent in the information asymmetry problem in investments (Gompers and Lerner, 1999). The research on control in investments has been an issue among venture capital funds for some time (Lerner, 1995; Leluex, 2007). The findings from this study illustrate control could be a subject suitable for further investigation in the business angel setting. Likewise, further research should aim to identify if a connection between involvement, share size and the use/need for control exists to further understand these characteristics.

Considerations regarding the business angels according to investment stage focus

Involvement

The empirical findings showed that business angels interested in later stage investments are a relatively homogeneous investor group. These investors, seeking mature stage companies that they could optimise or turn around, were also the ones looking for investments closest to home. The investors argued that an element of control was necessary for them to influence the company. Supporting the general answers in the interviews and the quotation from ES, the interview with KK gave further insight into this aspect 'My force is to go in and create more value in the company… However, I need to be there in order to execute the strategy'. This emphasises the business angels' desire to have high involvement in order to execute the strategy in their investment.

The later stage investors generally seek higher involvement in their investments and most often as part of the management team, whereas the earlier stage investors are more apt for semi-active involvement, expecting to be a member of the board of directors. The patterns of involvement and radius were apparent in most cases and identified in statements like: 'I need to have control of the company, why I most often take the role as CEO in the investment' (ES). 'I need to give them guidelines and milestones to follow; I am not the inventor and, therefore, creating the right setting is the important role for me' (OK). The first quotation was from a later stage business angel wanting close control, and the latter quotation was from an early stage business angel interested in setting the right boundaries. The quotations present some of the underlying reasons the different groups of business angels seek different involvement and positions, giving different requirements of control and the expected need of involvement from the business angel.

Investment size

The later stage business angels are, not surprisingly, expecting to invest a larger amount of capital than the earlier stage investors. This could be explained by the risk being smaller than with more established companies and hence obtaining the equity is more expensive than in start-up companies. Previous studies have investigated the investment size of the business angels and found the monetary amount is only a small part of the investment. The investment often consists of smart capital from the investors, meaning they contribute with their competencies to help the entrepreneurs and companies. The indication of smart capital is found in both groups of business angels, confirming the literature about business angels being 'smart money' regardless of early or later stage investments, but findings in this study show different monetary investment sizes according to the stage of maturity.

Share size

The higher involvement and higher monetary investment of the later stage business angels could explain the findings showing that they have a higher expectation concerning equity share size. Furthermore, a later stage investor, KK, explained his desire for majority ownership: 'I need the control in the company, if I am going to make changes in order to optimise the company, why I normally seek the majority of the equity when investing'. This illustrates the patterns of the later stage investors desiring the majority of equity, ensuring they are in control of the company in order to improve, optimise or otherwise maximise the output of the company.

The earlier stage investors were more concerned with not disrupting the positive flow in the company, hence stating the equity share as situational. The business angel CH stated: 'If I get majority, it might break their (the entrepreneurs/inventors) drive, and they possess the knowledge and the key to make this product happen'. This illustrates the awareness from the business angels to ensure the former owners do not feel oppressed, which could slow the innovative or development process. In both cases, it could be interpreted that both business angel groups are creating the optimal setting for development or output, which should eventually improve their return on investment.

A shift in the business angels' characteristics?

Dividing the business angels into two groups according to investment stages shows the investors are interested in different maturity stages. The later stage involvement by business angels in the informal and unstructured context is similar to the findings in more formal contexts by Lathi (2011) and Sohl (2012). This could indicate the business angels are branching out and becoming more versatile in their investments and giving their support to a wider range of companies. Whether or not this holds merit has yet to be investigated in future research. However, this study shows some of the first indications of different patterns between early stage and later stage business angels. These different characteristics are interesting to entrepreneurs, brokers and the like as the different business angels have different preferences when investing.

Conclusion

The study at hand set out to explore the characteristics of Danish business angels in an informal and unstructured context as this has rarely been done previously. The intention is to elaborate and answer calls regarding differences and similarities in the characteristics of investors (e.g. Spliid, 2013; Li *et al.*, 2014), further emphasising the need to continuously study the characteristics of business angels that are given by studies showing a shift in the characteristics of the business angels (Månsson and Landström, 2006; Lathi, 2011; Sohl, 2012).

This study identifies that the general characteristics of the business angels in the Danish context, when compared to other business angels, are relatively small. This is surprising when considering the remarks of Spliid (2013) that the Scandinavian context is very different than the UK and US context. Furthermore, the qualitative approach elaborated on existing knowledge by illustrating how motivation could be related to the competencies and value created by the business angels in the new venture. Additionally, the notion of controllability was found to be an interesting area to investigate further in relation to business angel investments.

The informal context of the present study influences the business angels as the findings indicate that the vast majority of deals come from personal networks, which was the case in the UK previously (Mason and Harrison, 1999), but has now moved to more deals from structured channels, for example, attributed to business angel networks (Mason *et al.*, 2016). In Denmark, new or inexperienced business angels are having trouble establishing a proper deal flow because they have not established informal or personal networks like the experienced business angels. The experienced business angels further explain that government support helped them establish personal networks at the start of their career. This makes intuitive sense, however, it should be further investigated regarding how policies can be used to strengthen these new business angels in an informal and unstructured context.

