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Do you believe in angels?

A quantitative research on the prioritization of investment criteria of business angels on AngelList.

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Abstract

AngelList is an innovative platform that successfully matches investors and early stage ventures since 2010. Particularly, until 2013, AngelList has managed to raise more than $200M for startups. Hence, the understanding of how investors under great product and demand uncertainty make their decision process is of value. Our research focus on angel investors due to the fact that are more important for young ventures, as apart from their own money they also provide their know how, contacts and serve as mentors to the founders of the enterprise. The aim of this study is to investigate how angel investors on AngelList prioritize their investment criteria. The method is quantitative, using online self-completion questionnaires. The finding of this study show that trustworthiness of the entrepreneur, enthusiasm of the entrepreneur, quality of the management team and growth potential of the market are the angel's top criteria.

Keywords: angel investors, AngelList, investment criteria, startups

…To the most loving, caring, admirable
& supportive people on the face of the earth
…My parents.

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1. Introduction

The term entrepreneur originates from the French word *entreprendre* that means to undertake. In business terms, it refers to the person that starts a new venture (Rodriguez, 2011). A more elaborate definition, however, is “a process through which individuals identify opportunities, allocate resources, and create value” (Rodriguez, 2011, p. 5)

A successful entrepreneur has to have a degree of profit-orientation of a company and the long-range spin-off of business activities (Nijkamp, 2003). Even if an entrepreneur possesses all the qualities to successfully implement his idea, frequently he is constrained due to lack of funds. Hence, being an entrepreneur entails the allocation of resources, human as well as financial. Consequently, having a good idea is not enough.

The most crucial stage for a new organization is the phase where it seeks for the financial capital in order to move from the stage of being an idea into becoming a reality (Mason and Harrison, 1995).

Especially nowadays that the pool of startups has expanded, the criteria that a young venture has to fulfill in order to get funding are important to identify. This, combined with the fact that technology has leveled the playfield where startups and investors are easier to reach each other, indicates that matching the right investor with a startup is even more of essence. As Nijkamp (2003,p. 401) states, an entrepreneurial hero is a *network hero*. Thus it is not uncommon for startups to get their initial funding through the founder’s friends and contacts. After the so-called “love money”, founders reach outside their circle of family and friends to allocate funds. Angel Investors and Venture Capitalists are the next resources the founder reaches to fill the equity gap (Rodriguez, 2011).

The term angel investor can be traced back to the end of the 19th century, referring to wealthy individuals that backed up theater plays and musicals in Broadway (Rodriguez, 2011). Some well-known angel investors, nowadays, are Microsoft co-founder Paul Allen, Dallas Maverick’s owner Mark Cuban and EDS founder H. Ross Perot (Ibrahim, 2008). Even though the name angel indicates altruism, angel investors or business angels (BAs) as they are often called, are not investing in ventures only for the warm glow feeling a notion frequently referred to in philanthropy motives (Vesterlund, 2006). However, as opposed to venture capitalists (VCs), return of investment is not the only motive of investing, nor is it the primary criterion that influences angels' investment behavior (Hsu, Haynie, Simmons, & McKelvie, 2014; C. Mitteness et al., 2012). One of the reasons is found in the fact that BAs invest their own money, so they do not need to justify choices to others (the money owners); hence, their investment decisions are based more on their instinct (Morrissette, 2007). Moreover, BAs are mostly former entrepreneurs themselves, thus, by investing their money, they aim to help their fellow entrepreneurs to realize their ideas (Hsu et al., 2014). Lastly, angels, apart from their money, also invest their know how, and regularly become mentors and crucial part of the startup, a characteristic that drives them to value the process of realizing an idea rather than only the financial return of it (Morrissette, 2007).

Venture capitalists saw decreased returns from 2000 to 2009, especially after the financial crisis of 2007/2008 and the recession, (Nanda & Kind, 2013). Additionally, during 2010, a declining Initial Public Offering market made venture capital exits more difficult (Nanda & Kind, 2013). Hence, there has been a large movement towards independent business angels (BAs) and angel groups. Also, the cost of starting a company has decreased and the new technologies such as "cloud" services, social media platforms, and open-source software enabled a cist reduction up to 90% for starting ventures. "What use to cost $5 million, now costs $500,000. As a result more and more people are able to start companies very, very quickly," says an investor (Nanda & Kind, 2013, p. 8).

As founders usually have restricted resources, a major consideration for them is which of these factors are most likely to lead to the goal of attracting more (financial) resources? For example, is it optimal to invest time on building a structured and complete business plan or focus on their elevator pitch instead? Notably, numerous papers have been attempting for the past years to assess the importance of business plan and its significance as an investment criterion. Bracker, Keats and Pearson (1998), Ford, Matthews and Baucas (2003), Delmar and Shane (2003) and Gartner and Liaio (2005) show a positive correlation between the existence of a formal business plan and firm performance. Others suggest that the correlation between venture's survival and the presence of detailed business plan for early stage ventures is weak (Perry, 2001). Criteria that are included in business plans are ROI, revenue potential, profit margin of the business, growth potential of the market and existing competitors. Others argue that there is no difference between having and not having a business plan for startups (Lange, Mollov, Pearlmutter, Singh & Bygrave, 2007; Lumpkin, Shrader & Hills, 1998; Miller & Cardinar, 1994). Lastly, Guy Kawasaki (2006) advices founders to cite their pitch many times, use the feedback received alter the pitch and then write the business plan. Thus the impact of the entrepreneurial pitch and the business plan must be assessed and furthermore compared, alongside with the additional criteria angel investors use to evaluate investment opportunities, such as trustworthiness, passion, openness and coachability of the founder(s). The ranking will indicate on which factors the founder(s) must focus on preparing prior to contacting potential investors. Therefore, the ranking of these investment criteria is crucial to founders seeking for financial capital.

Our study focuses on angel investors on AngelList, an online platform the successfully matches angel investors and ventures since 2010 (Nanda & Kind, 2013). Particularly, AngelList raised above $200 millions for startups until 2013 (Nanda & Kind, 2013. In order to answer our RQ on which criteria impact most the decisions of angel investors we developed an online self-completion questionnaire, inspired by a previously developed instrument, that of Sudek (2006). Hence, the methodology used is quantitative with the objective to assess the prioritization of the investment criteria of angel investors on AngelList.

To our knowledge, there is no research that investigates the criteria based on which angels on AngelList make their selection. Hence, with this thorough investigation of a burning topic, we make a contribution to both the academic literature and to society, more specifically by identifying which are the most important characteristics that investors look for when evaluating an investment opportunity. Notably, the previous studies (Sudek, 2006; Van Onsabrugge, 1998) focusing on the prioritization of investment criteria were decades ago, increasing our study's value.

2. Theoretical Framework

1. Funding stages of enterprises

Enterprises, usually called SMEs (small and medium sized enterprises), pass through several stages. Preston (2004) recognizes four of them: the seed stage, the start up stage, the early and the later stage.

The first stage is called the *seed* stage, where the territory is unknown, with high uncertainty for the future (Preston, 2004). The idea is not realized and further concept developing is needed (Rodrigues, 2011). Usually in this stage the financial capital derives from personal loans the entrepreneur borrows from outside sources such as family or/and friends (Rodrigues, 2011). Frequently, these loans are supplemented by the bank (Van Osnabrugge, 1998). Moreover, the founder invests his own savings in this stage in order to support the cause of the startup (Rodrigues, 2011). When the three F's (family, friends, founder), as it is called are exhausted the entrepreneur reaches to other sources (Van Osnabrugge, 1998).

