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”I Do”

The Potential for Marriage Between Angels and Firms

An exploratory study about the social context of business angels
and start-up firms on the Swedish market

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Abstract

The number of start-up firms on the Swedish market has been increasing steadily over the past decade and the financing alternatives for young ventures are limited. One group of actors that has the ability to fill this gap is business angels, whom invest in firms in the start-up phase. The aim of this study is to examine the potential for partnership between business angels and start-up firms in Sweden, by looking at the different social contexts that these two operate in and investigate the new context that evolves during a mutual evaluation process. This will be done using the theoretical concepts of institutionalization and intuition, which combined are used as a conceptual framework that can explain the social construction within this particular context. A qualitative study was conducted, with a total of 20 interviews consisting of business angels, start-up firms and additional sources who possess knowledge about the industry and the evaluation setting. The conclusion of the study suggests a misalignment of what the two actors communicate that they seek in each other and what they in reality really want. This results in a complex mutual evaluation process where conceptions bias the starting point, which will play a significant role for the outcome of the assessment.

Key words: Business angel, Start-up firm, Institutionalization, Intuition, Evaluation

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1.0 Introduction

This section aims to provide an introduction and background to the chosen topic and lead to our research question.

1.1 Background

Since 1994 the number of start-up firms each year has doubled, from 34 672 in 1994 to 69 216 in 2012 (Tillväxtanalys, 2012). Starting your own business and becoming an entrepreneur is often on top of the list when people state their dream jobs (Victorin, 2012), entrepreneurship in Sweden is today something cool that is associated with prestige and status (Olsson-Jeffery, 2012). The fact that Swedish successful entrepreneurial firms, such as Spotify, also scores high on the lists of peoples' dream employers also indicates an entrepreneurship trend in Sweden (Karriärbarometern, 2013). Entrepreneurship is a social phenomenon (Wennberg, 2013) and society shows great interest in entrepreneurship due to the increase in educations and competitions within the subject. Increased popularity in TV-shows such as "Dragons' Den" further indicates the interest of both entrepreneurs but also investors (Tillväxtanalys, 2013). The cultural context has a direct impact on entrepreneurial behavior (Wennberg, 2013).

One condition for a start-up firm to grow is access to capital (Entreprenörskapsforum, 2012); this is in particular important in the early stages when investments are necessary. Many start-ups firms establish their potential for survival in an early stage and this period is often defined by expensive investments within production, development and personnel (Åsling, 2013). Many firms are thus placed in a situation where a financial gap arises when the demand of money exceeds the supply (Winborg & Landström, 2000).

The financing of start-up firms on the Swedish market is a complicated matter. Most often are the traditional channels, such as financial institutions and venture capital, not available for these young firms (Entreprenörskapsforum, 2012). The higher degree of innovation the venture is associated with, the harder it is for external funders to assess the risks that a potential investment brings. In addition, young entrepreneurs often lack own savings and thus have difficulty obtaining bank loans for starting a business (Cronstedt, 2014).

One group of people that aims to solve this problem is business angels. They have the ability to fill the financial gap that start-up firms face in their early stages by investing money early in the company life cycle (Coveney & Moore, 1998; Wong, 2002), informal investors are thus an important part of the Swedish private equity market (Silver, 2008). Consequently, business angels are valuable sources of capital for entrepreneurs since they invest in phases where other financiers, such as venture capitalists, are reluctant to invest due to the high uncertainty and risk (Sørheim, 2005; Kempe, 2005). Recently there has been increased attention on informal capital on the Swedish market, news indicate that business angels are redeeming the start-up firms (Jakobsson, 2014) and the percentage of people that personally has provided capital to a new venture is steadily growing. In comparison to other developed countries, Sweden is in the top of the amount of informal investors in proportion to inhabitants (Entreprenörskapsforum, 2012).

1.2 Problem formulation

When business angels decide whether they want to invest in start-up firms there is a situation of high uncertainty in which both parties need to evaluate each other in order for a partnership to be entered. This evaluation process is complex and leads to challenges for both parties.

New ventures are associated with a high degree of uncertainty and most start-up firms do not survive their first years, hence investing in a start-up firm is consequently linked with a high level of risk. In many cases entrepreneurial firms lack both experience and capital, which is the most common reason for their early failures (Fransson, 2014). Since the start-up firms most commonly neither have a track record nor a finished product, the evaluation process from the business angel’s perspective puts a lot of focus on the entrepreneurial team.

The problem from a business angel’s perspective is that there are few aspects that are measurable (e.g. sales data) in the assessment of start-ups, which leads to a process that lacks structure and becomes irrational. This results in difficulties to make an assessment based on rationality and objectivity, thus it is to high extent dependent on the business angel’s intuition. For the start-up firms the problem is that they might be afraid to relinquish ownership control. The share of ownership is a potential source of conflict between entrepreneurs and investors since they might have different views on e.g. how the firm should be managed. The entrepreneurs seek capital to realize their dream but the problem for firms is that there is not much to present in terms of financial ratios, hence a lot of focus is on the evaluation of the members within the team.

1.3 Purpose

The purpose with this study is to examine the potential for a partnership between business angels and start-up firms in Sweden, by looking at the different social contexts that these two operate in and investigate the new context that evolves during a mutual evaluation process. We aim to provide a deeper understanding for the underlying aspects that are brought into the new context and how it affects the mutual evaluation.

The contribution to the research field is to further investigate how different aspects, such as the institutionalized environment and the use of intuition plays part in the evaluation process. By developing further insights about the evaluation process between firms and business angels, the aim is to fill out the gap that exist within this topic. Our ambition is to contribute to both start-up firms and business angels by generating a larger understanding of the mutual requirements for a partnership. This is important in order to enable an accurate match between firm and business angel, as well as gaining insights about how they evaluate each other.

1.4 Research question

Based on the identified research problem described above, our chosen research question is;

“How and in what ways does the social context play part in the mutual evaluation process between business angels and start-up firms?”

1.5 Delimitations

Our intent with this research is to investigate how the social context that exits between business angels and start-up firms looks like. The firms and angels in this study are all operating on the Swedish market. Thus, one delimitation in our study is that the data is collected in Sweden and more in particular in the area around Stockholm.

Another delimitation is that we only focus on the conceptions brought into the new context where the both actors evaluate each other in order to assess the potential for a future partnership. We do not put emphasis on the outcome and results of an eventual relationship.

1.6 Definitions

1.6.1 Business angel

Our definition of a business angel is an individual who invests capital and brings business knowledge to unlisted firms with growth potential. The business angel is usually a person with experience and knowledge about entrepreneurship that helps firms develop by providing capital, expertise, commitment and his or her own network (Svenska riskkapitalföreningen, 2013).

1.6.2 Start-up firm

A start-up firm refers to a very small company possibly with no collateral and no track record (Söderblom, 2012), active in any type of industry. The teams consist of maximum five individuals. The firm is close to launch of product and signing contracts with customers.

1.6.3 Mutual evaluation process

Refers to the process when the business angels and start-up firms evaluate each other in order to make a decision of whether they want to engage in a partnership or not. From the angels perspective the evaluation includes an assessment of the overall business proposal as well as of the individuals within the firm. From the start-up firms' perspective the evaluation consists of an assessment of the angel.

1.6.4 Social context

This refers to the social setting in which something happens and develops, it consists of the culture that individuals exist in as well as the people and institutions with whom they interact.

1.7 Disposition

This paper is divided into 7 different parts. In this first introductory section we outline the theme of this paper and explain the purpose and research question. The following and second part presents our conducted literature review of the research done on the current topic as well as the theory used to develop our theoretical concept. The third section contains a detailed explanation of the methodological choices we have made when conducting this research. Part four is an overview of the empirical findings in this study. These are then analyzed in part five and the conclusions are drawn out in section six. The seventh section is a description of the implications, contributions and our suggestions for future research on this topic. In the last sections the references and appendices are presented.

2.0 Literature Review & Theoretical framework

This section aims to demonstrate the theoretical gap identified by presenting an overview of the previous research in the field of financing for start-ups and the theories we will use to analyze our findings.

2.1 Literature review

2.1.1 Financing alternatives for start-up firms

The financing alternatives for start-ups can be categorized into three main groups; insider funding and bootstrapping, debt funding and equity funding.

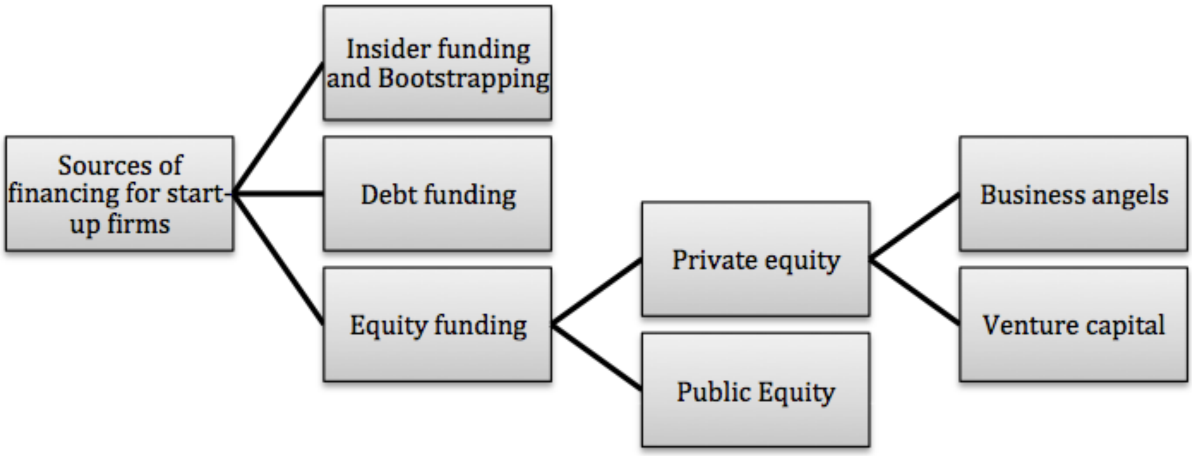

Figure 1-Financing alternatives for start-up firms (Söderblom, 2012)

In the very beginning many entrepreneurs use personal savings and/or help from friends and family in order to enable the transformation from idea to business (Rob & Robinson, 2010). This is often referred to as bootstrapping and is acknowledged as the most common source of funding to young and small firms (Berger & Udell, 1998; Bozkaya & Van Pottelsberghe De La Potterie, 2008). Another alternative is to finance the business through dept. In this category appear bank loans, credits from other types of financial institutes, governmental debt and credits from trade (Söderblom, 2012). Besides insider funding from the owner and relatives and debt funding, equity funding is an important source that can create valuable opportunities for growth for a start-up firm. Within private equity there are two categories. The most well-known is venture capital (VC), which is a formal type of equity based on a fund run by general partners

(OECD, 2011). The other form of private equity is funding by business angels, which is considered an important source of capital for start-up firms. This literature review has been framed to only emphasize the research within the field of equity funding, with a particular focus on business angels. To generate an understanding of how the evaluations process looks like from a business angel perspective we start off by explaining how venture capitalists and business angels differ in their evaluation of a start-up firm in order to determine the investment decision.

2.1.2 Comparison between Venture Capitalists and Business Angels

Business angels are individuals who often are experienced entrepreneurs or business people whom invest capital and bring business knowledge to unlisted companies with growth potential. The business angel is usually a person with experience and knowledge of entrepreneurship that helps companies develop by providing capital, expertise, commitment and his or her own network (Svenska Riskkapitalföreningen, 2013).

A given assumption of VC’s and angels’ operations is that they both look for projects with potential for financial profit. However, despite the fact that both VC’s and business angels have similar functions for a start-up firm and they both make assessments of firms’ potential to succeed, there are many differences in terms of why, how and where the evaluation process occurs.