This paper further contributes with preliminary explanations on the different preferences between investors interested in later vs. earlier stage companies. The later stage investors desire a higher degree of control in an investment in order to maximise their output. The earlier stage investors, on the other hand, are facilitating and framing structures by making sure they do not interrupt the creative development in the companies and instead set boundaries and guidelines. However, these indications should be subject to further scrutiny to establish differences and how these groups ideally should be helped and treated to improve the investment process.

Hence, this study constitutes an exploratory contribution to the Danish business angels, comparing national surveys from 2002 and 2015 and elaborating on the findings with qualitative insights from 16 interviews with Danish business angels. It illustrates that the Danish business angels have characteristics similar to other business angels around the world, but they have some difficulties attaining deal flow, which could be explained by the unstructured and informal context. Furthermore, the qualitative insights provide new reflections about some of the characteristics regarding investment stage, involvement, motivation and competencies. Likewise, the study identifies a new aspect, controllability, which can contribute with explanations regarding involvement and share size, and which should be subject to further research. The findings and contributions of the paper should be explored further in future research to establish if they are purely a Danish phenomenon or are found wider in the international community.

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Appendix 1

1) Introduction of the respondent as a person (job, education, etc.)

2) The respondent as an investor (previous investments, strengths, etc.)

3) Questions addressing the different phases of an investment and preferences

   a. Finding a possible investment

   b. Screening a possible investment

   c. First (physical) meeting with the possible investment

   d. Conclusions on the screening and meeting

4) The (most) important parts in the decision-making

5) General thoughts on being a BA in Denmark

CHAPTER 7. ARTICLE 2

CHAPTER 8. ARTICLE 3

CHAPTER 9. ARTICLE 4

CHAPTER 10. SUMMARISING THE ARTICLES – GENERAL FINDINGS AND CONTRIBUTIONS

The characteristics, decision making, and investment processes of business angels as a sub-section of informal investors within the general research field of venture capital have been investigated. The dissertation addresses the calls for further research relating to business angels' decision making and investment processes with entrepreneurs. The objective of the dissertation is to contribute to understanding the investment process from known theoretical lenses and to adopt new methods of investigating the research field to develop plausible explanations of the observed phenomena. The prior literature showed agreements concerning the general attributes of business angels, but how the decision-making process functions and, in addition, why some investment processes turn out to be positive or negative are still somewhat of a 'black box'. Therefore, the articles that constitute this dissertation provide further insight into this 'black box', and recommendations are given to further this understanding in the future. Likewise, insight is provided to practitioners on how to understand or possibly improve the investment process between business angels and entrepreneurs.

This section presents the individual findings in the articles and gives an overall conclusion concerning the different findings and contributions made in the articles and the dissertation. The aim is to address and provide insight on the following research question:

'How is business angels' decision-making formed in investment processes with entrepreneurs?'

Addressing the research question was done in the context of exploring business angels and investment processes in an informal and unstructured investment environment in the region of North Jutland, Denmark. Furthermore, new theories were introduced to the field to create new and/or complementary plausible explanations when existing theories have shown a lack of explanatory power, for example, using the value perspective during the investment process rather than using information in the business plan to enlighten the decision making of business angels. This section will further reflect on the contributions made by adopting a qualitative and practice theory approach.

10.1. THE FINDINGS IN THE ARTICLES

Contributions to understanding business angel characteristics

The literature review showed cohesion in the definitions regarding business angels as a subtype of informal venture capitalists and as a category of venture capitalists. The common definition regards a business angel as a male around 40 who has entrepreneurial experience and is searching for new ventures both for economic and emotional reasons. The characteristics of business angels show cohesion when regarding studies from the UK (Mason and Harrison, 1995), Canada (Freeney *et al.*, 1999), Norway (Sørheim, 2003); Sweden (Månsson and Landström, 2006), and Finland (Lathi, 2011). The general characteristics describe business angels as being local investors, typically operating within an hour drive from home and wanting to contribute both knowledge capital as well as financial capital to the investment. Furthermore, a business angel is looking to achieve a high degree of involvement in early stage companies.

Article one

Article one explores the business angels' characteristics by comparing previous Danish surveys by Vækstfonden (2002, 2015) to the findings in the interviews with business angels in North Jutland, Denmark. Furthermore, the characteristics are compared to findings in international studies to show differences and similarities between the Danish and international findings. The study was initiated because little has been done to characterise business angels in informal and unstructured market contexts, such as the Danish context. This was further inspired by theoretical considerations regarding characteristics that can be different between countries (Sørheim, 2003; Lathi; 2011; Li *et al.*, 2014), different contexts (Spliid, 2013), and business angels might be shifting towards later stage investments (Sohl, 2010, 2012).

Article one illustrates how the general characteristics of the business angels in an informal and unstructured context like the Danish one are like those found in other studies with more formal and structured contexts. This is somewhat in contrast to the predictions of Spliid (2013) who stated that Nordic investors would display different characteristics. However, as Spliid (2013) addressed investors in general and this study specifically concerns business angels, the findings would indicate this area needs further research. The article does find some differences among the interviewed business angels from Denmark compared to those in international studies. The interviewed business angels rely on informal networks to a larger extent than business angels in other contexts, which would be expected, as the other contexts are regarded as more structured, having national networks, such as business angel networks. The article contributes by identifying problems in the informal and unstructured context regarding the difficulties new business angels are having in identifying investment opportunities and how they should start their ‘career’. This would be a somewhat expected finding in the informal and unstructured context; however, it prompts future research to identify how new business angels can be assisted in becoming active business angels.