The second stage, the *start-up* stage, refers to the one where the idea is developed up to a level that commercialization preparations are an option (Rodriguez, 2011). This is the phase where financial capital derives from angel investors and lasts approximately a year (Rodrigues, 2011).

Early stage is the third one where production and distribution takes place. The capitals in this stage, which may last for up to five years come from venture capitalists (Rodriguez, 2011). Even in this stage the enterprise may not be profitable yet.

The final and most mature stage, called *later*, indicates that the enterprise generates revenue while gaining a continuous high growth (Rodriguez, 2011). Moreover, the time frame in which the enterprise may become publicly known is from six months up to one year and the best-case scenario may be initial public offering that can raise additional profit for the founders (Rodriguez, 2011). In the last two stages the enterprise has evolved to a medium and large sized venture, respectively (Rodriguez, 2011).

2. All potential investors

There are two different types of equity investors, angel investors and venture capitalist, as aforementioned (Van Osnabrugge & Robinson, 2000). In the next section we are going to analyze these two types of investors.

2.1.Angel Investors or business angels (BAs)

Angel investors have the reputation of investing in risky but promising ideas since the end of the 19^{th} century (Ramadani, 1999). In 1874, Bell Telephone an idea that belonged to Alexander Graham Bell, was realized thanks to angel investors that invested (Ramadani, 1999). Moreover, in 1903 five angel investors backed Henry Ford, the automobile industry tycoon with $40.000; in 1977, an angel investors offered $91.000 in Apple Computer; in 1978 an angel investor initiated the financing of the chain of markets of Body Shop (Ramadani, 1999). Even the Golden Gate Bridge, a construction valued at $6 millions was financed by an angel investor, A.P. Giannini after the architect spent nineteen years seeking for funding (Van Osnabrugge, 1998).

Nowadays, examples that prove the crucial existence of angel investors can be found in enterprises such as Amazon.com. Amazon's founder Jeff Bezos approached VCs early on, but he was told that his company was not ready for venture funds. Instead, a dozen angels were willing to invest $1.2 million, a crucial amount that helped in positioning the company for its later $8 million venture round (Ibrahim, 2008). Similarly, Google benefited from an early $100,000 investment from angel investor Andy Bechtolsheim, co-founder of Sun Microsystems (Ibrahim, 2008). This cash infusion allowed Google co-founders Sergey Brin and Larry Page to "move out of their dorm rooms and into the marketplace" (Ibrahim, 2008).

Van Osnabrugge and Robinson (2000, p. 39) state:

> "A Business Angel is an individual who invests a part of his personal fortune in a company which is usually in its start-up phase. He makes his competence, experience and network of contacts available to the entrepreneur. He is not related to the creator-manager of that company."

Moreover, angel investors care about financial returns but also for the joy of being part in the entrepreneurial business, hence there are interested in the societal values, as well (Van Osnabrugge, 1998).

2.2.Venture Capitalists

As an entrepreneurial idea develops and grows, so do its financial needs. At this phase, the founder reaches for other sources of external equity funding. Venture capitalists or venture capital firms (VCs) invest in medium or large sized ventures, as mentioned. VCs are mainly institutional investors and pension funds (Morrissette, 2007). They are professional investment managers that manage mutual funds (Morrissette, 2007). Their preference is directly correlated with the growth potential of the firm, as the return of investment is their main goal when investing (Van Osnabrugge, 1998). In general, VCs are interested in reducing the positive correlation between risk and return (Van Osnabrugge, 1998).

3. The importance of Angel investors

Angel investors are commonly considered more important than venture capitalist for several reasons.

Firstly, Angel investors invest 16 times more often in new enterprises than do venture capitalists (VCs) (Sohl, 2007). In the US, between 2001 and 2013, business angels have invested approximately $22 billion per year in about 55,000 mostly early stage firms (Carpentier & Suret, 2015). During the same years VCs have only invested almost $7.2 billion annually in 1535 seed in early-stage ventures (Carpentier & Suret, 2015).

Another difference between angel investors and venture capitalists is that venture capitalist invest funds that belong to other individuals, thus the motives for a venture capitalist to invest are only seeking financial gain (Van Osnabrugge, 1998). Morissette (2007) states that venture capitalists do not invest unless the business is several years old. Because of this, BAs are much more important investors in early stages investments (Maxwell, Jeffrey, & Lévesque, 2011). Early-stage investments typically involve unproven technologies, unfinished products and services, as well as unverified market demand (Murray and Marriott, 1998). Hence the risk in investing in SMEs is high, an attribute that is discouraging VCs.

In addition, the importance of business angels lays to the fact that they invest more than money. Business angels apart from their own wealth, they invest their experience and know how to small enterprises to start or develop their ventures (Ramadani, 1999).

4. The angel's funding decision process

The BAs' funding process is represented by five stages: familiarization, screening, bargaining, managing and harvesting (Mitteness, Sudek, & Cardon, 2012; Rodriguez, 2011).

Learning about the opportunity is the first step of the process. Usually angel investors learn about investment opportunities through contacts and friends (Brush, Edelman, & Manolova, 2012).

The second step is the screening stage. Every angel and angel group has a different screening process. For example, AngelList provides the investors on the platform with suggestions depending on their stated preferences (market) (Nanda & Kind, 2013). Usually at this point angels are also provided with the business plan of the venture, including financial statements and predictions about the foreseeable future of the startup (Rodriguez, 2011).

In the next stage, called the bargaining, due diligence takes place. Due diligence refers to investigating many details and testing assertions and assumptions of the opportunity (Jourdan Jr, 2012). Moreover negotiations are also finalized at this stage (Rodriguez, 2011).

Additionally, angels usually serve as mentors (Morrissette, 2007). Actually some entrepreneurs have confessed that angel's guidance and advices are more important than the financial capital that he or she is offering (Ibrahim, 2008). The stage where the angel in mentoring the venture while also receiving reports and preforming meetings with the management team is called managing stage (Rodriguez, 2011).

Exit strategies are the vehicle with which angel investors realize the returns on their investment. Possible exit strategies include sale of the company, IPO (Initial Public Offering), transfer of stock to the investors, sale of investor's stock back to the founders and acquisition or merger with a publicly traded company in exchange for tradable or liquid stock (Rodriguez, 2011). This stage is called harvesting and it's the final stage.

5. AngelList

5.1. Introduction to AngelList

AngelList can be described in a nutshell as an online platform that matches investors and founders. The idea was based on Craigslist, as the founders admit (Nanda & Kind, 2013). Craigslist also matches supply and demand but mostly on the field of commodities and services.

Naval Ravikant and Babak Nivi are the co-founders of the San Francisco, CA, based company. The site was founded in 2010 with the aim of making the early stage fundraising more efficient. Notably, as the mission statement of AngelList states, its purpose is to "introduce startups to the world" (Nanda & Kind, 2013). Start-up companies, especially small and medium enterprises often need external financing to grow (Ramadani, 1999). Moreover, the evolution of the Internet has facilitated the matchmaking of founders and investors in a global scale. These two factors position AngelList as a valuable tool in the hands of entrepreneurs, but also for investors.

Founders meet investors in two ways on AngelList: either investors request meetings online and invest offline or investors make small investments on the 'invest online'[1] feature. Invest online is a new product that allowed accredited investors to make small investments, from $1,000, in startups at the same terms as larger investors (Nanda & Kind, 2013). As stated on AngelList's site 95% of the amount raises was through an online meeting request followed by an offline investment (AngelList.com, 2016). Though, online investments are growing since they were launched[2].