2.1.2.1 Why

Venture capitalists and business angels differ a lot when it comes to motives behind the funding and involvement after the partnership has been entered (Van Osnabrugge & Robinson, 2000). Business angels are usually much more involved in the day-to-day operation within their investments than venture capitalists. One difference is that business angels more often have an entrepreneurial background; research shows that 75-83 % of angel investors have own start-up experience (Van Osnabrugge & Robinson, 2000). Their entrepreneurial carriers often have made their fortunes through a cash-out of their own previous ventures (Wetzel, 1981). Research also shows that business angels put more weight and consideration into how they can contribute to the business with knowledge and experience rather than their financial contribution (Madill et al., 2005). The business angels are supposed to be value adding investors that by adding their professional and personal knowledge and skills support the development of new ventures (Aernoudt 1999; Politis & Landström 2002; De Clerq et al. 2006). The angels do more often join the team and commit fully to a project with time and knowledge, compared to VC’s that rarely join the business daily activities. An active angel often works full-time or part-time in the firms he or she invests in (Harrison et al., 1997). The result is that angel investors create closer personal relationships with the team that generates motivation that goes beyond the financial return of the investment. In comparison, VC firms are more focused on returning a profit from the firms they partner with, hence they are more objective and less emotionally attached to the members within the start-up team (Benjamin & Margulis, 2000; Van Osnabrugge & Robinson, 2000).

2.1.2.2 How

Business angels mostly invest in very small firms, possibly with no collateral and no track record, in this phase of the company life cycle VC firms do not invest. Instead they invest in small firms, possible with high growth potential (Söderblom, 2012). Furthermore, business angels usually invest at an earlier stage than venture capitalists that mostly invest larger amounts at later stages where the risk can be perceived as comparably lower (Sapienza & Korsgaard, 1996). Another reason for VC’s shift to later stage development is to enable shorter investment horizon and capture rewards early (Tsukagoshi, 2008).

There are also other significant differences in terms of how the investment decisions are made as well as what these decisions are based upon. The most noticeable is that the business angels invest their own money and venture capitalists invest money that comes from limited partners to their venture capital fund (Avdeitchikova et al, 2008). This affects the incentives for both parts. VC firms seeks to assess the liquidity provided by taking the firm public and the return on their investment and angels are more focused on getting their investment back (Gompers, 2001; Lee & Wahal, 2004) and work closer with other investees in this early stage who wants to proceed working with the firm (Bruton et al., 2009). Shapero (1983) states that business angels to a high extent base their decisions upon the level of familiarity with the business field, personal knowledge of the entrepreneur or a high regard for the third party who brings the investment proposal to the investor for review. Venture capitalists on the other hand, seem to use more sophisticated selection criteria with a stronger focus on structure (Haar, Starr & Macmillan, 1988). For example, one study shows that 71 % of Venture capitalists take three or more references whilst only 8 % of the business angels did the same (Van Osnabrugge, 1998). One reason for the more elaborated evaluation process from the VC firms is that they are provided with larger opportunities and resources, in terms of staff and possibilities to buy in the services needed, to perform a more accurate evaluation (Van Osnabrugge & Robinson, 2000).

When venture capitalists evaluate start-up firms they put a lot of effort and time in carrying out due diligence. This includes in-depth investigations into practically every assumption on which a business is established (Fried & Hisrich, 1994). The process takes time, often several months, and involves background checks of the founders, financial analysis of the company’s situation, assessment of the market size, competitive analysis of the market, growth potential on the market and so forth (Dileep et al., 1992; Jensen, 2002). Business angels execute less professional due diligence and rely much more on instinct and invest more opportunistically than VC firms. A concrete example that supports this is that angels do not calculate internal rates of return. (Timmons, 1990; Baty, 1991; Mason & Harrison, 1996; Van Osnabrugge & Robinson, 2000).

In order to make an accurate evaluation of a start-up opportunity there are a number of factors that any type of investor would look for; for example the product/service offering, the market or industry potential, the start-up team and the financial returns and profit possibilities. Tyebjee and Bruno (1984) identified five elementary evaluation criteria’s for VC firms; market attractiveness, product differentiation, managerial capabilities, environmental threat resistance, and cash-out potential. Several studies have been made on the criteria used by VC ‘s. Wells (1974) found that management commitment, products and market of the team were top-ranked among the evaluated criteria.

According to a study made by Sudek (2006), the five most important investment criteria for business angels are trustworthiness of the entrepreneurs, management team potential, enthusiasm of the entrepreneurs, possible exit routes and revenue potential.

The study shows that business angels rank trustworthiness first, the management team ranked second and the enthusiasm of the team is ranked third among the evaluated factors. Another study by Van Osnabrugge & Robinson (2000) made similar findings however with some minor alterations. Their research suggests adding sales potential and expertise of the entrepreneur to the list of the top five criteria considered.

2.1.2.3 Where

Due to structural aspects, there are differences in terms of where the actual evaluation process takes place. Most angel investors only make local investments where they can enable regular meetings with the firm after a partnership has started. Since business angels value their own knowledge and past experience, they want to share this with the firm and have a close co-operation. This would be difficult if the business angel invests in firms across the nation. Venture capitalists on the other hand, invest nationally and increasingly even internationally. Due to a larger structural network this is possible by using local partners that are suitable for each firm’s location and need.

A conclusion can be drawn from what is stated above, that business angels are in general better suited for early stage investments than venture capitalists. Several academic research papers also reflect this. An extensive amount of research about investing and evaluation of start-up firms comes to the conclusion that the venture capitalists choose to invest in start-ups less frequently nowadays (OECD, 2011). Jensen (2002) states that the decrease started to become significant during the early 00’s, which creates a gap that business angels aim to fill. The role that business angels have has existed in practice for centuries, but the concept of business angels as a powerful source of financing for start-up firms has emerged over the past decades (OECD, 2011).

2.1.3 Business angels

Comparatively little is known about the market of business angels, which to high extent depends on its invisible nature (Mason & Harrison, 2008). Thus research specifically related to business angels is rather limited, which is linked to several aspects according to Wetzel (1983) and Riding, Madill, and Haines, Jr. (2007). Research on business angels is characterized by inconsistent definitions and the term is in some scholars connected to the concept of “informal investor” and in others not, which highlights the complexity in defining the concept. Business angels are also difficult to identify, they operate alone or in smaller networks and are of an anonymous and invisible nature.

Research shows that business angels' decision making process is defined by uncertainty, which may occur when the assessment of the capabilities of the individuals behind the venture appears, a task that is defined by difficulty (Payne et al. 1992). This is also the reason behind angels putting large weight upon assessing the start-up team's abilities and track record (Mason and Harrison, 1996). Apart from tracking the records of the entrepreneurs, research show that the presentation of the venture is the most important factor that influences success in the screening phase (Argerich; Hormiga & Valls-Pasola, 2013).

Complexity and conflict are two other factors to be considered in the decision making process. The decision is complex since business angels often consider several business opportunities at the same time, which makes the decision harder to make. Another source for complexity is when an angel operates in an investment syndicate and the different members cannot agree on the commercial viability of the proposed venture. The part where conflict may occur is when the two parts shall agree on the finer points of the future partnership (Payne et al. 1992).

The third dimension of the complexity of business angels' operations is the fact that soft factors play part in the evaluation of start-up firms, variables that are difficult to measure. One important criterion that business angels use in their evaluation, is whether or not he or she likes the entrepreneurs (Van Osnabrugge & Robinson, 2000), another one is trust. Studies show that the business angel's trust in the entrepreneur is to large extent determined already in the first phase by an assessment of the proposal. Due to the nature of start-up firms and their lack of resources and financial ratios, business angels do not have an extensive amount of tangible aspects to base their evaluation upon. This leads to a great usage of intuition when making a final decision about the potential of start-up firms (Sudek, 2006).

2.1.4 Start-up firms

The traditional view on entrepreneurship is the act of doing new things or doing things that has already been done but in a new way (Schumpeter, 1947). To be an entrepreneur has come to be considered as taking the opportunities of creating a business (Venka-taraman, 1997) or rather recognizing, finding and making these opportunities (Alvarez & Barney, 2007; Sarasvathy, Dew, Velamuri, & Venkataraman, 2003). Entrepreneurs are also portrayed as a group that does not follow the current structures and creators of new social and organizational realities (Czarniawska-Joerges & Wolff, 1991). They act like the current structure does not exist and by ignoring the established way of how you “should” think and act, they realize their dreams (Czarniawska-Joerges & Wolff, 1991). Johannisson suggest that entrepreneurship interrupts the everyday order and organization and stands for things that are unusual, different and unknown. However he describes entrepreneurship as hard to identify and precisely explain what it is and what it does (Johannisson, 2005).

The traditional view on entrepreneurs is that they have ownership of means that they use to achieve a certain goal (Schumpeter, 1947). However new research indicates that it rather is a causation process where the effect is already given and the focus is put upon the means to accomplish these effects (Sarasvathy, 2001). The entrepreneurs in the start-up firms have a fixed goal and try to get ownership over means in order to reach that goal. The concept of effectuation is the process of choosing particular effects, which may or may not implement intentional goals. One potential effect could be the one from accessing external capital. However an aspect that researcher’s argue is needed in order for the start-up to make their business grow. Lack of funding is observed to be a big obstacle to start-up firms’ development (Söderblom, 2012) and many small firms start by lending capital from family and friends (Entreprenörskapsforum, 2012). When these sources of capital are not enough for financing growing firms, business angels play a crucial role in filling this arising gap (Harrison & Mason 1999; Van Osnabrugge & Robinson 2000).

In order for the start-up firm to take in an investment they need to be ready for a change. Studies have been made on the degree of readiness in relation to the members of the start-up firm, focusing on factors such as the teams’ beliefs and attitudes towards change (Eby et al. 2000). The start-up need to be ready for change since many ventures' development are highly impacted by the business angel from the early point when they enter the firm (Wiltbank, 2005). However, if a partnership is to be entered it is characterized by a high degree of uncertainty for the entrepreneurs. Trust is identified as a key aspect, which is essential for the cooperation to even arise (Low & Srivatsan, 1995). The building of trust between the two parties is identified as a fundamental factor for a successful investment (Harrison, Dibben & Mason, 1997).

Few studies have been done on how entrepreneurs perceive partnership with business angels, however some research has been done on the perception of investments from VC firms. There are two ways for VC firms to involve with the firms; through strategic or managerial involvement. Studies show that VC firms that are involved strategically increase the entrepreneurs' confidence in the VC. The opposite results were found towards VCs' managerial involvement that indicates a negative relation between relational norms and entrepreneurs' confidence in VC cooperation (Yitshaki, 2012). Findings from another study show that relational norms are positively associated with confidence in cooperation with VC's (Joshi and Arnold 1997; Macaulay 2000). The expectations of the other parts' intentions and behavior create a basis for commitment and reciprocity relations (Gambetta 1988; McEvily, Perrone, and Zaheer 2003; Welter and Smallbone 2006). Thus relational norms might increase the likelihood of a continuing relationship (Joshi and Arnold 1997; Macaulay 2000). It was suggested that relational norms are developed over time as the result of obligatory and reciprocal behaviors between the parties.

For entrepreneurs, confidence in a partnership with a VC firm is connected to the degree to which the investors will be committed to their relationships over time. The confidence is increased if the VC demonstrates a will to obtain subsequent funds and a long-term positive attitude towards the venture. The fact that entrepreneurs most commonly have less opportunities to raise funds than VC have possibilities to seek ventures (Cable & Shane, 1997) makes the entrepreneurs face an uncertainty, concerning the degree to which the VC firm is able to be committed to the venture over time.

One study that indicates that firms would like to develop and grow without external funding is done by Huyghebaert and Van de Gucht (2007) and suggests that there is prestige related to ownership. The study points out that keeping control and full power of the company activities is connected to increased status. This is also supported by a study by Vanacker and Manigart (2010) that shows that firms that have the possibility to survive without financing from the outside tend to avoid it.

2.2 Theory

2.2.1 Social constructionism

Many aspects of our daily experience are the result of implicit social agreements. This implies that understanding, significance and meaning within life are developed in cooperation with other human beings as a jointly constructed understanding of the world. Berger and Luckmann (1967) explored the concept of social constructionism, stating that it is a social process that makes us differentiates between what is “normal” and what is not. The most important elements within the theory are based on the assumption that individuals rationalize their experiences by creating a model of the social world, as well as that the language is the most important system through which humans construct reality. Thus, social constructs are products of human choices, focusing on how individuals and groups participate in the construction of their perceived social reality. This in an on-going process that must be reproduced by people acting on their interpretations with the requirement that the social constructs need to be constantly maintained and re-affirmed in order to persist. The concept of social constructionism involves assessments of how social phenomena are created and how they are made into norms by institutionalization.