Furthermore, studies by Sohl (2010; 2012) identified that a shift might occur, affecting the characteristics of the business angels. The shift described by Sohl (2012) indicates that American business angels are moving towards later stage investments in comparison to earlier. This shift has, to some extent, been identified in other settings. Lathi (2011) found this later stage focus among Finnish business angels, although it was not addressed or referred to by Sohl (2012) in the article. Article one contributes to this discussion by showing how the characteristics might be different between later stage and early stage investors. The later stage investors seemingly desire a higher degree of control in an investment to maximise their output. The earlier stage investors, on the other hand, are facilitating and framing structures by ensuring they do not interrupt the creative development in the companies and instead set boundaries and guidelines. These findings contribute to the understanding of business angels and their preferences of investments in the initial stages of the investment process. However, these preliminary findings should be subject to further research, as the indications of this shift are relatively new.

Overall, these findings recognise a continuous need to monitor and investigate the possibly changing characteristics of the business angels around the world in different contexts. The ongoing investigation of the characteristics needs to be done to ensure the theoretical and practical recommendations of different studies are still properly addressing business angels. Furthermore, practitioners and entrepreneurs should acknowledge the difference in characteristics as the business angels’ individual preferences prompt different approaches to best suit them.

Contributions to understanding the investment process and decision making of business angels

The literature displays similar cohesion as it did with the characteristics regarding the challenges found in the investment process between business angels and entrepreneurs. The challenges often relate to creating a suitable deal flow (Mason and Harrison, 1994; Van Osnabrugge and Robinson, 2000), the poor quality/information of the opportunities (Mason and Stark, 2004; Hsu *et al.*, 2014), the communication between the individuals (Cornelissen *et al.*, 2012), and the credibility of the entrepreneurs (Fiet, 1995; Maxwell and Lévesque, 2010). These challenges in the investment process impede the business angels’ ability to invest as often as they would like (Van Osnabrugge and Robinson, 2000; Mason and Harrison, 2002). This has spurred research to investigate the investment process and decision making between business angels and entrepreneurs; however, the area is still regarded as under-researched (Sapienza and Villanueva, 2007; Sohl; 2012), and most studies have mainly been quantitative, addressing which information is important to business angels.

Traditionally, the information has been investigated by examining business plans and formal (often written) communication between the entrepreneur and business angel (Mason and Harrison, 1996; Mason and Stark, 2004). However, recent studies have identified that business angels regard informal information, such as credibility (Maxwell and Lévesque, 2010) and the perception of the entrepreneur, as the main factors (Huang and Pearce, 2015). However, this still leaves a communication challenge between the business angel and entrepreneur, as entrepreneurs are already operating on the limits of what they know (Cornelissen *et al.*, 2012). Therefore, investigating the challenges in the investment process from a practice perspective was the aim of articles two and three.

Article two

The second article is concerned with information flow and communication between business angels and entrepreneurs. This is investigated to explore why business angels often refer to poor quality information (Fiet, 1995; Mason and Stark, 2004; Hsu *et al.*, 2014) and bad communication from entrepreneurs (Cornelissen *et al*., 2012; Huang and Pearce, 2015) as the main obstacles in investment processes. The investigation focuses on the initial contact stages in the investment process in order to understand what is regarded as the right information and how entrepreneurs can communicate this to business angels.

The findings in the article identify the general perception of poor quality and the challenges of bad communication by following the investment processes and interviewing business angels. The article contributes by identifying and elaborating on what is included in the perception of poor quality and bad communication. Previous studies have questioned the usability of a business plan to convey information and communication to business angels (Karlsson and Honig, 2009). The article contributes to this stream of literature, as the findings in the interviews and observations during the investment processes showed that the business plan is not a suitable platform to overcome challenges. Even though the business plan could contain the information desired by business angels, as shown by Mason and Stark (2004), it is not sufficient during the investment process, as the findings support a need for both intangible and tangible elements. The identified intangibles relate to the entrepreneurs' need to make themselves understandable. The observed investment processes showed that some entrepreneurs might have all the information needed, but they could not convey this in a meaningful manner to business angels. The article, therefore, contributes to previous findings by Cornelissen *et al*., (2012), Huang and Pearce, (2015) and O'Neil and Ucbasaran, (2016) in that it is important to ensure a common understanding of the investment process to progress. In other words, the article contributes by illustrating that the 'right information' is not as important as conveying the information in an understandable way, which agrees with Bukh (2003).

The article further investigates how a common understanding can be achieved in the investment process, primarily from the business angel's point of view. This is done by introducing business model thinking and the business model canvas as a framework. The interviews with the business angels found business models to be a topic with which most of the respondents were familiar. Hence, it was suitable as a framework to create understanding for business angels. The observations during the investment process showed that the entrepreneurs that were applying the business model approach obtained a better response and positive perceptions from business angels. This finding corroborates with Huang and Pearce (2015) regarding the finding that business angels are more willing to engage further in investment processes when they have positive perceptions of entrepreneurs during initial contact. Even though a few entrepreneurs did not understand the business model canvas, the majority quickly adopted the thinking as shown by Oyedele (2016) regarding business model applicability in different entrepreneurial contexts.