[1] http://angel.co/invest
[2] http://blog.angel.co/post/40222893511/1-million-in-online-investments-in-the-first

The old fashioned entrepreneurs used to contact investors directly asking for financial support and guideless. A lot has changed in the last decade as the Internet and the digital world have emerged. Online platforms have been created that facilitate the matching of investors with enterprises. Particularly, some of the top crowd funding sites according to Forbes magazine, amongst which is also AngelList, are; Kickstarter, which enables donation-based funding (Nanda & Kind, 2013). Another platform is Indiegogo that in comparison with Kickstarter, which curates its projects, approves donation-based fundraising campaigns for almost anything (Nanda & Kind, 2013). AngelList operates in a similar way, providing any company the opportunity to enlist on the platform.

Ravikant claims that there are all types of businesses that seek for financing on the site (Nanda & Kind, 2013). From the salon in the corner of the street, which will not achieve professional funding to startups such as Pinterest. As Ravikant adds, Pinterest was completely unknown when it entered the site but increasingly added information on its profile and succeeded on getting financed. Interestingly, even those companies that fail to raise money, which are almost the 95% of those listed on AngelList as Ravikant scales, benefit from its existence.

In August 2012, AngelList introduced another feature called “Talent”. The talent-recruiting portal aims to match entrepreneurs who failed (to raise capital) on the site with those who gathered funds and they are likely to hire additional staff. On Talent 120 placement per week occur and over 2.000 introductions per week take place on behalf of more than 31.000 candidates (Nanda & Kind, 2013). Hence, AngelList is also important, as it is an entrepreneurial ecosystem. Some of AngelList’s successful “stories” are Uber, GetAround and BranchOut (Nanda & Kind, 2013).

5.2. AngelList as an entrepreneurial ecosystem

The theory of the entrepreneurial ecosystem is well addressed by Mason and Brown (2014, p.5) as “a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition), which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment”. Entrepreneurial ecosystems are important as they promote innovation, increase competition and enhance the efficient allocation of resources within economies (Mason and Brown, 2014). Each ecosystem emerges under a unique set of conditions and circumstances (Isenberg, 2011). AngelList is a paradigmatic entrepreneurial ecosystem that does not only benefit entrepreneurs by placing them but also startups that seek for employees. As Talent is free of charge is estimated the companies that use it as a recruitment tool save more than $25.000. Companies that recruit on AngelList are Yelp, Quora and Kickstarter. Thus, not only companies that are funded through the site use the site as a recruitment agency. The whole portal resembles Linkedin as the same filters are used. Similar to those used to rank startups. People fill in information regarding their GPA, references, working experience and socio-demographic characteristics. The matchmaking does not only limit in Silicon Valley based companies but also across different geographies.

5.3. AngelList as part of the creative industries.

The term of creative industries has its origin in the last years of the 20th century (Towse, 2010). Cultural economists and others studying phenomena related to cultural production in all its stages, have been developing research on that field ever since (Towse, 2010). One of the first publications to use the term of creative industries was by Richard Caves (2000), a book called “Creative Industries: Contracts between Art and Commerce” (according to Towse, 2010, p. 16).

The first Creative Industries Mapping Document, produced, two years earlier, by the UK Department for Culture, Media and Sport (DCMS), in 1998, included the following industries: advertising, architecture, art and antiques markets, computer and video games, crafts, design, designer fashion, music, performing arts, publishing, software, television and radio (DCMS, 1998; Howkins, 2001, p. 89; Towse, 2010, p. 16-17).

A more recent definition by DCMS (2001) in respect to what defines a creative industry (also called cultural) is:

> "Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property" (DCMS 2001, p. 04).

On that ground, based on the definitions aforementioned, one could argue that AngelList can be considered belonging to the creative industries. First and foremost, regarding its origin, the mere purpose of its existence is allocated in the creativity of the entrepreneurs who are offering the outcome of their innovative thinking, skills and talents. Hence, its origin is in the individual (founder) creativity, skill and talent. The second part of the definition refers to job creation and profitability. AngelList is successfully pairing investors with ventures (Nanda & Kind, 2013). By June 2013 the site has managed to raise over $200 millions for startups (Nanda & Kind, 2013). Moreover, the site helped drive between 500 and 700 introductions weekly. Even more importantly, without BAs our entire innovation-based economy, that is based on start-ups' success and has produced over 12.5 million jobs and up to eleven percent of our gross domestic product in recent years, would be in jeopardy (Ibrahim, 2008). Further, we have already mentioned that AngelList also serves as a recruitment agency (via "Talent" portal). Hence this criterion is also fulfilled. Thirdly, AngelList is a platform entirely based on software and algorithms matching investors and startups. Thus AngelList can be considered as a creative industry if we take into account the definition of DCMS (1998).

5.4. How AngelList works

AngelList is a user-friendly platform for both investors and founders that navigate the site.

The first stage when an angel or venture capitalist joins the platform is to create a profile. Their profile should contain information regarding their portfolio, background, and anticipated number and dollar size of investments for the upcoming year (Nanda & Kind, 2013). Moreover, to obtain more opportunities without being overwhelmed, AngelList screen the investment opportunities of the week and provide investors with a list of the most relevant according to their (investors') investment preferences and AngelList's recommendations (Nanda & Kind, 2013). The recommendations are based on the preferences of the equity investor based on which deals interests him most, company size, location, stage of development and the amount of investment (Nanda & Kind, 2013).

This solves the problem of inefficiency of the informal venture capital market. This is caused primarily due to ineffective communication (Nanda & Kind, 2013). Furthermore, after it is publicly known that a person has an amount of money he wants to invest, countless entrepreneurs reach out to him causing "congestion" [3] (Van Osnabrugge, 1998). In addition to that the investor might be interested in different opportunities than the ones who approach him (Nanda & Kind, 2013). AngelList is taking under consideration investors' preferences when conducting the list that they provide him (Nanda & Kind, 2013). Moreover, AngelList reduced the search cost for both investors and founders. As Van Osnabrugge (1998) states, matching entrepreneurs with investors is a sincere concern. Hence, AngelList is an important platform in the entrepreneurial field as it reduces the opportunity cost of investors. Opportunity cost refers to the shadow cost when investing time and money to a particular good (in this case startup), which deprives you of the opportunity of investing these amounts to another one (Payne, Bettman, & Luce, 1996).

Lastly, some investors require assistance to identify good investment opportunities (Van Osnabrugge, 1998). AngelList is a business introduction service (BIS) that also resembles a social networking site. BIS reduce the *equity gap* and provide cost-effective communication (Van Osnabrugge, 1998). The inexperienced investors on AngelList can co-invest with more experienced investors, which reduces the investor uncertainty Wong (2002).

[3] The term congestion is used metaphorically in this case. Network congestion refers to reduced quality of service when a network transfers more data that it can handle (Wikipedia, 2016)

An investor using AngelList claims that the most crucial advantage of AngelList is that it is a timesaving process:

> "On AngelList … I'm presented with a clear, crisp "elevator pitch" in the introductory email and further have access to a detailed summary with a single click. Because there is no human introduction involved at this stage, if the deal isn't a fit I can just hit "delete" and move on".

He adds, "I can see as many deals as I want with none of the wasted time on the no-fits" (Nanda & Kind, 2013, p. 5).

This quote is important as it depicts the importance of AngelList not only by its contribution to founders that seek for financing but also from investor's side that face the problem known to economist as opportunity cost. It is commonly known that investors' time is precious. Furthermore, considering the ever-growing startup community, AngelList's screening service seems even more important.