2.2.2 Institutionalization

Institutional theory is a popular framework for explaining the processes by which social behavior is maintained (Oliver, 1991; Scott, 2008) and changed (Battilana, Leca & Boxenbaum, 2009; Dacin, Goodstein & Scott, 2002; DiMaggio, 1988; Greenwood, Suddaby & Hinings, 2002). One example of a role that is highly institutionalized is the form of a doctor for managing illness. This is both a normative and cognitive established social role made up of particular behaviors, expectations and relations. These forms of formal structures are in the modern society deeply embedded in well-known understandings of social reality (Meyer & Rowan, 1977). The role of institutions is to comprise the restrictions and incentive systems in society. Through the enforcement of laws, values and social norm these systems structure the actions and interactions of the humans in society (North, 1998). When the actions and interactions are maintained over a long time they become institutionalized and perceived as how things should be done (Zucker, 1987; Scott, 2008).

One important governance mechanism for upholding norms and beliefs is the media, which indirectly is done by communicating what is socially acceptable in society. The media reflect fact and thereby lower information asymmetry between corporate insiders and outsiders, but they also filter and interpret this information about organizations in ways that are shaped and influenced by institutional logics that defines legitimate behavior. Thus, besides reflecting firm actions, the media can also influence firm behavior. To understand how media work as a governance mechanism it is necessary to consider the nature of that specific institutional logic, since firms often face pressure to adapt to these mechanisms (Jansson, 2013; Bednar, 2012).

2.2.3 Three pillars of institution

Institutionalism can be seen a composition of three elements, known as the three pillars of institution (Scott, 2008). These are regulative, normative and cultural-cognitive, providing society with stability and meaning.

The regulative pillar includes obligations for institutions, such as complying with laws and rules. It also includes aspects in society that are unwritten, but that involves sanctions when compliance is not fulfilled. The normative pillar is based on norms and values, which every firm or institution should aim to comply with. Values are defined as something that is preferred or desired, while norms is less tangible and refers to how something should be done and the means to an end. Hence, values can be defined as the goal while norms are the path towards that goal, the last one thus being more abstract.

Institutions involve normative obligations, a highly institutionalized rule is however both normative and cognitive (Meyer & Rowan, 1977). Scott (2008) suggests that the cultural-cognitive pillar is the most abstract one, meaning that culture is an important aspect when firms try to legitimize themselves, which they therefore need to comply with. Besides complying with external cultural aspects, one will also be influenced by the own subjectivity and personal beliefs. Since culture and subjectivity within decision making is deeply embedded in society it is difficult to influence these aspects as an institution.

2.2.4 Legitimization

The rationalized concepts of organizational work that are institutionalized in society make it important for organizations to incorporate procedures that comply accordingly and when complying, the legitimacy increases and thus also the survival prospect for that organization (Meyer & Rowan, 1977).

2.2.4.1 Managing legitimacy

There have been attempts to structure legitimacy into separate concepts. Suchman (1995) suggests three types of legitimacy; pragmatic, moral and cognitive. Pragmatic legitimacy focuses on the immediate surroundings where potential for influence is greatest, while moral legitimacy describes the need to "do the right thing" which enhances the importance of how acts benefits society rather than oneself. Cognitive legitimacy is taken for granted assumptions, implying that moving from pragmatic through moral to cognitive legitimacy makes it more difficult to comply with and change the surroundings since legitimization becomes more abstract. In other words, pragmatic legitimacy is more manipulative, while the cognitive is deeply rooted in society.

2.2.4.2 Logic of appropriateness & Decoupling

Legitimization has an impact on the decisions we make, as the institutional environment reflects norms within society. Rules are followed because they are seen as natural, rightful, expected, and legitimate. This is based upon the logic of appropriateness, which is a perspective that sees human action as driven by rules of appropriate behavior that is organized into institutions. The logic of appropriateness therefore works as a basis for decision making, biased towards what social norms find legitimate rather than rational decision making and the usage of tools e.g. calculations. The individual making the decision thus does not begin by identifying alternatives and preferences, but instead asks questions such as "what situation is this?" and "what is the appropriate thing to do given who I am?" and make decisions upon the answers (March & Olsen, 2006).

Organizations tend to conform to institutions no matter how the efficiency within the organization is affected (Sundström, 2001). Organizations are judged by other institutional actors on their use of certain structures, processes, and ideologies which the other relevant groups in their environment consider to be rational, efficient, reasonable, fair, natural or up to date (Brunsson & Olsen, 1990). When an organization is conformed to such institutions the organization is given the possibility to appear fair and modern, characteristics that most organizations seem to be very willing to have since it provides the organization with legitimacy. To be legitimate facilitates the organization with rewards, such as resources, and consequently survival in the long run. Therefore, organizations primarily try to act in a fair and not in an efficient way. However, this does not mean that every organization do not have an interest in having efficiency in their operations. It is possible, and also common, that organizations are efficient and at the same time acts in line with the institutionalized norms and values (Sundström, 2001). Those two different demands, efficiency and institutionalization, can sometimes give the organization problems since they do not coincide. On reaction from the organizations side to such a phenomenon is called decoupling (Sundström, 2001). Decoupling is the creation and maintenance of gaps between formal policies and actual organizational practices and a way to handle these two types of institutionalized pressure. Decoupling means that the organization makes two sets of structures, processes, or ideologies; one formal and one informal. This enables organizations to gain legitimacy with their external members while simultaneously maintaining internal flexibility to address practical considerations.

The importance of that the two parallel sets of structures do not disturb one another forces them to be separated and isolated from each other. A formal structure does not have an effect on the production of services and goods. It is rater the way organizations show society that they are working with stable, standardized and legitimate structures. The structure that is more visible is the formal one thus it is important that it is adapted to the institutionalized norms of society. The formal structure is also relatively easy to change. The informal structure, process or ideology does have an effect on the production of goods and services, and is suitable to the operations' practical circumstances. The informal structure could involve things like spending a lot of time on for example calculations, which in the end is not even used. Another example could be that an organization communicate a set of values and objectives to the outside world, things that are not necessary the signals they send to their own employees (Brunsson & Olsen, 1993).

2.2.5 Multiplicity

To what extent fields are uncoupled and open to practices, technologies and resources from other fields is referred to as multiplicity. Multiplicity is beneficial to the processes of change since it enlarges the cultural toolboxes for actors and enhances their capacity to create new institutional arrangements that are accepted by all parties (Dorado, 2005). Furthermore, multiplicity tends to fragment the shared definition of institutional reality and belief systems that are generalized (Oliver, 1991). The element of the constitutional separation of power is further highly affected by multiplicity (Chafetz, 2011), it is built into our constitutional order and thus, so is overlap, negotiation, and uncertainty. When analyzing institutional contexts the concepts of multiplicity provide a useful set of tools. Loosely coupled organizations are defined by unclear goals, low level of coordination and control, high level of autonomy and low level of authority (Pinelle and Gutwin, 2005).

With multiplicity it is significant to see how "open" the organizational field is. This is defined by how the organizations expose their development of new arrangements and processes. The degree of multiplicity and the degree of institutionalization influence the opportunities that can be found in the field of organizations. When an organization possesses high multiplicity the open fields facilitate development of new arrangements and creative solutions. The negative effect with low multiplicity is that closed organizations makes it hard to find opportunities, organizations are not creative in developments and are not able to acquire the highest competitive level within their organizational field (Seo and Creed, 2002).

2.2.6 Intuition

Processes of thinking are often categorized into two different sections; analytic and intuitive. Analytic processes are performed step-by-step, while the intuitive ones can process multiple pieces of information in parallel (Betsch & Glockner, 2010). Corporate climate today often requires quick decision making and intuition is an important tool for this matter. The concept itself has not always been acknowledged in corporate environments, but during the 1980’s intuition gained acceptance as an important tool for managerial decision making (Agor, 1986).

There are a few different perspectives in terms of defining what intuition really is. One common view describes the concept as a cognitive conclusion based on a decision maker’s previous experiences and emotional inputs, suggesting that intuition resembles a mental map generated from accumulated success and failures in work and in personal life (Burke & Miller, 1999). A complementary perspective is that intuitive decisions develop through the capacity to integrate and make use of information from both the left and the right sides of the brain, meaning that it is a result from both factual and feeling-based cues (Agor, 1986). Furthermore, intuition relies on both expertise based on gained knowledge and learning opportunities, as well as feelings that may be more difficult to articulate or define. According to Pratt & Dane (2007) there are four main acknowledged characteristics linked to the overall concept of intuition, which will be described below.

- Intuition is non-conscious, meaning that it occurs outside conscious thoughts. The outcomes of intuiting, intuitive judgments are accessible to conscious thinking, but how one arrives at them is not. The non-conscious processing of information can occur at various levels of sophistication, involving both perceptions as well as more complex information.

- Intuition involves making holistic associations, meaning that intuition consists of recognizing patterns rather than making connections through logical considerations. This view suggests that individuals non-consciously map stimuli into cognitive structures or frameworks. Making holistic associations is also related to the advantage of intuitive thinking, as some research states that rational analysis may prevent people from “seeing the obvious” (Pirsig, 1974).

- Intuition is produced rapidly especially compared to the use of rational decision making approaches. From a managerial perspective, several researchers emphasize that the speed of intuiting is often seen as the main motivator for developing and using intuition at work (Agor, 1986; Khatri & Ng, 2000).

- Intuition results in affectively charged judgments, which means that the judgments often involve emotions. In other words, one way of identifying judgments as intuitive is if they are accompanied by affect. The reasoning behind this is based on the assumption that these judgments are detached from rationality, since a common view within philosophy is that while rationality often is associated with the head, intuition is associated with the heart. This is however a complex and widely discussed topic, as some research view emotions as a *trigger* that affects the use of intuition. Positive mood, for example, has been linked to a decrease in rational decision making while an increase in the use of intuition instead has been identified.

2.2.6.1 Intuition and its effectiveness

One of the assumptions of most economics is that more thorough decision strategies will lead to better choices, however, an increasing amount of research suggests that during certain conditions, intuition may be as good as, or even superior to, other decision making tools (Blattberg & Hoch, 1990; Khatri & Ng, 2000). Pratt & Dane (2007) identifies two main sets of factors influencing the effectiveness of intuition; *domain knowledge factors* and *task characteristics*.

An individual’s knowledge of a certain domain is reflected in the schemas he or she has about that domain. Schema is the various structures that represent knowledge about a concept, its attributes and the relations among these attributes. Hence, the effectiveness of intuition is determined by the nature of schemas employed by the individual. These schemas can be simple, containing little domain knowledge, or be complex and contain extensive domain knowledge. Besides the actual content of the schema, the learning aspect plays part in the effectiveness as well. The cognitive structure is related to both explicit and implicit learning, where explicit learning is conscious and forms the complex, domain-relevant schemas while implicit learning instead acquires knowledge through stimuli in a non-conscious process.

In addition to domain knowledge factors, the problem structure may also have an impact on the effectiveness of intuition. Research has shown that intuition is most effective for moral judgments and less effective than rational analysis for tasks involving objective criteria (Haidt, 2001), suggesting that as the problem structure associated with a task becomes more judgmental, the effectiveness of intuitive decision making will increase. The type of environment in which an organization operates may also influence the effectiveness of intuition. Khatri & Ng (2000) found that during times of environmental uncertainty, the use of intuitive decision making results in greater performance.