Article three

Like article two, article three investigates the investment process between business angels and entrepreneurs to further understand the decision making during the investment process. The third article adds to the understanding of the investment process by illustrating how the rejection and acceptance decisions by business angels and entrepreneurs can be understood more in depth from a value perspective. The process of acceptance or rejection of investment proposals has previously been investigated with verbal protocol analysis (Mason and Stark, 2004) questionnaires regarding business angels (Mason and Harrison, 2002; Lathi, 2011; Hsu *et al.*, 2014) and social capital approaches (Sørheim, 2003). These previous studies have shown that business angels not only choose opportunities with the highest return on investment but also use their 'gut feelings' (Huang and Pearce, 2015). This notion of 'gut feelings' in the investment process is elaborated upon in the third article as being related to different value activities during the investment process. Specifically, the value perspective was chosen to create new explanations concerning the acceptance or rejection from both the entrepreneur and business angel. The perspective is used to explain some of the different choices business angels and entrepreneurs make during the investment process regarding whether to pursue the investment or stop the investment process. Previously, this was done using survey-based approaches (Mason and Harrison, 1996), informational points of view (Mason and Stark, 2004), agency theory (Hsu *et al.*, 2014), and exploratory points of view (Freeney *et al.*, 1999).

The article contributes by finding that business angels frequently reject investment proposals from entrepreneurs. This is a common finding in the literature. However, the introduction of the value perspective brings new explanatory power to the understanding of why business angels turn down entrepreneurs and further explains why business angels are sometimes rejected by entrepreneurs. The value perspective (inspired by Powell and Hughes, 2016) enables the understanding of what and how the business angels and entrepreneurs value during different stages of the investment process. This frame enables the study to obtain a deeper understanding of the decision making taking place during the investment process based on different value attributes that the entrepreneur offers to a business angel and vice versa. The article contributed by illustrating how the value approach can shed new light on understanding subjective factors, such as the ‘gut feeling’ (Huang and Pearce, 2015).

Furthermore, following Shepherd (2015), the study shows how new insight can be attained regarding the decision making by following the investment process through several stages. Specifically, article three identifies five activities regarding the notion of value in the investment process. These five activities include 1) value creation via strategic fit, 2) value creation required for investment, 3) agreement on strategic direction, 4) surplus-driven investment decisions, and 5) incremental value lowering the investment cost. The findings show that, within each activity, different value creation and sharing are perceived and evaluated by both the entrepreneur and business angel. If the specific value in an activity illustrates an interesting surplus for both the entrepreneur and business angel, they will go to the next activity. The findings regarding which aspects are valued during different parts of the investment process further contribute to positioning the business angels as investors and to understanding the investment process. The understanding further informs studies regarding the acceptance and rejection during the decision making of business angels. Previous studies have shown different approaches (Mason and Harrison, 1996: Mason and Stark, 2004: Hsu *et al.*, 2014) are relevant in observing the decision-making. The article finds the value approach especially useful when trying to understand the subjective factors. The article hence contributes by illustrating how a new set of theoretical lenses, such as the value perspective, can contribute to new understanding of the investment process and decision making of business angels.

Article four

The fourth article investigates how the investment processes of business angels are influenced by external individuals, such as gatekeepers. The gatekeeper can create both positive and negative barriers in an investment market (Suchman and Cahill, 1996), where the positive aspects are related to breaking down barriers and facilitating connections (Barzilai-Nahon, 2009; Gao *et al*., 2016). The gatekeeper function has likewise proven to be an important role in initiating investment processes between business angels and entrepreneurs (Paul and Whittam, 2010; Mason *et al*., 2016). The importance of gatekeepers has led researchers to call for further research on the role they perform in the investment market (Paul and Whittam, 2010; Mason and Botelho, 2016). However, the studies conducted so far on the gatekeeper function have only been made in the context of business angel networks, questioning whether the role and importance are the same in other contexts.

Article four investigates the gatekeeping function in a government matchmaking project in accordance with the above recommendations. The article contributes by finding that the role of the observed gatekeeping function is similar to those found in other studies. However, the importance of the linking role is more prevalent than those found in other studies (Paul and Whittam, 2010; Mason and Botelho, 2016). The linking role is more dominant because the gatekeeping function, for example, needs to facilitate the entrepreneur in preparing for the investment meetings before a link to the business angel is possible. This elaborate linking role could be explained by the investigated informal context, as entrepreneurs are not aware of the requirements of business angels. Other explanations can be found in the work by Mason and Kwok (2010) that suggested different levels of government readiness programmes would be ideal to support entrepreneurs in engaging with business angels. In line with Mason and Kwok (2010), the need for a more dominant linking role could be due to the Danish investment market lacking investment readiness programmes for entrepreneurs.

The possible general lack of more investment readiness programmes is not further elaborated in the article; however, the findings in the investigated matchmaking programme do show that the gatekeeping function can help alleviate barriers (Barzilai-Nahon, 2009; Gao *et al.*, 2016) on the investment market. The observations and feedback of the gatekeeping function illustrate that the investment process becomes more fluent, for example, helping the communication along. This contributes to previous findings (Cornelissen *et al.*, 2012; Hsu *et al.*, 2014; O'Neil and Ucbasaran, 2016) establishing communication as a challenge between business angels and entrepreneurs. The article elaborates on this challenge by illustrating how the gatekeeping function handled this challenge in the empirical findings by applying an investor catalogue, presentation template, and a common understanding framework enriching the previous findings in this regard.