Creating a profile is also the first step that a startup has to take to begin on AngelList. In contrast with investors that need to be accredited according to U.S. Security and Exchange (SEC) commission rules and regulations, any company is eligible to publish a profile on the platform. This entails earning above $200,000 annually or had a net worth of at least $1 million (Nanda & Kind, 2013). As Naval Ravikant states they begun vetting the companies but then decided that they should provide equal opportunities to all companies (Nanda & Kind, 2013). After all as he adds, *one man's trash is another man's treasure.* Nevertheless, as stated previously, investors' time is precious, hence even though any company can be listed on the platform only few of those are included on the list (email) that the investors receive once a week. Each day approximately 100 to 200 startups publish a profile on AngelList (Nanda & Kind, 2013). The list on the other hand only features the ones who are more eligible for funding. Every day 10 to 20 new startups are emailed to each investor on AngelList (Nanda & Kind, 2013). Moreover, the site provides to its investors a review for each startup as a service to the investors in order to facilitate the screening process. A team of people, who specialize in valuing startups, including the founders of the platform, conducts this review (Nanda & Kind, 2013).

Additionally the platform provides founders with comments on how they can improve the company's profile (Nanda & Kind, 2013). Secondly, if any of the investors like a startup, they can e-mail it to their followers on the platform and this is how a startup gets "discovered" (Nanda & Kind, 2013). Though it is free to register your startup on AngelList, the site receives a 5% carried[4] interest on profits returned to investors participating through the platform (Nanda & Kind, 2013).

Moreover, AngelList is similar to a social networking site (SNS), where participants can "follow" people or companies, comment on posts and like other's updates (Nanda & Kind, 2013). AngelList's transparency also provides trust and security to the founders using the site. Firstly, investors on the platform are accredited. Secondly, founders can view the profile of the investor, which contains characteristics of his personality and previous investment activity. These two characteristics alleviate the founders' uncertainty. As Dibrova (2015) states the clarity of alternative investors and their main characteristics are essential in order to protect founders from potential unjust investor actions and offer them with trustable informative base.

5.5. Investment criteria according to AngelList.

As aforementioned, AngelList provides a list with the most interesting investment opportunities. The characteristics that AngelList is curating the list according to, are the product, team, traction and social proof, as these are the things investors care about explains Ravikant (Nanda & Kind, 2013). Product is quite vague when attempting to evaluate as it refers to what products are interesting and how well the team will execute, as Ravikant notes. Team is undoubtedly an important factor when coming to investing. In this category fall also the educational background and working experience of founder/s and the people who he employs. These factors are more objective. Other factors such as passion and enthusiasm are less visible on papers and require a face-to-face interaction. Even though Van Osnabrugge's (1998) study was almost twenty years ago it was the first that proved that enthusiasm and

[4] Carry is a share of the profit of an investment that is paid to the managers of the investment. It is short for 'carried interest'. See more at https://angel.co/help/syndicates/carry

trustworthiness are the most important criteria for investment being ranked first and second, respectively. Furthermore, recent studies (Sudek, 2006) have also shown this. Sudek's study (2006) and Stedler and Peters study (2003) also prove that the management team is important. Traction can be measured in respects to how many customers the company has and how many users the company has (Nanda & Kind, 2013). Social proof refers to the notion of who is backing up the idea, financing it but also mentoring it (Nanda & Kind, 2013). Angel investors apart from the financial capital provide their experience; know how, personal skill in order to help the company. As an entrepreneur said, AngelList is a powerful tool that has given his company social proof. The last characteristic is also important when having under consideration the herding behavior that applies for industries and products of high quality uncertainty. Herding behavior is used in order to understand the demand for cultural products (Banerjee, 1992; Bikhchandani et al. 1992). Early users can affect the behavior of other consumers (Banerjee, 1992). Meaning potential consumers tend to rely on the choices made by individuals prior to them when deciding what to consume. This phenomenon is also called bandwagon effect or network effect. Similarly, in investing in entrepreneurial opportunities, investor may be influenced by the activities of other investors that have reviewed and invested in a venture before them (Ottaviani and Sorensen, 2000). The herding behavior is also discusses in the empirical study of Maxwell, Jeffrey and Lévesque (2011) where the researchers noted that there was no sign of herding behavior, as the angels on board of Dragons's Den were characterized as highly egoistical, a characteristic that discouraged them from showing such (herding) behaviors.

6. Literature Review

Since the mid-1980s in the USA the investment activities of angel investors and their motives have been the focus of careful examination through analysis and empirical survey (Stedler & Peters, 2003). The first study to investigate the decision process of angel investors was conducted by William Wetzel (1983). From this, more research has been conducted. The key objectives of the studies are the deeper understanding of BAs' demographic profile, motivations and investment preferences (Stedler & Peters, 2003).

Demographics

As Morrissette (2007) has demonstrated through a historical retrospective of previous empirical studies that angel investors in general are white males between 50 and 59. This is also proven by the HALO report[5] conducted by the Angel Capital education foundation founded by Kauffman the Foundation of Entrepreneurship that found that BAs' median age is 57 based on a study on 539 accredited angel investors, which was released in 2007. To our knowledge, there is no recent study on angel investors' demographic profile. However, there is an ongoing study on angel's demographic profile by the Angel Capital Association, which will be completed by the end of 2016. Unfortunately, our research will be published before the release of the results.

Their net worth exceeding $1 million, which meets the criteria, set by the United States Security and Exchange Commission (Morrissette, 2007). They usually come from US household (Benjamin & Margulis, 2001). The average private investment ranging from $10,000 to $2 million, is $100,00 (Benjamin & Margulis, 2001). The influence of their gender in their preferences and motives is yet to be assessed. Several studies (Mitteness, Sudek & Cardon, 2012; Sudek, 2006) have a problem with arriving in conclusive remarks whether the gender has an impact on the investment activities of BAs, as the sample of female investors is too small. Some studies (Mitteness, Sudek & Cardon, 2012) have found that the age of the investors plays a role on the factors that they perceive as important. The former experience of the entrepreneur also affects on their evaluation of the entrepreneurial opportunity. The study of Sudek, Wiltbank and Read took place from July 2006 through

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[5] The HALO ReportTM provides analysis and trends on US angel and angel group activity. Read the whole report at:
http://www.angelcapitalassociation.org/data/Documents/Resources/AngelGroupResarch/1d%20-%20Resources%20-%20Research/ACEF%20Angel%20Performance%20Project%2004.28.09.pdf

September 2008. An online survey was conducted to sixty-six investors, members of the Tech Coast Angels group (TCA), who valuated 150 new ventures. TCA is not a structured angel group, rather each angel investor makes his own choices regarding whether or not they invest in an early-stage venture (Mitteness et al., 2012). This is an important distinction because as Carpentier and Suret (2015) have pointed out structured angel groups, also called AGMs (business angel group members), act more as venture capitalists, primarily considering the financial issues. Accordingly, the studies performed in structured angel groups are excluded from the literature review.
Particularly, they demonstrated that investors with more extensive experience in the entrepreneurial field emphasize more at the non-predictive factors (than those who do not have such experience) (Wiltbank, Sudek, & Read, 2009). They focus on factors such as leadership, management team and their relations and ability to impact the market in which they function. Conversely, those with investing experience value more the predictive information regarding the venture and underweighting the information about the team of founders (Wiltbank et al., 2009).

Further, the personality of the investor also has a reflection to their investment behavior and the way they perceive and evaluate entrepreneurial characteristics. Specifically, more introvert investors are going to appreciate more the passion, trustworthiness and social skills of the entrepreneur (Mitteness, Sudek, & Cardon, 2012).