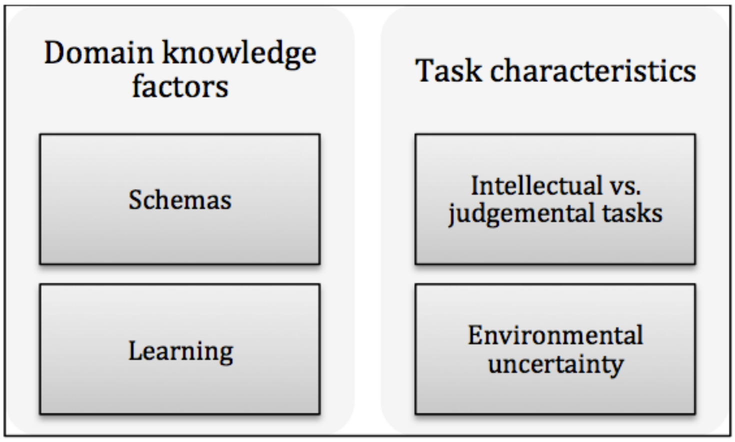

Figure 2 –Factors affecting the effectiveness of intuition (Pratt & Dane, 2007)

2.2.6.2 Benefits

When making important decisions there are no guarantees that the right decision will be made, intuition is a tool but the outcome can never be fully predicted. Agor (1986) found that in the cases were errors occurred in outcome of chosen decision; they did not appear to be caused by following intuition. Instead, faulty decisions were often a result from *not following intuition*.

Intuition can be used during various conditions, but the ability functions best when there is a high level of uncertainty, when outcome is less scientifically predictable, when facts are limited and when time is limited and there is pressure to make a decision (Agor 1986). These constraints are also connected to the benefits that intuitive decision making possesses. Burke & Miller (1999) suggest four categories of benefits; the first one being that the usage of intuition speeds up decision making as the amount of data required is reduced. Hence, decreased amount of data leads to a faster decision process. The research also found that intuition can improve ultimate decision, in terms of a fairer outcome, a higher quality product and enhanced customer satisfaction. Intuition can also facilitate personal development from a perspective where intuition is a skill that helps to develop a full set of professional skills or provide with an element of power. Finally, the study came up with a fourth benefit, that intuition can help making decisions that are consistent with the organization’s culture and values.

2.2.6.3 Hazards

Intuition drives much of human behavior, but very often the intuitions’ errors are underestimated. Perceptual processes can produce non-beneficial visual misperceptions, related to biases, misjudgments and prejudices. Research has shown that you intuitively presume unclear and fuzzy objects to be more distant than clear ones, which often is a product of mental short-cuts that simplify complex information. The implicit judgment may also reveal an aversion to those who look, sound or act differently from oneself. Hence, intuition builds upon both thoughts and feelings, but might be perilous when it leads to “overfeeling” and “underthinking” (Myers, 2010).

2.3 The identified gap

When business angels and start-up firms meet, a mutual evaluation process takes form and a new social context with new circumstances occurs. Both business angels and start-up firms operate based on an already established social context, which affects the process, such as which norms and beliefs they bring into the new context that evolves.

In order to generate an understanding of the interaction between angels and firms one need to evaluate the process from a common perspective, something that has not been done. Research has been investigating the social contexts around business angels and start-up firms separately. Studies have also been made on how the mutual context between start-up and VC firms look like, however since the very nature of VC's and business angels differs a lot this is not applicable to this new context.

Thus a gap in previous research exists that investigate what happens when business angels and start-up firms meet and a new context is to be developed.

2.4 Our conceptual framework

Our intended contribution is to generate an understanding of the unexplored context that appears when business angels and start-up firms evaluate each other. This will be done by using the theories previously mentioned. The creation of a concept that can provide a deeper explanation for the potential for a partnership between angels and firms is thus illustrated by a concept development using institutionalism and intuition. This concept will provide a tool for the analysis of the context and by that also develop an understanding for how a new social context is created and what happens in that interaction.

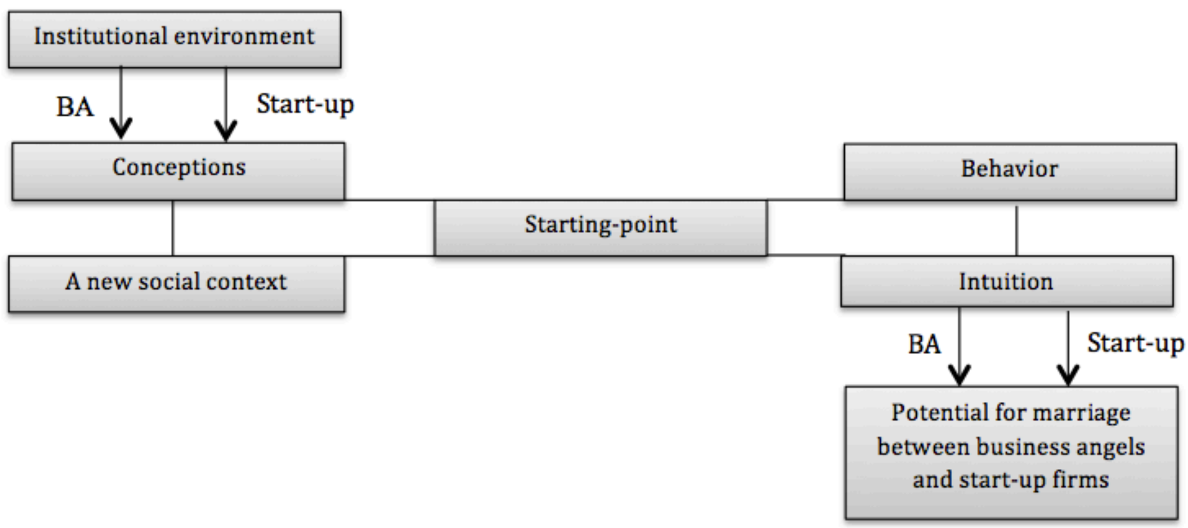

Figure 3-Our conceptual framework

We want to acknowledge that two different perspectives meet in this new social context, particularly the varying norms and values that both parties bring into the new setting, and have therefore chosen institutional theory as the overall theoretical frame for our concept. Institutional theory is commonly used in several contexts, however to low extent when studying the new social context that occurs in the business angel and start-up firm's mutual evaluation process. Thus we use an institutional perspective to analyze the conflicting norms that arise in the process. The institutional aspects from the respective actor will be brought into the new setting and create conceptions. These conceptions will in turn form the starting point from where the actual evaluating process start and the actors meet each other in real life.

Norms and beliefs are created through institutionalization. When something is institutionalized the intuition tells one what appropriate behavior is. This will affect the decision making process based on what is perceived to be legitimate within society. All these aspects will generate an understanding for how the potential for "marriage" between angels and firms is created and by combining the mentioned theories we intend to make a theoretical contribution to the studies of the mutual context in which angels and firms evaluate each other.

3.0 Methodology

The following section will present the research methodology that was carried out in order to answer the chosen research question. The research method will be described in detail, followed by a discussion about limitations and credibility aspects.

3.1 Research approach

This study will be based on an abductive approach, which is a combination of an inductive and deductive application. An inductive approach is focused on collecting data in order to identify patterns, while a deductive approach works the other way around and is used to relate an existing theory to a created hypothesis that aims to be tested in the study (Bryman & Bell, 2011). This approach is chosen because the work steps included collection of data simultaneously with discovering relevant theories, with an aim to generate new findings within the field and use established theories to explain them.

Since the study aims to describe an emerging concept and provide a better understanding of the evaluation process between business angels and start-up firms we have also chosen to use an exploratory approach, which also suits the chosen research approach described below (Bryman & Bell, 2011).

When conducting a research there are two fundamental methodological options; quantitative or qualitative. While a quantitative method is preferred when the aim is to test theory through statistical sampling procedures and thus view the research question from an objective perspective, a qualitative method is instead focused on developing a deep understanding about the phenomenon by interpretations that are not grounded in a scientific model (Bryman, 2012). Considering the nature of the chosen research question a qualitative approach is most suitable, since it allows us to gather data and conduct an in-depth analysis of the social context of start-up firms and business angels. As we have taken on an explorative approach a qualitative method is in general more appropriate than a quantitative, which further supports our chosen research method (Bryman, 2012). A challenge with the chosen approach is to ask the same questions to all interviewees, how the answers are being interpreted as well as which parts are being highlighted in our study while avoiding subjectivity. An option to a qualitative approach would in this case have been a combination of both methods, as this would have allowed us to cover a wider range of input variables and minimize potential biases by gaining a full perspective of the research topic. However, since the benefits with a quantitative approach in this case cannot be fully motivated to generate valuable insights to the chosen research question, our choice is to only rely on a qualitative approach.

In order to align the previous choices with an appropriate research strategy, we have chosen to conduct a collective case study and conduct interviews with business angels, start-up firms and other sources that can provide valuable insights. Case studies are highly compatible with an exploratory approach and can be useful when few previous studies have been made within the research area (Bryman & Bell, 2011). Considering our topic this is well suited since it will allow us to develop a deep understanding about the phenomenon and investigate its complexity further.

3.2 Collection of data

In order to collect appropriate background information as well as ensuring relevant interview questions for the study we conducted a pre-study. The aim was to gain insight about both start-up firms and investors, with a focus on how they interact and by that understand what our starting point would be and how we should proceed our work. The data for our main study was collected through interviews with business angels and start-up firms. This was then complemented by business reports and additional interviews with people who possess general knowledge about the industry and investment decision making.

3.2.1 Pre-study

The pre-study consisted of three parts; conducting a small survey with 4 investors (covering various funding sources such as venture capital and angel investing), participating in a seminar with approximately 100 business angels and interviewing experts within the field. The survey was of importance in order to design the main interview questions as well as making a decision of what type of investor we wanted to look further in to. As we already had made the decision to focus on start-up companies who are looking for financial support, we came to the conclusion that business angels where the most appropriate investor to concentrate on which was a result from feedback from survey respondents as well as the survey itself.

Once this was decided we wanted to look further in to how business angels work and what the process looks like when cooperation with a start-up company takes place. By participating in a seminar in Stockholm for business angels we developed a deeper understanding for how the industry works, which helped us to decide upon interview questions as well as develop our main research perspective.

To gain a broader perspective we interviewed several experts within the field, including professors in entrepreneurship but also investors who had been in the industry for many years. The combination of all elements of our pre-study was of great importance in order to understand the industry well enough to develop an appropriate and current research question but also to comprehend the complexity that exists when a start-up company wants financial support and the relationship between the firm and potential investor. This insight was necessary in order to develop interview questions that would be able to reflect the complex situation that exists today within this industry.

3.2.2 Interview sample

In order to collect appropriate data for the main study, 20 interviews were conducted in total. The reasoning behind the number of interviews is based on saturation, which means that the collection of data was considered as finished once clear patterns could be seen among respondent’s answers. When data from an additional interview would not contribute to any new findings but rather support what previously had been said the data collection was finished, but to make sure that saturation was reached we conducted one additional interview to confirm our assumptions. All interviews were conducted face-to-face, which was important to us in order to enable a creation of an open and comfortable environment for everyone involved as well as enabling a thorough interpretation of the answers. A further description of the interview sample groups will follow below, including business angels, representatives from start-up companies and additional sources.

3.2.2.1 Business angels

In total we conducted 8 interviews with business angels who all had different backgrounds and experiences. There was a mix of both men and women and a variation of age. Some of the interviewees were found at the seminar for the pre-study, who then recommended people to contact which led to additional interviews. As business angels in general are a rather heterogeneous group is was important to meet people with different backgrounds, age, gender and amount of experience in order to form a realistic image of the industry. However, they had all been involved in a minimum of five investments. We also tried to create an even mix of business angels who operate through a network together with other business angels and those who work independently, as this can affect answers and thus the overall perspective provided of the evaluation process. All interviews took place at their office somewhere in Stockholm and lasted for around one hour. Only a few of the interviewees were acquaintances and we did not see any risk of them affecting each other’s answers since every interview took place in a different location.

3.2.2.2 Start-up firms

This perspective of the study was covered by 8 interviews with start-up firms. For a thorough description of our definition of the term start-up firm, see section 1.6. The same strategy as with the business angel sample applies to this group of interviewees, we aimed to generate a mix of respondents with different backgrounds in order to gain a broad perspective and cover as many aspects as possible. The start-up firms were all operating within different industries, including technology, traveling, food and more. Different backgrounds in this sense refer to the fact that we wanted to interview people with academic experience as well as without, since this can affect the provided perspective of entrepreneurship. The sample included firms from SSE Business Lab, Stockholm University Incubator as well as firms without a connection to a higher institution. Besides above we also tried to generate a mix in terms of age and gender. Even though the shape of the firms differed from each other from many aspects, they all had common grounds that we based our sample generating upon. All firms had recently started to sell their service or product to customers, or planned to do so within the near future. They had also been searching for financial support, or were planning to do so in the future. All firms had experience of pitching their ideas in different environments and thus also the experience of being evaluated.