Contribution of the articles to the research question

The introduction at the beginning warranted an investigation into the research question: '*How is business angels' decision-making formed in investment processes with entrepreneurs?*' primarily from a non-economic theory and qualitative point of view. The first article contributes to the research question by identifying the characteristics of the business angels in the investigation, illustrating whether the business angels in the context were like those found in other contexts. This was an important initial clarification, given that a very different definition and characterisation of business angels in the sample could potentially eliminate the possibility to learn from previous findings and perhaps would warrant a more grounded theory approach instead of the middle-range, practice theory, and case-based approaches chosen for the current investigation. The first article found the general characteristics of the business angels used for data collection in the dissertation were similar to those found in other contexts, enabling the use of the approach.

The second article contributes to the research question by exploring the initial part of the investment process of the business angel and entrepreneur by investigating known information and communication challenges within the field, affecting the decision making of the business angels. The findings in the article illustrate how the challenges likewise are present in the current context. More importantly, the findings in the article illustrate how a common framework like the business model and business model canvas enables a common understanding between the business angels and entrepreneur. This common understanding is found to be more important in the decision making than 'just' knowing the right information. Likewise, the article contributes to decision making, as the findings showed that applying a common understanding frame creates more positive perceptions of the entrepreneurs by the business angels, elaborating on the notion that positive perceptions improve decision making.

The third article elaborates on the investment process by further exploring decision making during the investment process and why business angels accept or reject the entrepreneurs during different stages. This was done with the aim to further understand subjective factors, such as 'gut feelings' influencing the decision making. Investigating the decision making, the article used a value perspective to elaborate on factors influencing the decisions and on why business angels and entrepreneurs accept or reject each other during different stages. This investigation along the different stages of the investment process enabled the finding of five distinct value activities that affect decision making. Each activity could be explained by the need to achieve a certain value for the business angels and entrepreneurs to continue the investment process. Understanding this value perspective further helps to clarify the decision-making during the different stages of the investment process, which is the essence of the research question.

The fourth article investigates the influence of external individuals on the investment process, as the investment process is often initialised by external facilitators or gatekeepers in some contexts, especially in business angel networks. The role of the gatekeepers has not been explored in the current context, but other studies show the importance of the role in the investment process and decision making. Article four confirms the findings in the previous literature regarding the importance of gatekeepers and elaborates on how the gatekeeping role is slightly different in the current context compared to that found in business angel networks. The articles illustrate how the gatekeeper in the Danish context helps entrepreneurs and business angels find each other and further facilitates the investment process, making entrepreneurs more attractive and approvable within the decision terms of business angels.

The articles elaborate on the very essence of the research question by investigating it from a broader perspective. The investment process and decision making are investigated in depth through articles two, three, and four. The broader perspective is present in articles one and four. Here, article one establishes the characteristics of business angels, which the other articles build upon. Furthermore, the findings in article four regarding the gatekeeping function and how such aspects influence the investment process and decision making directly or indirectly are likewise considered both in-depth and from a broader perspective. All the articles explore known phenomena within the research field and further incorporate other aspects found in the literature during the empirical investigation enabled by the methodological approach. The articles, along with the rest of the dissertation, enable the final answering and conclusion of the dissertation.

10.2. THEORETICAL GAPS AND FINDINGS

The section above illustrates how the findings in the articles contribute to the central research question. This section will introduce the findings concerning the theoretical questions raised and show how the findings have contributed to these gaps and questions. The aim is to avoid repetition of the findings and explanations regarding the specific articles but to relate the findings across the articles and show more general findings.

Non-economic theory

One of the ambitions is to explore non-economic theories and move beyond pure economic rationale theories in explaining business angels' behaviour and decision making. The dissertation does not present specific discussions regarding whether the decisions made by business angels were from an economic point of view or non-economic point of view *per se*. However, it does show how the non-economic perspective has explanatory power towards some of the topics raised in this discussion. Harrison *et al*. (2015) illustrated how business angels learn from each other, base their decisions on experience, and look towards the decisions of experienced business angels. If regarded purely from an economic rationale, in accordance with Jensen and Meckling (1976), the business angels should make rational choices. The findings in the first article relate to research by Harrison *et al*. (2015), showing that new business angels encounter issues regarding understanding how to make their decisions and obtain a proper deal flow, as they have no networks or places in which to learn from more experienced business angels. The empirical results show that even experienced business angels remember the difficulties they had at the beginning of their careers and that they had few from which to learn.

The findings concerning the investment process likewise illustrate how business angels use more subjective measures, such as understanding the investment and determining whether they find the investment opportunity exciting. This builds on previous findings regarding subjective factors that play an important role in the decision making of business angels, as shown in studies by Hsu *et al*. (2014) and Haines *et al*. (2003). Furthermore, the five value activities show that, in the beginning of the investment process, the notion of use value, which is a more subjective measure, is more important than the notion of surplus, which becomes more relevant in the later stages. This supports the findings by Jeffrey *et al*. (2016) which indicate that the subjective measures could be more important in the earlier stages of the investment process and more rational factors become more important in the later stages. These findings together with those in the articles illustrate that the non-economy theory approach has an interesting potential to elaborate on general knowledge about business angels and their decision making.