6.1. Motives

It has been empirically proven (Linde & Prasad, 2000; Hill & Power, 2002; Morrissette 2007; Van Osnabrugge & Robbinson, 2007) that the motives of angel investors differ. Mitteness Sudek and Cardon (2012) have proven that investors' motives impact their evaluation of an investment opportunity. Investors who are motivated to mentor tend to appreciate more entrepreneurs' passion (Mitteness et al., 2012). A reason for this is that it indicates that the entrepreneur will be open to advice and in general will do whatever it takes for the venture to succeed as the researchers add (Mitteness et al., 2012).

The most distinguished characteristic of angel investors compared with other investors is, as Morrissette (2007) notes, their non-financial motivations. In Van Osnabrugge and Robinson ([2000] pp. 117) a business angel claims:
"I'm not in it for a fast buck. Besides, it's cheaper and more fun than buying a yacht. I enjoy investing in companies and getting involved; it's a real buzz." Notably, studies (Osnabrugge & Robinson, 2000) have shown that only 30% of angel investors have calculated the excepted rate of return when investing on a start-up. While others (Sullivan, 1991; Hill & Power, 2002) find that for one third of angel ROI is not their primary motivation but the enjoyment of being part of a starting company and the fun of an intriguing investment. In addition, there is a psychic compensation, or else psychic income that derives from helping in the creation of a new venture for angel investors (Morrissette, 2007). Psychic income leads BAs accepting lower returns (Freear, Sohl & Wetzel, 1995). Linde and Prasad (2000) indicated the following occurrence of non-financial motivations: desire to "give back" (60%); enjoy involvement (56%); networking (28%); challenge (24%); and stay up-to-date (24%). Some say that like fine art there is a "consumption" benefit to the investment (Morrissette, 2007). Moreover, similarly to investing into art and being a philanthropist, there is the benefit of belonging into a "club" when investing to start-ups (Morrissette, 2007). "I like being able to tell my friends that I am part of the 'club' of making investments" says an investor (Hill & Power, 2002, p.30).

6.2. Investment Criteria

Studies have divided the set of criteria that angel investors consider about in their investment decision process into subjective and objective.

Objective criteria

Objectives are the set of criteria that are measurable and commonly included in the business plan, namely market and product related data. Even though as mentioned by Parhankangas and Enrlich (2014) such information is likely not available at the time the angels make their initial investment decisions. The reason is that early stage ventures usually involve unfinished products and services, unproven technologies and unverified market demand (Parhankangas & Enrlich, 2014). Nevertheless, Brush, Edelman and Manolova (2012) have empirically researched the factor of readiness of the venture and its effect on the fundraising procedure. Their findings that derived from a study on 332 firms that sought investment from an angel group near Boston, MA during 2005-2007 and demonstrated that the odds of passing through the first screening stage increase depending on the size of the management team, a measure of organizational readiness, and the intellectual property, a measure of technological readiness (Brush et al., 2012). The results derived from analyzing the 332 submitted proposals. Two researches coded them and developed 64 categories whose inter-rater reliability was calculated using STATA.

Strategic readiness refers to the organizational processes, assets and demonstrable activities suggesting that the venture is capable of moving from the current state to the new desired state (Brush et al., 2012). Technological readiness refers to the individual's readiness to accept or use new technology or technological readiness for technological transfer or commercialization (Brush et al., 2012). Whereas organizational readiness refers to the readiness of organizational members to accept change and considers factors that influence or catalyze transformative change (Brush et al., 2012). In addition two of the four measures of strategic readiness that were tested indicated are positively and significantly associated with the odd moving to the next stage of funding. These measures are stage of product development and presence of current customers (Brush et al., 2012).

Geography

"Welcome to the age of digital media. The invention of the printing press changed the world in two centuries. Digital media have revolutionized it in twenty years. In the digital world the future is now and the present is already past – and this is just the beginning..." (Badalotti, De Biase, & Greenaway, 2011, p. 115)

This phrase summarizes the new era that we are living and it was the introduction of a company's presentation to its customers in order to show the need for change. Even though digital technologies have "lifted the barriers and opened boarders" with invention such as Skype, Facetime and Google Hangout it seems that the geographical location of the startup still matters to angel investors when they evaluate an investment opportunity. Brush, Edelman and Manolova (2012) state that founders need to think carefully when searching for financial capital outside their local area, as in their study have indicated that location is a significant factor for angel investors. Namely, they found that organizations that located in New England or Massachusetts increased their odd of receiving funding, as their focus was on an angel group located outside of Boston, MA. Ibrahim (2008) point out that the reason is that are able to monitor the star-up process by being close to the venture's geographical location. Both articles are relatively old, considering the speed in which technology is evolving.

Currently, we are living the age of Digital Media (R)evolution. An example that enriches this statement is the phenomenon of Facebook. Radio took 38 years to reach a target of 50 million of people, TV 13 years, Internet 4 years and Facebook only 2 years (Badalotti et al., 2011). The DMR is changing our intellectual capability and the way of dealing with ideas. It is also reshaping the way we handle information, which is probably the most worth-mentioning and significant capability of our species (Badalotti et al., 2011). We argue that the Digital Revolution has changed; apart of our communication and the way we meet people and consequently our way of living, the way people are doing business. The process of sourcing investment opportunities has evolved. Previously, Angels sourced their deals through acquaintances and contacts most often close to their geographical area (Morrissette, 2007). Especially in the entrepreneurial field, platforms such as Kickstarter, Indiegogo and AngelList have altered the startup funding process, regardless of the geographical locations of the organizations. Surprisingly, search filters on AngelList, apart from market or industry, investments in similar companies, also include geographic location, signaling that investors consider the geographic location of a venture prior to investing (Nanda & Kind, 2013). Nevertheless, is yet to be explored whether or not in this time and age, the geographical distance between the investor and the organization plays a role in their investment procedure.

Subjective criteria

As Ron Conway, one of the most active angel investors in Silicon Valley with early stage investments in over 500 companies including Google, PayPal and AskJeeves states, "In my experience of evaluating entrepreneurs, the most important ingredient is the personal chemistry with the entrepreneur and leadership qualities. I look for trustworthiness, flexibility, passion, coachability, and the ability to lead others" (Mitteness et al., 2012, p. 1). These are few of the subjective criteria mentioned by one investor. Nevertheless, the following section depicts the most important subjective criteria indicated by empirical studies.

Trustworthiness

Amongst the important criteria that have been indicated through empirical studies is the trustworthiness of the entrepreneur. Trustworthiness as scholars have indicated (Sudek, 2006; Van Osnabrugge, 1998), occupies the highest position in the rankings. This is also depicted in the absence of complete contracts between the angels and the founders (Ibrahim, 2008).

Contacts aim to reduce the information asymmetries that emerge in a principal agent relationship (Van Osnabrugge, 2000). The agency theory suggests that the agency problem appears when one party (principal) assigns work to another (agent), when their goals conflict and lastly when the information asymmetries between them consist difficulty for the principal to monitor the agent (Jensen and Meckling, 1976). In the entrepreneurial field the agent -the founder- may fear that the principal -the investor- will take advantage of him, as the principal has more information regarding the entrepreneurial field but also regularly founders rely on angels to share their know-how and connections, such as distribution lines and contacts. On the other hand the agent may oversell its skills and capacities leading the agent to have false expectations of the prosperity of the business (Ibrahim, 2008). Hence, contracts set the goals that the business has that also depict the values of the people that take part in the venture. Also, they reduce the risk and agency cost that arises (Van Osnabrugge, 2000). The risk sharing is important for a new venture as mentioned above both parties. Unfortunately, contracts are costly, moneywise but also time wise and in the angel- founder relationship are incomplete (Van Osnabrugge, 2000) or entirely missing (Ibrahim, 2008).