Each interview lasted for around one hour and were conducted in various places in Stockholm; either in their own office or in a public environment in the cases where the firms did not yet have an office.

3.2.2.3 Additional interviews

As a complement to our main interview objects, 4 additional interviews were conducted. These aimed to fill in the information gaps that were not covered during the interviews with business angels and start-up firms, working as links between the two parts and thus deepened our overall understanding for the industry. The interviewees all had different backgrounds and knowledge, but they were all related to business angels or start-up firms in some sense, possessing insights from both perspectives which made it easier to develop a deeper understanding of how angels and firms interact. A variety of perspectives as the ones mentioned were a highly relevant complement to the main interviews, everyone highlighted and added a useful aspect to our study. These interviews lasted between half an hour to one hour, depending on who we were talking to and the saturation within the particular aspect that he or she would contribute to. They were conducted in various places in Stockholm, mostly at their office.

3.3 Interview design

In order to connect the purpose of our study with the chosen research approach we have chosen a semi-structured interview design. This is one of the most common methods when conducting a qualitative study, which is related to the flexibility when asking questions and the balance between an interview guide structure and possibilities to adjust it depending on interviewee answers. This design allowed follow-up questions that enriched the data collection and thus enabled a more multi-facetted data analysis. Structured interviews would in this study be inappropriate, as it would create a framing of questions with very limited flexibility. An unstructured on the other hand, would allow flexibility but instead increase the risk of receiving unfocused information that is not relevant for the chosen phenomenon.

All interviews were based on a foundation of questions, which were decided before the actual interviews were held. One set of questions was directed to the business angels and another one to the start-up firms. The questions for the interviews with experts and additional sources depended on who the interviewee was and what type of insights we assumed that person could provide to us. The aim with these sources was to confirm what was being said amongst the angels and the firms, as well as getting an additional perspective to our analysis (for an overview of the question base for each group, see appendix). However, even though all interviews had a base of questions, follow-up questions always occurred depending on the answers and perspectives we got during the interviews. Depending on the direction of each interview, new questions developed continuously to enrich the data collection. We tried to maintain a balance between open and specific questions, while at the same time trying to receive relevant insights without controlling the direction of each interview.

The chosen questions are also the basis for the structure in the empirical overview. Three main areas were covered in the interviews; drivers, evaluation and awareness, these are not only directly related to generate an answer the research question but also to develop a deeper understanding for the context of both angels and firms from a broader perspective.

3.4 Data analysis

When the data was collected and eventually analyzed, a grounded theory approach was being used (Glaser & Strauss, 1967). This means that we collected data before developing a theoretical framework and thus that the theory was discovered during the data interpretation process. This approach was suitable for us since it allowed us to collect the data with open minds, where the theoretical framework then enabled us to explain our findings and make relevant conclusions.

When conducting interviews, the interpretation may be unconsciously affected by our personal subjective opinions and basic assumptions. The same thing applies to the actual data, since all the interviewees have different perceptions of reality their personal judgments may be reflected in the answers to some extent. The collected data was recorded, which minimized biases and potential misunderstandings in terms of interpretation from our side. Furthermore, we both participated in all 20 interviews, which also was beneficial in the data analysis phase. The analysis of the collected data followed certain steps described below (Glaser & Strauss, 1967).

Looking for patterns – After a few interviews with angels and firms, patterns could be identified. The interview process proceeded until saturation was achieved and the data was then analyzed thoroughly by identifying patterns related to the research problem and chosen research question.

Developing an applicable theoretical framework – The final theoretical framework was completely set after the data collection was finished, thus it was developed simultaneously with the identification of patterns.

Developing themes – After clear patterns were identified, a few themes were developed. These are also the foundation of the analysis section in this study, since the themes together represent a clear overview of our findings and can thus be the basis for deeper interpretations.

3.5 Limitations and credibility

Even though a qualitative research method is well suited for the chosen topic, there are some limitations and problems related to the trustworthiness of the results from a qualitative study. To assess the quality of qualitative research, Guba and Lincoln (1994) proposes four criteria that need to be taken into consideration in order to determine the level of reliability and validity. Each of them has an equivalent criterion in quantitative research, but as we have chosen a qualitative approach the qualitative perspective will not be taken into consideration. The four criteria that Guba and Lincoln have developed are *credibility*, *transferability*, *dependability* and *conformability* and they will all be discussed further below.

Credibility – This is equivalent to internal validity in a quantitative research. By conducting additional interviews besides our main sample, business angels and start-up firms, a deeper understanding of the topic can be ensured. Gathering data from various perspectives allows us to analyze the interaction between angels and firms in a way that minimize potential biases and thus enable us to generate results that are applicable to the industry as a whole.

Transferability – Trying to gather a thick description of the context by using a sample consisting of angels and firms with different backgrounds and perspectives enabled us to generalize some of our finding to a wider context. However, it is not certain whether our sample truly reflects all possible perspectives, since 20 interviews may not be sufficient to cover a range that is wide enough. To increase the level of transferability we always aimed for saturation before making conclusions and assumptions.

Dependability – This can be obtained through describing the process of the study in detail, since it will enable future researchers to repeat the work to see whether similar results would occur and thus conclude reliability. A thorough description of the process and design of this study can be found in this chapter, which can generate reliability and thus also dependability in a long term perspective.

Conformability – Keeping objectivity in mind throughout the whole process is important in order to avoid biased conclusions and reflections that derive from complementing the sample with our own opinions. By using a third perspective that can complement and confirm what came up during the interviews with angels and firms it enabled us to avoid subjectivity to a high extent and thus also increase the credibility of the study and its results.

3.6 Ethical considerations

Throughout the process ethical concerns were always taken into consideration, especially during the collection of data. Besides trustworthiness in terms of correct quoting and translation, it was important for us to inform every interviewee of our research approach and how we handled the data. We always asked for permission before recording the interviews, which was highly appreciated. The interviewees were also informed about the fact that the answers would not be linked to a specific person and names would not be stated anywhere. Since the focus was to communicate the overall perspective on this topic we did not see any negative aspects when deciding not to link specific names with opinions and quotes, it is relevant *what* was being said rather than *who* said it. Whenever concerns arose regarding interpretation of the collected data, the interviewees were being contacted for further clarification.

4.0 Empirical overview

This section will present the collected empirical data from interviews, focusing on business angels, start-up firms and finally additional interviews that aim to complement the two main sources. The empirics will cover three main areas that was created when we developed the interview guide; drivers, evaluation and awareness.

4.1 Business angels

4.1.1 Drivers

Since business angels are a group of heterogeneous individuals, the way they first get in contact with start-up firms vary a lot. The interviewees who belong to a network state that start-up firms usually take the first step by sending a business plan and proposal by email, since the network might have a website and official information it becomes easier for the firms to find out about their existence. It is then up to the business angels within that network to decide whether they want to pursue and meet the firm for a first evaluation. Business angels who do not belong to a specific network usually get in contact with firms through personal and professional contacts alternatively through structured organizations that aim to help angels and firms find each other.

Some of the angels make investments as a full-time profession, while others have a “regular” job and invest in high potential start-up firms on the side. This does however in general not affect the level of involvement within each project, as all angels aim for a high involvement. Despite the fact that all interviewees have different knowledge, backgrounds and put different amount of time into business angel activities, the overarching purpose is something that is similar to a majority of them. They all want to contribute with both knowledge and capital, by finding firms that share the same view they can become partner with. Some angels even compare the relationship with a marriage and further stress the importance of finding the right project. All angels that were interviewed express a strong interest for entrepreneurship and business development and almost all of them have some level of experience when it comes to starting a business. The experience of starting a business was also in some cases something that led them into investments in start-up firms, since a passion for development existed angel activities was something that came naturally. The reason behind the entrance to angel investing is in several cases related to an enthusiasm for spreading knowledge and watch firms develop, one angel says “*I get a chance to stay close to the entrepreneurs and help them succeed by using the experience and understanding I have retained during my career”* (Interview business angel 2014-03-31). This is also supported by the other angels, who all name competence as a main driving force.

4.1.2 Evaluation

There were a few aspects that came up during a majority of the interviews when discussing the evaluation of a start-up firm. The most frequently mentioned aspects business angels look for in a business proposal are;

- Uniqueness
- Market potential
- The team
- Technical advancement
- Potential for profit

In the cases where the angel belongs to an organized network a number of criteria are mentioned on the website, which is meant to work as a “check list” for the start-up firms so they know what the angels look for. This includes a description of why capital is needed, the aim with the business, how they assess the market potential and their estimation of the firm value (Interview business angel 2014-03-21).

” If you have a mediocre product and a talented team, the outcome could be pretty good. But if you have a good product and a useless team, things will always go to hell.”
(Interview business angel 2014-04-07)

All business angels agree that the team is one of the most important aspects when evaluating a start-up firm. Due to the early phase that a start-up exists in, there are not many other clear parts to base a decision upon, hence the individuals make up the most valuable asset within the firm. When it comes to the evaluation of the team and the overall business idea there is a common reflection among the business angels; it is extremely difficult. Thus, in order to get a better image of the people behind the firm, business angels meet with them several times in order to develop a thorough understanding upon which a final decision can be made. The combination of importance and difficulty leads to a high complexity that business angels try to cope with during every evaluation, as bad decision making can lead to highly undesirable outcomes.

One interviewee states that it sometimes is easy to assume things about the members of the start-up firm, for example that they are enthusiastic enough to work full time with the business (Interview business angel 2014-03-21). She expresses that assumptions like this might lead to unfavorable decisions, with unexpected negative outcomes. What exact characteristics to look for in the members of a start-up team is not an easy question, but they all emphasize a complexity that goes beyond structure and rationality. One business angels describes that “*Entrepreneurs are a special type of people and they all share specific characteristics which are needed in order to make it work”* (Interview business angel 2014-03-28*)*. All business angels mention intuition as a very important compass when making evaluations and decisions. One angel describes a process which currently is determined by intuition, but that in an ideal world also should contain elements of structure in order to enable more rational decisions. “*First, you get a feeling. After a few meetings with the team you form a better image of them and in many cases an uncertainty evolves. It is very difficult to evaluate people and their potential. In the cases where uncertainty arises, you would want to use a more structured method as a tool that can confirm or reject your own intuition*” (Interview business angel 2014-04-07).

In the cases where a partnership has been entered and the firm, despite its previous potential, have gone bankrupt, the angels explains a variety of reasons behind this as well as what could have been done differently during the evaluation phase. One business angel states that in some cases, he should have listened more to his intuition and by that made a different decision about whether to invest or not (Interview business angel 2014-04-07). Another angel describes a situation in the past where a more thorough examination of the team would have led to a better decision making. Almost all business angels think that there should be a more thorough evaluation of the team and that they should be challenged to a higher extent, but there seems to exist uncertainty about why this is not being taken care of as well as how it could be done in an effective way.

4.1.3 Awareness

As mentioned earlier, business angels look for a partner and take that into account during evaluations. This is reflected in the fact that all angels want to clarify that they are not capital, but a door-opener for the firm. Knowing what angels look for in a start-up overall is not difficult to find out about, but what they look for in the actual team is a more complex matter. The business angels had different opinions and thoughts about whether firms usually are aware about what they look for in the team members or not, some angels express uncertainty about whether start-ups really understand what it means to get capital from individuals.

One angel describes something that some of the other interviewees reflected upon as well, which is related to the focus that firms choose to have during their business presentations. He states that “*Firms are aware, but they are often not realistic in their presentations and do not focus on the potential relationship as a whole by admitting flaws with the business. However, as a business angel you see right through this within a few minutes*” (Interview business angel 2014-03-28). His conclusion is that there is no point for firms in trying to show off and only mention positive aspects of the business, games like that will be obvious for most business angels that have seen a large amount of start-up presentations.