Investment process and decision-making

The investment process has been an important part of the research and a part of the central research question. The dissertation does not contribute to the further development of a 'new' investment process or adding new stages to known investment processes found in, for example, the work by Paul *et al*. (2007). The research instead had the ambition to elaborate on the knowledge of what occurs in different investment stages, as recommended by Sapienza and Villenueva (2007), Souitaris and Zerbinati (2014), and Harrison *et al*. (2015). The research contributes to this by exploring some of the issues regarding the early familiarisation stage, where business angels often have issues finding the right opportunities (Mason and Harrison, 1996; Hsu *et al*., 2014). The author has explored how a common understanding provides better initiation in the familiarisation stage contrasting with 'just' providing the right information, elaborating on findings from Huang and Pearce (2015) and contrasting with findings by Bouwman *et al*., (1987) and Mason and Stark (2004). The results likewise support findings that indicate that the business plan is no longer the preferred information platform (Karlsson and Honig, 2009) in the early stage, which contrasts with the findings by Gompers (2002).

The dissertation likewise goes further investigates the later stages, such as the screening and bargaining stages, to further enlighten the studies situated in these parts of the investment process; the findings will be presented in the decision-making section presented later. The dissertation likewise explored how external individuals, such as gatekeepers have influence across the investment process. The role of the gatekeeper enables some entrepreneurs to enter the investment process, which they might not have been able to do on their own. This elaborates on the findings regarding the positive attributes of the gatekeeping function in a marketplace (Barzilai-Nahon, 2009; Gao *et al*., 2016) and the role of gatekeepers (Mason *et al*., 2016; Mason and Botelho, 2016). The research follows advocates like Shepherd (2015), who discussed the relevance of going across different stages of the investment process to further advance the understanding of the investment process. This enables findings and comparisons regarding different stages in the investment process as done in articles three and four and, to an extent, in article two to elaborate both on the separate stages and investment process.

The decision making of the business angels is closely tied to the investment process and was an important part of the dissertation from the beginning. As previously stated, the aim in this regard was primarily from a non-economic theory perspective. Previous research has focused on information asymmetry (Mason and Stark, 2004), personality (Hsu *et al*., 2014), and trustworthiness (Maxwell and Lévesque, 2014) as important aspects in the decision making of business angels. The research contributes to the findings above by elaborating on how decision making can be understood from a value perspective to explain why business angels accept or reject entrepreneurs and investment proposals during different stages of the investment process. As previously stated, the findings contribute by elaborating on the subjective factors, such as the ‘gut feeling’ (Huang and Pearce, 2015) by demonstrating how different aspects of value can explain this.

Across the articles, it becomes apparent that the major obstacle regarding decision making is related to the lack of a clear profile for business angels in the investment environment. Hence, entrepreneurs are not informed of how to address these types of investors. The dissertation contributes by showing how a common understanding framework, value perspective, and gatekeeping function can influence decision making. This provides insight into the theory regarding the general problem concerning bad communication (Murray, 2007) and poor quality (Mason and Harrison, 2002). The individual aspects will not be elaborated upon further, as this has been done in the findings of the articles. However, across the articles, the research demonstrates how the decision making still has many aspects that can be investigated and provides some insight in this regard.

Context

The research is set in a context that is regarded as unstructured and informal, namely, the setting of North Jutland, Denmark. This type of business angel environment is different from that found in most other studies, where business angel networks influence the investment market. This was done to investigate whether the general characteristics, investment process, and decision making were like those found in other contexts or were unique to the specific setting. The findings show overall similarities regarding all aspects of business angels, hence contrasting with the expectations of Spliid (2013), who stated that Nordic investors would be different from others.

The research does illustrate some particularities among Danish business angels. They have a higher degree of deal flow from informal sources but are unsatisfied with the deal flow. The findings in the dissertation and recommendations all point in the direction of how to improve the investment process in this setting and possibly improve the deal flow by better informing entrepreneurs or creating more gatekeeping functions. These contributions are both regarding very context-specific phenomena like the origin of the deal flow and more general concerns, such as providing the right information, communication, and understanding to enhance the general decision making and investment process of business angels.

10.3. Research design and methodology

One of the ambitions stated at the beginning was to adopt a qualitative approach in the investigation, inspired by the fact that much of the research so far has been quantitative, and calls for qualitative research have flourished (Huse and Landström, 1997; Sapienza and Villanueva, 2007; Sohl, 2012; Mason and Brown, 2013; Huang and Pearce, 2015). As explained in the methodological section, the choice was to emphasise understanding the practice in the field of business angels, enabling an understanding of subjective factors rather than exploring economic-based decision making. This led to the application of the interpretive paradigm rather than the functional paradigm, where much previous research has been positioned. Further, the aim was to provide insight into existing theory and, if needed, to develop or recommend new theories, which is why middle-range thinking was chosen. The emphasis on in-depth understanding of the stakeholders' practices to answer the research question has enabled the results presented above.