Moreover investing in early stage investments usually entails unproven technologies, unverified market demand and unfinished products and services (Parhankangas & Ehrlich, 2014). Thus trust is logically placed high at the rankings. The interesting question is how an entrepreneur can communicate his trustworthiness. Studies have shown that revealing some of their weaknesses, founders may increase their trustworthiness in the eyes of the investors (Parhankangas & Ehrlich, 2014). Generally openness is an indicator of trustworthiness (Mitteness, Sudek, & Baucus, 2010).

Passion

Passion is an investment criterion indicated by several studies (Cardon, Sudek, & Mitteness, 2009; Jourdan Jr, 2012; C. Mitteness et al., 2012; Parhankangas & Ehrlich, 2014b). The passion of the entrepreneur refers to the "strong inclination or desire toward a self-defining activity that on likes or loves, find important and in which someone invests time and energy" (Mitteness, Sudek, & Cardon, 2012, p.593). Nonetheless, the displayed passion of the entrepreneur is not that of the matter rather than the perceived passion by the investor, as the investor might not perceive the displayed passion (Mitteness et al., 2012). The studies have assessed the perceived passion.

The perceived passion of the presenter is more significant to the ventures that evolve creativity (Jourdan Jr, 2012). Moreover, the perceived passion entails more creativity, can increase motivation and it is related to higher levels of initiative and persistence (Cardon et al., 2009). Furthermore, the results of Cardon, Sudek and Mitteness (2009) survey, which was conducted to 64 angels of the Tech Coast Angels group evaluating 241 entrepreneurial pitches over almost 4 years[6], indicated that passion is more important as a factor to older, more intuitive investors that have are motivated to mentor and have high openness personality. The difference of this self-administrated questionnaire is that it was filled in real time, as opposed to the ex-post

[6] From August 2006 through July 2010 (Mitteness, Sudek, & Cardon, 2012).

questionnaires relying on the investor's recollections that are criticized by some scholars (Maxwell, Jeffrey, & Lévesque, 2011).

Perceived passion as a characteristic is also linked with greater commitment to the venture, planning and preparation (Parhankangas & Ehrlich, 2014). Parhankangas and Ehrlich study (2014) focused on a business angel group in the New York Metropolitan area. The dataset consisted 595 early stage ventures seeking for investment between 2005 and 2007. They analyzed the one-page submitted written applications of these young firms. The analysis was based on the impression management strategies the investors take up. Further, the DICTION software was used to test the hypothesis of the researchers. Both studies analyze an extensive dataset, which secures the credibility of their studies.

Lastly the passion of the founder is also important if we consider the emotional contagion that leaders tend to exhibit (Mitteness et al., 2010). Emotional contagion refers to the ability that entrepreneurs possess to transfer their passion to the key stakeholders but also to their potential co-workers leading them to want to work on the venture and be part of their vision (Cardon, 2008). Angels tend to value entrepreneur's passion, as a characteristic that helps the founder to overcame potential obstacles and focus on their goal (Mitteness et al., 2010).

Coachability

Furthermore, Mitteness, Sudek and Baucus study (2010) that took place from September 2001 to July 2010 and analyzed the behavior of 57 angels while they were screening 159 young organizations, using a self-administered questionnaires that contained a Likert scale, focused on three transformational behaviors. Apart from passion and trustworthiness, key factors that were already demonstrated to have an important influence on investors' decision process, they also indicated coachability as a crucial criterion. Coachability refers to the ability "to lead through communication a compelling vision to the team and persuading external stakeholders that this vision will be successful" (C.R. Mitteness et al., 2010, p. 10). In addition, coachability also refers to entrepreneurs' placidity and openness to change. However, conformity can be a negative characteristic that indicates that the founder in order to win the investor's approval is capable of compromising his own values (Mitteness et al., 2010). Conscientiously, measures of personality can directly affect the evaluation of a funding potential.

Elevator pitch, Oral and Written presentation

One way for entrepreneurs to seek investments for their ventures is by delivering a pitch. A pitch is an oral presentation usually delivered to the investor, either in private or in public. Kickstarter, for example, is a platform where the founder of a start-up can upload its video promoting its idea, trying to persuade potential investor to invest. A pitch usually lasts 15-30 minutes (Clark, 2008). Whereas a pitch that is five minutes long is called “elevator” or “rocket” pitch (Clark, 2008). It is explained as a pitch meant to last as long as an elevator takes to take you to the highest floor of a building.

Previously we mentioned entrepreneurs’ qualities such as passion, trustworthiness and coachability. Qualities revealed in interactions between the founder and the investor. Additionally, studies have shown that not only the content but also the tone of the founder matters when submitting their written material to the potential investors (Parhankangas & Ehrlich, 2014). Further, the choice of words can make a positive impression to the investor that will last and influence their investment procedure (Parhankangas & Ehrlich, 2014). Apart from the written speech, in their oral presentation and elevator pitches, entrepreneurs’ way of presenting influences investors judgments and decisions much more than the content of what they are presenting (Jourdan Jr, 2012). Namely, presenters who maintained an even volume and spoke more quickly were perceived as more persuasive (Olguín & Pentland, 2010; Pentland, 2010).

The studies that depict such a relationship are based on the impression management theory. Impression management is a process that refers to the attempt of people to control the image others have of them in order to achieve certain objectives (Goffman, 1959). They strive to make good first impression (Parhankangas & Ehrlich, 2014). Impression management entails use of expressive behaviors, verbal and non-verbal statements (Parhankangas & Ehrlich, 2014). There are two types of techniques, direct and indirect. Direct techniques refer to accomplishments, abilities and one’s own traits. The indirect techniques consist of “managing the information about the people and things with who one is associated with" (Parhankangas & Erlich, 2014, p 545).

Further, Mason and Harriman's study (2003) has shown that even though the highest relationship to the angel's level of interest comes from the presentational factors, decisions are based on the non-presentational factors such as product, market, company and funding and financing reasons. Conceivably, an explanation to such findings may be the reluctance of angels admitting to be so influenced by non-predictive factors. However, angel investors as mentioned in the literature rely heavily on their instincts when making an investment decision (Mitteness et al., 2012). Sudek, Read and Wiltbank (2009) on their study performed on more than 2,700 individual investor evaluations of 150 new ventures have concluded that angel investors rely on predictive information especially in the early stage of the selection process whereas non predictive information are more vital when the organization has passed to the due diligence and investment process.

Further, Clark's study (2008) has also revealed the importance of oral presentation on angel investors' initial screening investment decision. Its focus was business angels located in the UK. Clark (2008) notes that several opportunities are not pursued due to poor presentation of the entrepreneur. As Clark (2008), several scholars have focused on the decision criteria of angel investors of a particular region like Stedler and Peters (2003) who aimed to provide information on German business angels. Notably, they shed light on their motivations and reasons for investing, with the practical objective of highlighting to students how to attract business angels to their own start-ups. The research was based on interviews with more than 230 business angel and showed that the most important criterion is the business plan using ex-post questionnaires. We will not analyze further its results because they cannot be applied to business angels in the US. As Stedler and Peters (2003) note there are cultural and social differences between countries that cannot be ignored. Hence, the results of the studies performed in European countries cannot be generalized to other nationalities. Consequently, Carpentier and Suret (2015) study cannot also be generalized as its investigating business angel group members' decision-making from project submission to the final decision using a Canadian group's archival data. The dataset contained 636 proposals for which they provided a detailed longitudinal analysis of the decision process. The rejection reasons generally refer to market and execution risk; this finding holds for every step of the process for proposals that pass the pre-screen (Carperntier & Suret, 2015). Moreover, it showed that angel group members focus more on market and execution risk than agency risk, similar to venture capitalists and inexperienced entrepreneurs are rejected for market and product reasons (Carperntier & Suret, 2015).