Another interesting aspect is the view on power within the relationship and how the business angels believe that firms perceive this during the evaluation process. The beliefs about this are multifaceted, but some angels describe that firms often see themselves “below” the angels, because of the lack of capital and experience to evaluate their own business idea. In the cases where the entrepreneurs are experienced enough to know what it is all about, they are considered to be above the angels according to one business angel (Interview business angel 2014-04-02). During the initial meeting, the firms often have a larger focus on capital than on the actual relationship, which leads to an evaluation of them being inexperienced and immature. It also leads to a perception that the firms seem to think they are better than they really are since they apparently do not need knowledge and advice from the angels.

4.2 Start-up firms

4.2.1 Drivers

The majority of the firms state that the main driver for starting their own business is the strive for being an entrepreneur and creating something of their own. As one company puts it; *“How amazing it would be to run something from beginning to end”* (Interview start-up 2014-04-08). Among half of the companies claims that creating their own company is a dream come true and something they have thought about for many years. To make an impression in society is a common strive and create something that consist for a long time. One company stresses the greatness of being able to employ people and in that way contribute to society (Interview start-up firm 2014-04-03). Several firms also mention the founders of successful Swedish entrepreneurial firms as role-models (Interview start-up firm 2014-04-01).

A minority also states that the reason is a fatigue of being employed and do what others tell them to do. The possibility of working with a team with fun driven persons chosen by themselves is thus a high driver for running an own firm. The majority of the companies press the fact that they want to make a contribution to society and change and improve the way people consume (Interview start-up 2014-04-01). Furthermore, a majority of the firms express their ability to fill a gap and provide a product or a service that do not exist on the market or a better version of one that does (Interview start-up 2014-04-03).

4.2.2 Evaluation

The firm’s evaluation of business angels

The majority of the firms state that they have thought about external capital and that they also have been in contact with some kind of source for external capital. However it seems to be a general opinion of hesitance regarding the use of investor money and their perception is that business angels mainly want to make money. As one firm explains their thoughts around the problem; *“All the people you meet and talk to say; Can you handle it without investors’ money, try it! Of course we get affected by this”* (Interview start-up 2014-04-08). The overall opinion is that bringing in a new part equals a loss of power and considered a high risk. The business angels have power bringing them in means that they will have big influence over the firm (Interview start-up 2014-04-01). To let go of a part of the company is to lose control. A minority of the companies explicitly states that the loss of control over the firm is why the company does not seek external money from investors. They rather start with loans and other support money for start-ups in first hand (Interview start-up 2014-04-01).

Several of the firms state that it is hard to find information about angels, both finding them but also to do research about a specific angel whom they have been in contact with (Interview start-up 2014-04-01). All the firms are consistent about the fact that the relationship with the investor needs to be good which involves liking each other. This part is hard to investigate in advance and requires meeting the person face to face. Even though meetings are arranged, the evaluation of how good a person potentially could fit with the team, is based on intuition and gut-feeling. (Interview start-up 2014-04-03) A minority of the firms mean that this evaluation is impossible to do properly in only a few meeting and requires a series of get-togethers (Interview start-up 2014-04-16). Several firms also express their skepticism towards attempts done online to simplify meetings and matches between angels and firms (Interview start-up 2014-04-01).

Further a majority of the firms touch upon the complexity with engaging a new party in their firm. One firm explains the problem with meeting a business angel and expresses the importance of meeting the right individual with whom you speak the same language. *“With you I´d be willing to share my baby if together we could make it better than I could by myself…”* (Interview start-up 2014-04-08). Some firms are skeptical to business angels’ approach towards them and their idea. They feel like they do not really listen to what they say and ask them to “shoot” and present why they are good in a minute. The firms mean that this puts them in an inferior position where the investors have all the power. This contributes to a bad feeling around bringing in a new party into the firm (Interview start-up 2014-04-01).

What the firms seek in an investor

The majority of the firms state that knowledge is what they primarily seek when they think about bringing a new person into the company. Secondarily comes capital. They all agree on that it is crucial to find a person with the right competence to complement the capacity within the firm. One firm also stresses the fact that you want the new person’s entry to be as friction free as possible (Interview start-up 2014-04-03). A majority of the company brings up aspects they consider important such as trust, personal chemistry and the fact that you have to like the person and work well together. Furthermore, the majority of the firms stress the fact that the investor need to be engaged in the company and share their vision of what they dream of their company to become. As one firm puts it; *“Building a company requires so much soul, blood, sweat and tears for it to work. To bring in a person with a tie sitting behind his desk telling us what to do, that would not work”* (Interview start-up 2014-04-08). This goes along with sharing norms and values since the firms consider it to be a part of the company they are building (Interview start-up 2014-04-01). The investor needs to be a fit with the existing organizational culture and click with the persons in the team.

4.2.3 Awareness

What the firms think investors look at

The majority of the firm’s state that they believe that investors look at the team as the main factor when evaluating their firm secondly comes the product. The firms agree on that the believe investors want to see a product or service that is good and possess the factors needed for a successful launch, such as market potential, technical height and scalability. A majority of the firms are in an early stage in the product life cycle, which means that they don’t yet have a completed product or service. All of these companies agreed on that since they cannot yet really sell a product it is to large extent themselves they sell.

“Before we have a product there is only us- the firm is our brains.”
(Interview start-up 2014-04-03)

The factors within the team that the firms believe investors evaluate are to what extent the team is capable of executing the idea, if the members are engaged enough and whether they are willing to put everything aside in order to do this. One thing that the majority of the firms state as an evidence for their commitment was that they resigned from their employments and work with their own company on full time (Interview start-up 2014-04-03).

Two other factors that the companies thinks investors value are their knowledge about what they do and how well they awake interest for the product and share the vision of the potential of the product.

Evaluation of the own business and their assets

All the firms state that their team is the company’s biggest assets. They also celebrate their ideas, products or services but stress the facts that they are in such an early phase that there are no finished product yet why the team and their competences must be considered the biggest most valuable asset at the moment. A majority of the firms mean that their team is put together intentionally to complement each other’s competencies.
A majority of the companies also presses the importance of their engagement and strive to accomplish something big as a treasured asset in the company.

4.3 Additional sources

4.3.1 Drivers

All parties in this group of people consider the engagement and drive among the people in a start-up firm to be the most important and an indicator on that the team potentially could develop a successful company. Their opinion on why many start-ups fail is also connected to this matter, that the people started the firm for the wrong reasons. This in combination with lack of business knowledge is fatal for a young firm (Interview 2014-03-31).

4.3.2 Evaluation

One general opinion within this group of interviewees is that they consider many start-up firms to be very inexperienced and “green” in the early stages, which results in an extensive ignorance of what factors potential investors look for. Many times they meet firms with a business model that is not developed well enough and not thought through. The start-ups fail to deliver a read thread in their proposals and have difficulties to show the profits in every part of their chain.

Another problem with start-up firms is that they lack the skills in presenting the idea in a convincing and trustworthy way; they often not show the ability to prioritize and choose the right way of doing things. This affects the credibility of the firm and hampers the view on the potential of taking the company forward.

4.3.3 Awareness

One problem with the communication between the start-ups and the business angels is that they many times “speak different languages”. This complicates the process of when the parties meet and evaluate each other (Interview 2014-04-03). An additional problem is that the “market” on where the two parties meet is completely non-transparent and both parties have no sensible information (Interview 2014-03-31).

Many start-ups have very little knowledge about investors in general and also of how business angels work, which results in an incorrect view on what they do. Start-ups to large extent believe that investors only want their money and do not understand that partnership is cooperation where you work and build something together (Interview 2014-04-03). The firms also think that bringing in investors equals losing the control over your business (Interview 2014-03-31). One interviewee explains the firms’ inexperience through presenting numbers that are highly overestimated and means that these estimations leads to the angels evaluating them negatively and as immature (Interview 2014-04-03; 2014-03-31).

Another general error from the firm’s side is that they only ask for money from investors. It is a problem that the companies most often do not realize that it is competence and not money they need in order to move forward with their idea (Interview 2014-04-03). Furthermore, a common problem for start-up firms is that they start building relationships with potential investors too late in their own development process, which make the actual evaluation process in a later stage more difficult (Interview 2014-04-24).

5.0 Analysis

In this section our findings from the empirical data will be discussed further by applying our developed conceptual framework.

5.1 The separate contexts

As stated in the literature review, business angels as a concept has grown during the past decades while the amount of venture capitalists that invest in start-up firms has decreased in the same pace (OECD, 2011; Jensen, 2002). The amount of start-up firms is also steadily increasing (Tillväxtanalys, 2012). This enables the opportunity for business angels to fill the gap that occurs when start-up firms need capital in an early phase. As mentioned in the introduction a new social context is developed when business angels and start-up firms meet and engage in a mutual evaluation process. The introduction and literature review describes that the two actors come from different contexts characterized by norms and values developed within each context. In this new setting these two contexts are brought together.

As the theory states social constructions are products of human choices that focus on how individuals and groups participate in the construction of their perceived social reality. Our study shows that this is true for both start-up firms and business angels. Both parties have an image of what the “right” behavior is to live up to the expectations of their respective role, which is what social constructionism is all about (Berger & Luckmann, 1967).

The interaction between angels and firms is highly based on their norms and values, thus, the normative pillar of institution. Values are defined as something that is preferred or desired and can be defined as the goal (Scott, 2008). These firms’ value is to find an investor that provides the firms with capital but also one that can bring other valuable aspects into the firm such as industry expertise or network. The angels’ values are based upon finding a partner firm to cooperate with where capital, knowledge, experience and networks are all part of the exchange. The relationship should be built on trust and a strong relationship with the team is required since they want to join the every-day business. Hence, on the surface it seems that these two are aligned and that it would not be a problem to bring them together, based upon this description it seems like a perfect match.

The theory describes norms as less tangible and refers to how something should be done and the means to an end. The norms are the path towards that goal, thus being more abstract (Scott, 2008). The norm for the start-up firms is that they want to live up to the stereotype role of what an entrepreneur should look like. They want to be high achievers and are very driven towards making success of their firm. There are two main aspects of this; the first one is the desire to succeed and the second one is the fact that many entrepreneurs have left their job and offered many other things to enable making their dream come true. The norm for the business angels is to make profit. It is a fact that many start-up firms do not survive their first year (Fransson, 2014) and thus they strive to be the one discovering the delights. They also want to appear “serious” and describe their operations as a very structured process.

5.2 Conceptions

5.2.1 Conceptions of business angels

Since venture capital funding as a concept has been established for a long time, the way they operate has thus become the legitimate way of doing things as an investor (Fried & Hisrich, 1994). Since organizations are judged by other institutional actors on their use of structures and processes (Brunsson & Olsen, 1990), stakeholders such as the entrepreneurs have the ability to legitimize the VC’s operations. The fact that entrepreneurs show great confidence in cooperating with VC’s thus confirm the legitimization of their actions. The confidence is built upon the fact that VC perform a structured method of assessing the potential of a partnership (Yiyshaki, 2012). Previous research, and also in line with our study, shows that when business angels communicate how their evaluation process looks like it is officially declared as similar to the ones used by the VC firms (Sudek, 2006). For example it exits “lists”, taken from the evaluation process that VC’s use, with factors that are required in order to access capital from investors. These lists could include things like; market attractiveness, product differentiation, managerial capabilities, environmental threat resistance and cash-out potential (Tyebjee and Bruno, 1984).

The communicated way of how angels operate is one similar to the process of VC’s, however in reality the angels operations and evaluation processes that is the base of their decision looks different. One contradiction occurs when the angels communicate a high level of structure by declaring on their websites that certain criterias regarding the proposal need to be fulfilled, when they in reality take the decision heavily relying on intuition. This contradiction is a problem for the angels since it challenges their ability to be legitimate. To conform with the other institutions in the environment the actor is given the possibility to appear according to norms, something most organizations and also the angels strive for (Sundström, 2001). Angels want to be legitimate since it facilitates them with awards, in this case the access to firms to invest in, something that will have an effect on their potential to survival in the long run (Sundström, 2001). The established evaluation procedure that is perceived as legitimate by all involved institutions, that is, that the hard facts are the important ones is not contradicted by the angels since they do not want to be perceived as irrational by stating that they take decisions based on their intuition which further is confirmed by the logic of appropriateness (March & Olsen, 2006). To maintain their legitimacy the angels thus have to act accordingly to the structures and processes that VC use. The angels use what theory describes as cognitive legitimacy when they act accordingly to taken for granted assumptions. Cognitive legitimacy is deeply rooted in society and difficult to comply because of its abstract nature (Schuman, 1995).