Practice theory was adopted with the ambition to understand the actions and practice of the business angels and other individuals to identify the challenges and plausible solutions to the observations. This approach enabled new perspectives on why business angels often regard information as inferior and communication as poor, especially during investment meetings. The findings indicate that the underlying problem was not so much that the wrong information was given but that there was a lack of common understanding between the business angel and entrepreneur. Revealing this new understanding, which, to the author's knowledge, has not previously been done in the research field, was enabled by the qualitative and interpretive approach. The approach allowed collecting data during the events including data such as expressions, feelings, and articulations (Brundin, 2007), as these can be important signs during decision-making processes. The business angels could often vocally seem contemptuous, but their body language would indicate other considerations, which would be noted and addressed after an investment meeting. The application of practice theory enabled the researcher to investigate subject decision factors, which are difficult to obtain in more quantitative approaches (Huse and Landström, 1997).

Following the in-depth investigations, as recommended by Huse and Landström (1997), the methodological approach enabled developing new concepts and theories unique to the field. The application of middle-range thinking allowed the researcher to investigate known theories, like decision making and characteristics of the business angels and contribute to this literature in the articles. Furthermore, the approach allowed the freedom to investigate new directions which, for example, led to the adoption of the value perspective in article three and to business models in article two. This methodological approach enabled a new view on acceptance and rejection from the value perspective and new insight on communication during investment processes being improved by the business model canvas framework. In turn, this could help both practitioners and academics improve the investment process by understanding the different value created and delivered in different stages of the investment process. The findings and contributions in the dissertation and articles illustrate that qualitative approaches, such as those found in the interpretive paradigm, can provide interesting new findings regarding both existing theories and developing theories in the field.

CHAPTER 11. CONCLUSION

The dissertation addresses the research question, '*How is business angels' decision-making formed in investment processes with entrepreneurs?*' Answering the research question is achieved through the four articles. To answer the research question, it was necessary to gain an in-depth understanding of the practices and actions of business angels and other individuals, such as entrepreneurs, in the context of an investment process to develop plausible explanations of the observations. This desire to understand the actions and practices led to the application of the middle-range theory and practice theory, which facilitated the findings by offering flexibility to investigate challenges from both known and new theoretical approaches.

Through article one, the dissertation explores the general characteristics of business angels, in the informal and unstructured context that characterises North Jutland. The article illustrates that studied business angels are similar to those found in more formal and structured contexts in other parts of the world. This is somewhat in contrast to findings in other studies, such as that by Spliid (2013). Furthermore, the article contributes by showing possible new links between some characteristics and the notion of controllability. Additionally, preliminary findings contribute to the notion of a shift in the characteristics of business angels (Sohl, 2010; 2012). The findings illustrate how different characteristics appear between groups of business angels interested in early stage investments and groups of business angels interested in later stage investments. This finding indicates that future research regarding business angels should consider the dynamics and differences in characteristics to acknowledge and accommodate these differences in characteristics to increase the probability of creating successful investment processes.

After exploring the characteristics of business angels, the investment process was investigated in articles two and three. The study theoretically explored known problems relating to the investment process and found that poor quality of information and bad communication between business angels and entrepreneurs still posed challenges (Fiet, 1995; Mason and Harrison, 1996, Mason and Stark, 2004; Hsu et al., 2014) in the current context.

These challenges were further investigated through the adoption of a common understanding frame in article two (Huang and Pearce, 2015; O'Neil and Ucbasaran, 2016) and a value perspective in article three (inspired by Powell and Hughes, 2016). These two articles contribute by elaborating on how common understanding is more important than having the right information in decision making by business angels and on the 'gut feeling' during an investment process. Furthermore, these articles contribute by illustrating how the common understanding and value perspectives can be used to provide greater in-depth understanding of decision making. Likewise, the findings provide further insight to practitioners, such as entrepreneurs, consultants, brokers, or other types of investors, about how they could understand and potentially improve the investment processes by enabling better communication and understanding between business angels and entrepreneurs. The understanding has the potential to create a smoother decision-making and investment process between the business angel and entrepreneur.

Further investigation of the investment process concerning the influence of other individuals was conducted in the fourth article to establish the role of the gatekeeping function in the investment process. The gatekeeping function was found to enable some entrepreneurs to initiate with the business angels, who would have been rejected early on by the business angels. The gatekeeping role was found to have a greater emphasis on the linking role in the informal context in Denmark, but the findings show the role's influence on the investment process and decision making of the business angels. Furthermore, the findings show how a government matchmaking project has some potential to alleviate the issues in the early stages of the investment process of business angels by enabling deal flow.

Reflecting on the contributions of the four articles, together they form a picture of how business angels and investment processes can be explored using new theoretical lenses, providing new insight into long-lasting challenges in the field. The findings and contributions were interpreted through the methodological lenses of the middle-range theory and practice theory. In combination, the perspectives provide practitioners and researchers with new and novel insight and understanding regarding how to understand business angels' decision making to improve investment processes while engaged with entrepreneurs. Overall, the research question was answered in the dissertation by identifying existing challenges, providing insight from alternative theoretical and methodological approaches, and providing plausible contributions to ideas and thoughts for both practitioners and academics.