To conclude, entrepreneurs ought to communicate in a positive language, promote their innovativeness (i.e. use words to promote their novelty of the business concept) and appear confident. Interestingly, it is empirically proven that excessive confidence, organizational promotion or blasting of their competition, can make investors perceive the entrepreneur as unprepared and unaware of potential risks (Parhankangas & Ehrlich, 2014). Similarly, promoting too much of innovativeness may signal higher riskiness of the new venture to the investors leading them to be more reluctant in investing (Parhankangas & Ehrlich, 2014). Hence, the balance of these attributes (boldness and caution) is the optimal situation.

Rejection Reasons

Our research would be incomplete if we wouldn't include the studies that refer to rejection criteria. The rejection criteria also indicate the important factors that BAs consider prior to investing in a young firm.

Scholars throughout the years have explored and indicated the characteristics of the founder that influence his investment behavior. Other papers rather than focusing on reasons for selection focus on reasons for rejection. Mason and Harrison (1996) were the first researchers who explored and analyzed the BAs' rejection reasons. They used a qualitative method, using interviews, examining a sample of 35 investment opportunities that were considered and subsequently rejected by Metrogroup, a private investor syndicate in the United Kingdom. They used a questionnaire and their findings indicated that the lack of a marketing plan and financial considerations play a more important role than the lack of founder's experience, as a rejection reason (Mason & Harrison, 1996). In contrast, Maxwell, Jeffrey and Lévesque (2011) test the theory that investors use elimination by aspects (EBA). EBA refers to the procedure where the investor evaluates certain criteria on whether or not to reject a venture. The scholars have indicated 8 factors for rejection. Three of which are referring to the product. Namely, these are adoption[7], product status and protectability. The three following refer to the market; customer engagement, route to market and market potential. The last two are relevant experience and financial model (Maxwell, Jeffrey, & Lévesque, 2011). The scholars predict that business angels use this eight-item critical-factor-assessment tool, as they characterize it, to trim the set of venture opportunities looking for funding. Their study is based on analyzing (unedited) recordings of the TV series, Dragon's Den. The interesting finding of this study is that was proven that investors use different criteria in different stages of the investing process. Meaning that after trimming the investing opportunities by using EBA, investors are paying deeper attention to the characteristics of the remaining ventures that have high potential. This is based on the fact that investor's time is precious hence he is going to attempt to save time by rejection investment opportunities to focus later on those few that have higher potential. The method used was observational interaction, based on the verbal protocol analysis. Admittedly the number of investors was small, only five business angels. Hence generalizing their behavior to the full population would be risky. Landström (1998) performs an ex-post questionnaire with the aim to study the importance of decision-making criteria of 44 business angels. His findings suggest that the decision making criteria may vary as the investment process unfolds over time (Landström, 1998). Yet, the sample used was rather small in order for us to generalize his findings (44 BAs) (Landström, 1998).

Another study revealing that different attributes that play an influential role accordingly to the stage of the investment process is that of Brush, Edelman and Manolava (2012). They explained through their empirical study that all aspects of readiness matter during the first administrative decision making juncture, as opposed to when the venture carries on the decision making process (Brush et al., 2012). Mitteness, Baucus and Sudek (2010) also argue that the emphasis that investors place on criteria varies according to the stage of the finding process. They have demonstrated that while opportunity strength is an important factor of investment at

[7] Ease of adoption is "the attractiveness of the product to potential customers in the target segment" (Maxwell et al., 2011, p. 217).

the screening stage, the factor entrepreneur matters most when investors decide if a venture will proceed at due diligence stage (Mitteness et al., 2010).

Ranking of Investment Criteria

Based on the literature, the optimal entrepreneurial venture is the one that combines a strong and experienced management team, with a passionate and enthusiastic presenter, big current client list, optimal level of innovativeness, high barriers for competitors and so on. However the key is prioritizing these criteria (Wiltbank et al., 2009).

Scholars that have centered their studies in providing entrepreneurs with a list of criteria indicating which are the most important for a group of angel investors are Van Osnabrugge (1998) and Sudek (2006). Both of them have performed studies on angel groups in UK and US, respectively. Furthermore, Sudek (2006) study was built on Van Osnabrugge's (1998). Van Osnabrugge (1998) has examined prioritization of criteria of angel investors located in the United Kingdom. The study has two phases. The first phase was to indicate the investment criteria. This was achieved by conducting interviews with business angels. The second phase's objective was to rank the discussed criteria. To realize this goal, 143 business angels filled questionnaires regarding their preferences. The findings show that the enthusiasm of the founder is the most important factor, following the trustworthiness of the entrepreneur(s), while the sales potential of the product/service ranked in the second and third place, respectively. The expertise of the entrepreneur follows on the fourth position. Other studies such as Feeney, Haines and Riding (1999) and Mason and Rogers, (1997) have also indicated that BAs prefer experienced entrepreneurs. Wong (2002) extends this research by examining the intangible reasons that influence the investing process, finding that entrepreneur's prior experience can alleviate investor uncertainty.

Additionally, Sudek's (2006) study examines what a group of angel investors (TCA) in Southern California consider when reviewing an investment opportunity, and how they prioritize their investment criteria. The methodology used was an ex-post general survey. Moreover, 73 members responded to his survey but 1 questionnaire was rejected, as the member hadn't made any investments, thus 72 was the sample of Sudek (2006) study. The main objective of the study is to rank the investment criteria. The study utilizes a two-phase approach consisting of a qualitative first phase and a quantitative second phase. The results of this study show that trustworthiness of the entrepreneur, quality of the management team, enthusiasm of the lead entrepreneur, and exit opportunities for the angel are the angels’ top criteria.

3. Research

In general, scholars have emphasized in three subjects; firstly, on how angel investors make their investment decisions, also called process studies. These studies either focus on independent angels or on angel groups (structured or not). Secondly, they have tried to assess which are the criteria that influence the investment behavior. Thirdly, other studies have concentrated on the prioritization of these criteria that investors use to evaluate the investment opportunities.

Our study will focus on the latter category. Our research instead of focusing on a geographical location will focus on an online platform, AngelList. The study aims to understand how angels on AngelList prioritize their investment criteria. The practical objective of the research is highlighting to entrepreneurs how to attract business angels to invest to their start-ups.

[Research Question]: How do angel investors on AngelList prioritize their investment criteria?

Moreover, their preferences will form a guideline that entrepreneurs can use in order to achieve the implementation of their idea. The guideline except of the deeper understanding of business angels' investment preferences will also provide the demographic profile of the angel investors (age, level of education, gender etc.) and a correlation between the characteristics of the AngelList investor and their valuation process. Thus, entrepreneurs will be able to build a strong case defending, promoting and marketing their idea to angel investors once light has been shed on the ranking of investor's criteria.