The way business angels operate in reality, that is, taking decisions highly based on intuition is not a legitimate way of operating. According to Agor (1986) the use of intuition as a tool for managerial decision making gained acceptance during the 80’s, however, in the setting of high risk financial decisions, it is far from being institutionalized. The VC procedure is considered as normative since it has maintained over a long period of time (Zucker, 1987), which in itself has increased the legitimacy. The entering of a partnership is characterized by a high degree of uncertainty for the entrepreneurs, thus trust is identified as a key aspect when they evaluate a source for capital (Low & Srivatsan, 1995). This implies that intuition will have difficulties to ever become institutionalized in this setting, since the possibilities for legitimization contradicts the very nature of the entrepreneur, that is, the seeking for trust and certainty (Harrison Dibben & Mason 1997). Thus, a potential institutionalization process of the use of intuition within this particular setting will be restrained not only by society as a whole but also by firms who are the most important stakeholders from the angels' perspective. As stated in the introduction the amount of start-ups in Sweden is steadily increasing and thus also the potential for business angels to access new ventures with great potential. It is therefore important for the angels to maintain legitimate and their image as trustworthy, in order to gain credibility from the new entrepreneurs. These actions made to maintain legitimacy is in the theory described as decoupling. Decoupling is the creation and maintenance of gaps between formal policies and actual organizational practices and a way to handle these differing types of demands (Brunsson & Olsen, 1993). The main objective with the use of decoupling is to legitimate ones operations (Meyer & Rowan, 1977).

Since the organizational field within the investment industry can be considered as "closed" and reluctant for change, it results in low opportunities to create new arrangements that have a chance to gain legitimacy from other actors in society. This complicates the abilities for angels and firms to meet each other and establish a mutual understanding in their context, which indicates a low level of multiplicity (Seo and Creed, 2002). The fact that the industry is reluctant to change is related to the act of decoupling described earlier. That the angels act one way but communicate something else is the result of low multiplicity, but it can also be seen the other way around, where the angels' practice of decoupling leads to an even lower level of multiplicity. Thus, these actions enhance each other, which results in even lower possibilities for establishing new arrangements, in this case that business angels can communicate how they operate in reality and still maintain their legitimacy.

The institutionalized view of business angels is maintained by other actors in society, such as the media. This will enhance the VC's evaluation processes as the legitimate way of operating and because of the nature of business angels as being very anonymous and difficult to find leads to little domain knowledge about how they actually operate (Pratt & Dane, 2007). Both previous research and our empirical results clearly indicate that angels value strong relationships and want to contribute with not only capital, but also knowledge and experience (Benjamin & Margulis, 2000; Van Osnabrugge & Robinson, 2000). However, the impact provided by the institutional environment is not aligned with the image angels want to have, which is due to the high amount of media attention given on TV-shows such as “Dragons’ Den”. The communicated image of a business angel in these settings is more similar to the characteristics of a venture capitalist, than how a business angel actually operates. The image of investors being the ones in complete control of the evaluation and the only ones deciding the outcome, if there will be a partnership or not, contradicts the stated motives behind angel investing.

The discussion above results in that the angels are put in a position where they have two demands; the demand to act accordingly to the institutionalized process of the VC and the demand to maintain efficiency in the operations within the organization (Sundström, 2001). The efficiency is this setting would be how fast the angels can come to a decision regarding whether to invest in a venture or not. In this situation these two demands do not coincide, which results in decoupling from the angels as discussed earlier (Sundström, 2001). In this case the angels make two sets of structures; one formal that is communicated to society and one informal, which is the one they use in reality. This solution enables the angels to gain legitimacy with their external members, VC firms and entrepreneurs, while simultaneously maintaining internal flexibility to address practical considerations (Brunsson & Olsen, 1993).

5.2.2 Conceptions of start-up firms

Besides the institutionalized image of what angels look for when evaluating firms, as discussed above, there are conceptions of start-up firms which are based on the declared image of how an entrepreneur is supposed to behave in order to gain acceptance. The institutionalized view of successful entrepreneurial firms, such as Skype and Spotify, creates norms and established stereotypes of entrepreneurs in society that further increases the firms strive to behave in a certain way (Meyer & Rowan, 1977). The creation of norms, beliefs and perceptions is in this case to some extent done by how the media communicate the picture of successful companies to society (Jansson, 2013; Bednar, 2012). This has an impact not only on start-up firms’ perception of legitimate firm behavior but also what to expect when meeting with an investor.

The legitimate way of evaluating start-ups is related to the structural process of how VC firms operate (Dileep et al., 1992; Jensen, 2002), where the investors are the ones in control managing the process. The communicated way of how it looks like when the two parties meet creates a perception of a power imbalance, where the investor is the only one having mandate to decide whether a partnership will be entered. This communicated image leaves out the relational aspect and the fact that there in reality are two parties involved that mutually evaluate each other. A situation where the start-ups firms need to convince the investors of how excellent they are is created, which leads to a show where the entrepreneurs declare a confidence they do not actually possess but feel obligated to announce in order to gain their attention and respect.

The institutionalized view of firms and business angels is aligned since the firms believe that the angels use the same evaluation criteria’s and have the same objective with investments as the VC’s, which suits well with the view of firms communicating confidence and trying to convince the investor as seen in settings such as “Dragon’s Den”. However, this does not reflect reality, since the angels use different tools, such as their intuition, and have other incentives and value different aspects such as relationships and knowledge (Sudek, 2006; Aernoudt 1999; Politis & Landström 2002; De Clerq et al. 2006). This contradiction creates a misalignment that adds complexity to the starting point where both parties meet and begin their interaction and mutual evaluation process.

5.3 Behavior

The conceptions of both the angels and the start-up firms create a foundation of perceptions that are brought into the new context that occurs, where these two parties mutually evaluate each other. The conclusion from the discussion in the previous section suggests a perceptual asymmetry between the two parties and thus a starting point biased by conceptions. This biased starting point, consisting of a power imbalance, will generate effects for the behavior of both parties.

This perceived power imbalance is further enhanced by the fact that angels are the ones providing the capital, as well as the fact that most initiatives to a meeting is done by the firm. This provides the angels an inferior position where they chose whether to accept the invitation or reject the proposal. In the end of the day, if the business angel at some point during the evaluation process experiences negative feelings towards the project, there will be no partnership no matter what the individuals in the firm want.

The power imbalance leads to a behavior from the firms where they try to persuade the investors by communicating confidence. They seem to overestimate the importance of their product and put a lot of emphasis on creating future predictions on how great and wonderful their product or service is going to become, delivering a message that they angels cannot miss out on this opportunity. In addition, the fact that the firms lack hard facts as proof of the relevance for the product further complicates the pitching part for the firms as well as limiting the possibility for angels to perform an evaluation based on established tools, as used by VC firms.

Both business angels and start-up firms in this study state that they use intuition to a very high extent when the final decision is about to be made, which also is confirmed by previous research (Sudek, 2006) and due to several aspects linked to theoretically characteristics of intuitive thinking. The particular situation that occurs during the evaluation part of the process is most of the times characterized by time pressure, as neither business angels nor start-up firms want to waste each other’s time and hence want to make decisions as efficiently as possible. The fact that business angels use their intuition in order to make their decisions is nothing new and fits well with what theories about intuitive thinking suggest regarding the conditions it should be used in as well as its ability to function properly. All the criterion’s described in the theory regarding when intuition can be used are fulfilled in the case of angels’ evaluation (Burke & Miller, 1999). There is a high level of uncertainty connected to the decision, the outcome is hard to predict, facts are limited and there is often a pressure on the decision to be made. Also in line with the theory the fact that the task is judgmental in its structure will increase the effectiveness in the decision making (Haidt, 2001). The fact that research shows that in cases where inaccuracies occurred in outcome of a chosen decision were often a result from *not following intuition* speaks in favor of the use of intuition in this setting. Further theory states that there are no guarantees that the right decision will be made when using intuition (Agor, 1986). This is a proof of the complexity when angels and firms base their decision, regarding the potential partnership, on intuition. Connecting back to the three pillars of institution, the third one suggests that decisions are made based on both normative and cognitive aspects. Hence, besides institutionalized norms in society, the intuition is also highly affected by personal beliefs, experiences and knowledge (Scott, 2008).

The biggest risk with using intuition in this setting is both parties’ eventual use of, what the theory describes as, “over-feeling” and “under-thinking” (Myers, 2010). When angels meet firms that heavily overestimate their own and the products’ potential their extensive experience allows them to see through this act very quickly. However, the angels unconsciously “under-think” and label them in an early phase as immature, without considering the underlying mechanisms and real reasons behind the firms’ behavior. When the firms do not live up to the angels’ expectations and requirements they unconsciously make mental short-cuts and reject the proposal as they assume that the team is immature and not ready to engage in a relationship where none of the parties are inferior nor superior (Meyer, 2010). The making of mental short-cuts is further enhanced by the fact that angles possess lots of experience of the evaluation setting and have seen a large amount of presentations from start-up firms. Thus when they experience a poor presentation they are quick to use their intuition based on experience and jump to conclusions and label the proposal as irrelevant (Burke & Miller, 1999). The problem and risk with these actions are that the angels reject proposals for the wrong reason. In the end of the day the decision might end up with a No, however it must be based on a thorough analysis and assessment of the firm and proposal. This cannot happen if the angels let their biased conceptions impact their intuition and use this as a basis for decision making.

The firms are in reality interested in starting a relationship with someone who is passionate about developing a project, and reluctant to lose control to someone who mainly focus on capital. The overarching motivator amongst business angels suits well with what start-up firms are looking for, angels value strong relationships and many of them even compare it with a marriage. Angels and start-up firms both want to find someone they can “marry”, yet there still exists misperceptions about the fact that they value the same things. The firms come to meetings with angels delivering a show and dream sales numbers while the business angels really wants to meet a genuine team who are interested in them and their knowledge, network and experiences that could benefit a partnership. They angels further want to meet a team mature enough to admit their weaknesses and their wish for a partner that can contribute with assets that are more valuable and beyond only investing capital.

6.0 Conclusion

In the following section the conclusion from our study will be outlined with on overarching focus on our research question. The content will cover the different sections from the analysis and our conceptual framework.

As the background section enhances, today's society is filled with opportunities and possibilities that individuals tend to seize by starting businesses and realizing what they have always dreamt of. This is made possible by supporting actors such as business angels that enable the firms to access valuable resources essential for taking the business from the idea stage to reality. By bringing these two actors together the potential for mutual benefits is created. The atmosphere in society indicates a bright future for both angels and firms, one where anything is possible. Given the circumstances described above, the objective with this study was to investigate the following research question:

"How and in what ways does the social context play part in the mutual evaluation process between business angels and start-up firms?"

The findings in our study indicate that when looking beyond the promising surface in society, there is an extensive amount of overarching complexity that often makes the evaluation process between the angels and firms difficult. Business angels and start-up firms each have their own context, consisting of their behavior, knowledge and experience. Once they start to interact with each other a new context occurs, which is affected and reflected by the separate ones. The ultimate aim of an interaction between angels and firms is to find out whether or not there is a potential for partnership, in order to assess this it is important to not only understand each context in separate but also what happens when these are brought together. Both angels and firms have conceptions about the behavior and motives of each other as well as about themselves, which is highly based upon the institutionalized view of how things "should" be in society. This is communicated through channels such as the media, whom try to maintain images that conform to established norms. There is a conception of business angels being similar to venture capitalists, possessing a majority of the power and authority, over the firms, in the evaluation process. This leads to a view of the firms as inferior to the investor, since they are the ones trying to convince the investor to accept their proposal. These two images of firm - angel relationship are aligned, but do however not reflect reality.