11.1. Limitations

The dissertation has limitations like any other study performed in an academic context. The first limitation concerns the generalisability of the findings. The sample, being the main unit of analysis, comprises 16 business angels and 13 investment processes that were followed through different stages. With such small sample sizes, there is a risk of being biased in one way or another. This bias has been addressed in article one by comparing the sample with other Danish business angel surveys and international findings. The findings should not be regarded as generalisable, as this is not the aim. The same bias is present with the investigation being situated in the context of North Jutland, Denmark, which, as previously explained, is different from the context of most other studies. The results could have been different if the study was conducted within the region of Copenhagen because this region has more well-established business angel networks. In other words, the findings with the same methodological approaches and theoretical applications could generate different results than those found in this dissertation. Such is the nature of conducting qualitative research; however, it is a limitation that should be recognised if trying to replicate the results. This general concern is the same when considering the limitations regarding case studies.

The use of interviews in the dissertation can be regarded as retrospective sense-making, which is a danger inherent in all interviews that do not collect real-time data. Conversely, the study makes use of real-time data in by observing practices during the investment meetings, which could be biased by the researcher's presence or other motives by the attendees. The two approaches were mixed, with the aim to minimise both biases; however, the biases are still present and cannot be neglected. The notion of applying middle-range thinking is a subject of ongoing discussion, as the research is not clearly confined within purely deductive or inductive approaches, and the researcher could 'sit between two chairs' with the approach. The results could also have been different if only the known theories were used or a purely grounded theory approach was used instead; however, the weakness or strength of the middle-range thinking approach allowed for some interesting findings during the process, which contribute to the long-standing issues in the field. However, caution needs to be taken, as middle-range thinking is not a free-pass for 'everything goes' during an investigation.

Furthermore, there are specific limitations regarding the choice of theories included and the exclusion of others. For example, the choice was to explore non-economic theories and focus on more subjective factors, which also meant not exploring economic reasoning regarding the phenomena. This is not regarded a weakness but as an active choice and limitation given that every researcher is bound by limited resources, time, and possibilities; however, it is a limitation, and the results would probably be different if other choices were made during the initial focus of the delimitation.

11.2. Further research

The findings in the dissertation have made some interesting contributions to the research field, and this section will be used to give some indications of how future research could develop. The qualitative approach utilised in the dissertation, which was inspired by different authors (e.g., Huse and Landström, 1997; Huang and Pearce, 2015), made the findings and contributions possible, further advancing the knowledge in the field. The recommendation is that future researchers continue to investigate the qualitative approach concerning the field of business angels and investment process to try to enrich the knowledge in the field with in-depth investigations of different phenomena. The qualitative investigations especially hold potential to further investigate decision making during investment processes and to elaborate on how to understand subjective factors.

Regarding the characteristics of business angels, the findings indicate that business angels are similar in different contexts, although some characteristics are slightly different. This warrants future research to continue exploring this field to maintain the fundamental understanding of the business angel and to assess whether the other theories need adjustments or revisiting. For example, the findings regarding the possible shift in the investment stage of business angels need to be monitored both quantitatively and qualitatively to ensure an up-to-date understanding of the fundamentals regarding business angels. Furthermore, regarding the findings in article one, it would be interesting to investigate whether the findings in the small sample regarding controllability and connection between involvement, owner share, and controllability can be established through a quantitative study.

The area of the decision-making during the different stages of the investment process, which has been one of the main areas of exploration, should be further investigated. If better communication, information, and understanding could improve the acceptance rate during decision making, it would help reduce the resources spent by both entrepreneurs and business angels during the investment process. Some studies have established the need for government projects to help alleviate these problems (Mason and Kwok, 2010). However, studies should likewise consider whether entrepreneurial education could be improved during primary school, high school, or university attendance. Entrepreneurial education is already a big topic on its own, but the inclusion of investor-specific information and knowledge of decision making could possibly enhance communication and information currently in the investment market.

The author has taken business angels as the primary unit of analysis; however, it would be an interesting avenue to do similar research with entrepreneurs as the primary unit of analysis. Some entrepreneurs are in the situation in which they can reject business angels, as they have multiple offers and are very profound in attracting venture capital from both business angels and venture capital funds. This spurs the question regarding whether these persons have some special characteristics, features, or processes that could be used by other entrepreneurs who are having trouble in obtaining finances.

Regarding the investment market, an interesting research area concerns external individuals that enable the investment processes between business angels and entrepreneurs. Some research has already focused on where business angels obtain their deal flow with the findings indicating acquaintances and previous business partners. Moreover, lately, the role of gatekeepers has become an important source enabling the deal flow. The research regarding the gatekeeper is relatively new, but private gatekeepers or business brokers have been present for a long time, and studies into private vs business angel network gatekeepers (for example) would be an interesting avenue to investigate, further enriching recent studies such as those by Mason et al. (2016) and Mason and Botelho (2016).

The conducted work stops at the negotiation phase of the investment process. However, future research might follow what happens when the entrepreneur and business angel agree. The business angel is an active investor, but how does this activity reveal itself in the investment and in the company? Does the business angel bring management accounting tools to implement or does the business angel rely on milestones or strategies that may have been agreed upon during the investment process? This would elaborate on the value activities and provide further insight regarding a longer chain of events in the investment process than discussed in this dissertation. The implementation of different management tools would possibly be very different between start-up companies and well-established companies, but a deeper understanding of the activity of a business angel could shed new light on challenges regarding communication and information alongside value activities.

CHAPTER 12. REFERENCES

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