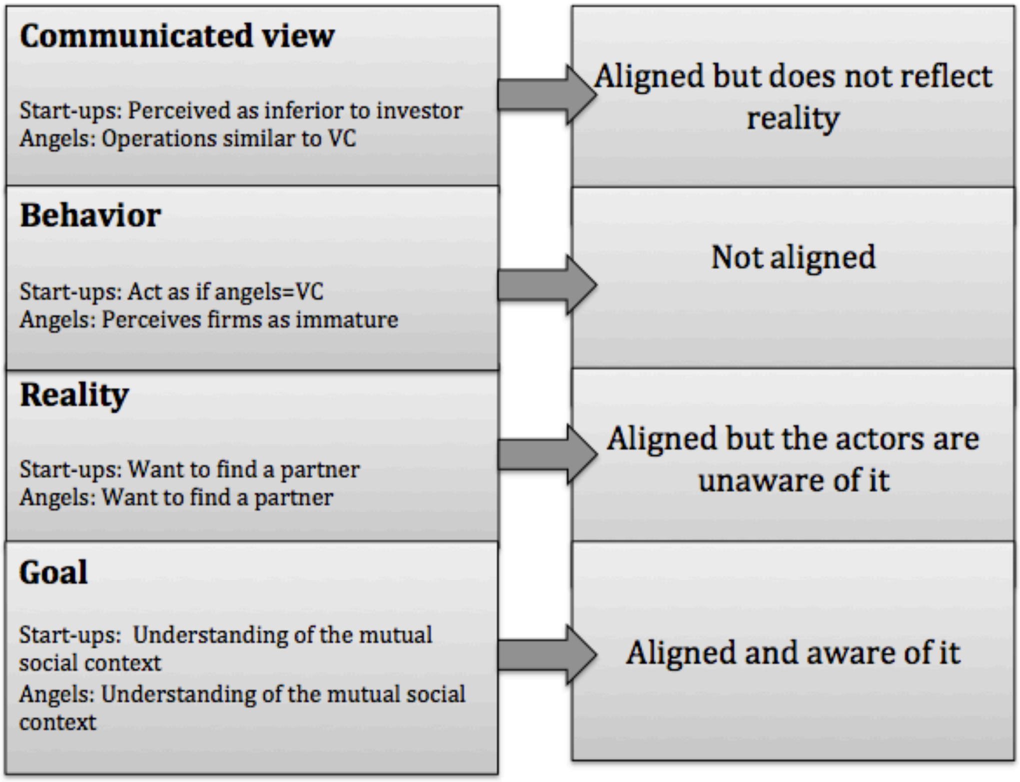

Figure 4 – Alignment between start-up firms and business angels

In reality they both seek a partnership built upon trust and commitment, with someone who share the same values. Both angels and firms see similarities with a marriage, something which indicates that there is great potential to develop a mutual understanding and thus make an accurate decision about whether they should enter a partnership or not. However, the problem is related to the conceptions both have of themselves and each other, since this leads to a disadvantageous behavior from the firms. Misconceptions about business angels result in a behavior where firms try to convince and persuade the angel by pitching highly overestimated numbers, hiding flaws and focusing on the wrong aspects of the partnership. This in turn makes the angels perceive the firms as immature and that they do not value the same things, which create a starting point biased by misconceptions. Because of the extensive use of intuition and the lack of time to make an accurate decision, the initial starting point is crucial in order to achieve an efficient process. Hence, the intuition from both sides will be based not only on the actual behavior that is seen during the meetings but also on institutionalized aspects, since these have such a significant (yet unconscious) impact on each actor's behavior. This thus means that these aspects also create a foundation for the potential for partnership.

The non-beneficial starting point makes the process of interacting and creation of a mutual understanding complex. The objective is to create alignment, where the angels and firms fully understand each other in their mutual context. The misperceptions that exist can only be decreased once the firms stop acting according to how they think they should behave. Instead they need to gain a genuine understanding of how the angels operate in reality and not be fooled by the image declared by society. Only when this stage is reached the conditions for a mutual understanding and potential for a partnership based on common grounds are created. It is inevitable that the starting position of the potential partnership is characterized by an imbalance of power. This imbalance decreases the possibility for mutual understanding between angel and firm, something that is a requirement in order for an accurate final decision.

Once the parties start to interact face-to-face, they gradually develop an understanding for the other party's actual motives. Thus, to decrease the potential for letting misperceptions created by institutionalized actors affect the intuition negatively in the evaluation process, communication is the key. One mistake firms often do is that they realize their need for capital and an external investor too late in their growth process, which again is related to the fact that the norms and beliefs in society do not reflect the actual characteristics of the interaction between angels and firms. This reactive approach creates a barrier for an efficient establishment of mutual understanding and a relationship. Our study also indicates that the markets where business angels and start-up firms meet is a non-transparent setting, which creates and possibly enhances negative influence on the perception of business angels, created by the institutionalized environment. An open environment where each party's requirements, wishes and goals are discussed is the solution of reducing this fear and removing misperceptions of business angels that lingers from before and is related to the evaluation performed by VC firms.

Thus, our study shows that the potential for marriage does not only rely on the performance of each actor during the evaluation process. The potential is highly affected by a chain of other aspects starting from the institutionalized image of how things should be and how people and organizations should act, which in turn creates perceptions that affect the two parties’ mind-set when entering the evaluation phase. These biased conceptions often have a negative impact on the intuition and thus in the end also the potential for marriage.

The institutional aspects cannot be changed by only firms and angels themselves, but it is important to know how to handle them. It is important to understand how institutionalized actors shape beliefs, perceptions and behavior, in order to see through them and thus enable accurate decision making. Angels and firms need to genuinely understand each other and not until mutual understanding is reached there will be possibilities for a potential “I do”.

7.0 Implications, Contribution & Future research

This section starts with outlining our implications, followed by practical and theoretical contributions, ending with suggestions for future research within the investigated topic.

7.1 Implications

The amount of interaction between business angels and firms need to be increased in order to create a mutual understanding, only during actual meetings will they be able to see beyond the existing conceptions shaped by society. When the both parties meet and interact with each other they develop an understanding of what the other party really wants, something that can differ from how they perceived it before the meeting. The problem is that firms often start building these types of relationships too late. By start building relationships with potential investors in an early stage, before they are in need for capital, it would become easier for both firms and angels to assess whether they are suitable for each other or not. Not putting enough effort on the relationship and other short-cuts will lead to a vague, uncertain intuition that might generate an inappropriate final decision that can have devastating consequences.

When the business angel and start-up firm are evaluating each other there is a lot of pressure to make an appropriate decision after only a few meetings. A critical situation occurs, which will set the base for many years to come – either together if the intuition says Yes, or apart if it says No. By creating an open environment it allows them both to ask all the necessary questions that may indicate the potential for partnership. A general perception from the business angels in this study was that many angels (and perhaps also the firms) are reluctant to ask difficult questions that may put the other individuals in an awkward position. Personal questions about values and opinions that can be a useful indicator are tools that can be very helpful, yet few use this during the evaluation process. Without asking the right questions – how are you supposed to know whether he or she is a suitable partner for you or not? Open communication is the key for finding out if a mutual understanding exists or not, which then will affect your intuition in a way that hopefully can help both business angels and start-up firms to make a decision that will benefit them both in a long-term perspective.

Both the business angel and the start-up firm are being evaluated and they both carry an equal amount of responsibility to create a sustainable relationship. To create a relationship with a foundation of trust and shared values, increased transparency and communication are necessary tools that should not be underestimated. By creating an open environment with an equal power balance, it will increase the chances of mutual understanding and thus also enhance the intuition.

7.2 Contributions

The theoretical contribution of this study is the relational approach and the investigation of the context where angels and start-up firms interact. By using a combination of different theories and comparing these with our empirical findings we have managed to increase the understanding for how institutional aspects relates to the potential for partnership between angels and firms, which opens up for opportunities to conduct further research within this area.

Our practical contribution has been to shed light on the complexity that occurs within this mutual context, something that is valuable for firms, angels as well as other actors who interact with them in different situations. The results indicate that when an evaluation process takes place, it is important to not make overhasty decisions based on the perceived behavior from the other party but also take other aspects into consideration that might have had an impact on the behavior. By raising the awareness of institutionalized norms in society it may become easier to use intuition wisely and thus make accurate decisions that can benefit both angel and firm.

7.3 Future research

This study aimed to describe the mutual context that emerges between business angels and start-ups firms when they are brought together for a potential partnership. This was done through an exploratory approach which has provided us with many interesting observations and insights. However this study covers the very first phase in the evaluation process and the implications that institutionalized aspects bring into this process. One idea for a future research would be to do a case study and follow one start-up firm and one business angel from the very first interaction until and during an

engaged partnership. This could provide a more holistic and multifaceted understanding of what happens with the conceptions brought into the relationship over time.
Further it would be interesting to do the same study in a different country to investigate if the same aspects, concerning norms and values of the actors, could be observed in other countries and cultures.

It would also be interesting to conduct a quantitative study on the same topic but with a larger sample of angles and firms, discovering if the same patterns would occur. A study like that would also gain credibility to this study since our findings hopefully would be confirmed.

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9.0 Appendix

As discussed in the methodology, the interviewees wanted to remain anonymous, thus they are not labeled by name anywhere in the report. A table is presented below, consisting of the type of source, date and location for each interview that was conducted. The following section is an overview of the basic set of questions that were being asked to business angels and start-up firms, as well as examples of questions for the additional sources. However, the questions varied and different follow-up questions came up depending on how each interview developed. This was especially the case for the additional interviews, where all the interview questions depended on who the interviewee was.

9.1 Interviews

Type of source	Date	Location
Business angel	2014-03-21	Stockholm
Business angel	2014-03-24	Stockholm
Business angel	2014-03-25	Stockholm
Business angel	2014-03-28	Stockholm
Additional source	2014-03-28	Stockholm
Business angel	2014-03-31	Stockholm
Additional source	2014-03-31	Stockholm
Business angel	2014-03-31	Stockholm
Start-up firm	2014-04-01	Stockholm
Business angel	2014-04-02	Stockholm
Start-up firm	2014-04-03	Stockholm
Start-up firm	2014-04-03	Stockholm
Additional source	2014-04-03	Stockholm
Business angel	2014-04-07	Stockholm
Start-up firm	2014-04-08	Stockholm
Start-up firm	2014-04-09	Stockholm
Start-up firm	2014-04-16	Stockholm
Additional source	2014-04-24	Stockholm
Start-up firm	2014-04-24	Stockholm
Start-up firm	2014-05-01	Stockholm

9.2 Interview questions

9.2.1 Business angels

Background information about the business angel
What does the process look like when you make an investment evaluation?
What are the important factors you look at/consider during the evaluation?
What type of questions do you ask?
When evaluating the team, what do you look for?
Is there anything you do *not* want to see/hear during these meetings?

Do you usually do a background check on the individuals within the team? Such as taking references.
Do you think the firms usually are aware of what you look for?
Do you think the firms usually are prepared for the meetings?
Who possesses the power? Why?
What do you believe the firms think about this?
Do you experience that one is inferior the other during the evaluation process?

9.2.2 Start-up firms

Background information about the business
How and why did you start the business?
What is your firms’ most valuable asset?
How was the team put together?
What type of investor have you been in contact with?
What do you know about business angels?
Have you received any capital yet? Tell us about that process.
Why have you been seeking for external capital?
When you pitch the business idea, how do you structure it?
What do you focus on during these pitches?
How would you prepare before a meeting with a business angel?
What do the angels look for?
What would you enhance about yourself? E.g. personal characteristics and experience
What do you ask the angel?
What do you primarily want from the angel?
What do the angel primarily want form you?
How important is the relationship between you and a business angel?
Do you experience that one is inferior the other during the evaluation process?

9.2.3 Additional interviews

Background information
How do business angels and start-up firms usually get in contact with each other?
What do angels look for in a business proposal?
Does the firm often know what the angels look for in a business proposal?
How do they know? Where do they find this information?
What can be done to increase their awareness?
How do the members of the firm evaluate a business angel?
Is the environment during the evaluation process non-transparent or not? Why?
Who possess the power during this process?
What do the angels/firms think about this? Do they share the same view?