1. Methodology

Academic studies on identifying the important investment criteria according to angel investors have generally employed three methods: verbal protocol (C. Mason & Rogers, 1997; C. M. Mason & Harrison, 2003; Maxwell, Jeffrey, & Lévesque, 2011; Smith, Mason, & Harrison, 2010), retrospective approach (Sudek, 2006; Van

Osnabrugge, 2000) and conjoint analysis (Hsu, Haynie, Simmons, & McKelvie, 2014; Landström, 1998)

First, the verbal protocol, also called real time study, is a method that elicits verbal reports from research participants. Second, the retrospective approach relies on the recollections of the research participant. Third the conjoint analysis, which is also called statement preference analysis, is frequently used in market research, as it identifies the preferences of the research participants according to different attributes (Harrison & Mason, 2010).

For our study the post-hoc (retrospective approach) is the optimal choice for several reasons. Firstly, AngelList is an online platform whose users are scattered in different geographical locations hence the face-to-face interviews or the physical distribution of the questionnaire are impossible to take place, as well as the focus groups and observation analysis. Apart from that, our study aims to indicate the prioritization of investment criteria under which angel investors make their decisions under high market and demand uncertainty hence interviews would depict a preference but would not manage to grasp the general attitude of the AngelList's BAs. Nevertheless our decision to select the quantitative method was a conscious one, bearing in mind its limitations and its advantages. In addition, the probing of the attitude of such a large population (N= 1,200) directed us to the quantitative research strategy. Moreover previous research on the prioritization of angels' investment criteria also chose this strategy. The previous studies have assessed the important criteria hence our study will focus only on the prioritization.

The research design is a survey and the method is online self-completion questionnaires on how their investment criteria are prioritized. The reason that questionnaires were preferred over other methods of empirical research is that they respect respondent's identity by providing anonymity, as it is possible that some investors may be reluctant to share the way they select their investments. Lastly, questionnaires will offer the ability to gather data that is not biased by an interviewer's selective perceptions and avoid the social desirability bias (due to anonymity), something that can be expected given the delicacy of the topic (Bryman, 2008).

The self-completion questionnaire allows the gathering of many responses in the same time allowing us to survey a larger sample within the timeframe of the study. Hence structured interviews were also for this reason. Angels have a hectic schedule and along with the different time zones the arrangement of meetings via, say, Skype in order to perform structured interviews was not an option for this study

The questionnaires were sent to 200 angel investors on AngelList, respecting the guidelines of the Master Thesis. The selection of the BAs was randomly performed to avoid select bias. In particular, a personal email on LinkedIn was sent to each investor with the anonymous link of the survey, to maximize the response rate. Lastly, online self-completion questionnaires allows respondent to fill in the survey in their own leisure, respecting the busy schedule of the angel investors. Incentives were considered with the aim to increase the response rate. Usually incentives are monetary; in our case this was not an option, as angel investors in order to be accredited has to have a net worth over $1 million. This is why we chose to incentive potential respondents by making clear that the completion of the questionnaire is under 5 minutes. Thus even though it would be interesting to "pick the brains" of angel investors and examine more socio-demographic questions and/or more open ended questions we had to restrict the number of the questions asked. Yet, the objectives and aims of the study were completely satisfied from the questions asked.

The total sample size for the study was 200. In total, 81 responses were collected, a response rate of above 40 per cent. One survey was eliminated due to the fact that the respondent was a Venture Capitalist; therefore final sample size was 80. One may argue that the sample size does not respond with the Master thesis guidelines. However, considering the uniqueness of the population and how valuable is investors' time, the response rate exceeded our expectations. Moreover, Sudek (2006) in his study managed to collect 72 with a similar response rate (42%). In contrast with the author of this paper that does not have an access or an introduction to the population of the study, Sudek is a member of TCA (Tech Coast Angels). Nevertheless, we succeeded in collecting ten more responses in comparison with Sudek (2006) study.

1.1. Instrument

Existing literature was reviewed to identify any previously used questionnaires on angel investment criteria. We have identified two studies that make use of questionnaires in order to assess the prioritization of investors' investment criteria. The most relevant studies are Van Osnabrugge's (1998) and Sudek (2006). Both of them have performed studies on angel groups, in UK and US, respectively. Furthermore, Sudek's (2006) study was built on Van Osnabrugge's (1998). Accordingly, the present study will build on Sudek (2006) instrument (see Appendix, Table 1).

Sudek's quantitative survey was on the instrument used in Van Osnabrugge study (1998). In particular, the criteria where altered based on the qualitative phase of his study (2006). The qualitative phase was based on observations on the Tech Coast Angels group. Dr. Sudek is a member of the TCA, which provides him access to the TCA meetings (Sudek, 2006). As the researcher states in his study (2006) an insider can partake in all portions of organizational meetings whereas an outsider would not be allowed to attend due to legal issues. His duality (participant-observer) enabled a more natural observation. Additionally, investors were able to speak freely without modifying their comments like when outsiders are present (Sudek, 2006).

Accordingly, from the qualitative phase of his study, criteria were deleted or retained. In addition, items were added to the Van Onsabrugge instrument (1998). Important items that were added are "the management team" set of criteria (See Appendix, Table 2), as aforementioned an important factor on which angel investors consider when evaluating an investment opportunity, "barrier for entry of competitors" and "advisors currently involved". We decided not to delete any items from the instrument, as the criteria that are no significant will occupy the last positions in the ranking after all. Nevertheless, most of the criteria on Sudek's instrument were also in the existing theory on angel investment criteria. Furthermore, Sudek adjusted the terminology to the U.S. angel culture, an important contribution, as AngelList is an U.S. based platform mostly consisted of U.S. angels[8].

The instrument consisted 25 investment criteria, which business angels were asked to grade using on a Likert scale ranging from 1 (least important) to 5 (most important). This is aligned with Likert (1932) who stated that after 5 or 7 points the reliability starts to plateau. Further, it is noted that the numerical scale as opposed to the verbal labels allows us to assess a more truthful measure (Piazzai, 2012). The questionnaire (see Appendix, Table 3) contains 25 criteria aligned with the studies analyzed in the literature review. The order of criteria was randomly assigned in order to prevent favoritism.

Apart from Sudek's instrument, including "the management criteria" ranking, respondents were asked to prioritize their motives of investing "Return of Investment", "Mentoring Entrepreneurs" and "Helping build companies" (Sudek, 2006). These motives were also asked in Sudek (2006) study, with the aim to examine the correlation of the prioritization of the criteria and BAs' motives of investment. Additionally, the number of investments, diversification, and amount of money invested (total in $), if they had entrepreneurial experience and lastly if they had invested in the cultural sector were also asked. The last question included a definition of the cultural sector retrieved from Caves (2000): "The cultural sector includes book and magazine publishing, the visual arts (painting, sculpture), the performing arts (opera, theater, concerts dance), sound recordings, cinema and TV films, fashion and games and toys" (Caves, 2000, p. 1).

The last section of the questionnaire was consisted of the socio-demographic questions; level of education, gender, age and nationality. The following section summarizes the set of variables.

a) Gender, dichotomous: a basic variable that must be included, albeit no significant difference is expected between male and female respondents.
b) Age, ratio: 18-24, 25-34, 35-44, 45-54, 55-64, 65-74, 75-84, 85 or older (the choice under 18 was removed for obvious reasons).
c) Education level, ordinal, with a multiple choice; high school, bachelor's

[8] From observation of the platform it was found that the majority of the angels were from the U.S.A., also demonstrated in the findings of the study.

degree, master’s degree and doctorate. This variable is included to investigate the influence of higher education on responses.

d) Nationality: nominal, we expect the majority of the respondents to be American citizens; nevertheless it is an important variable.
e) Entrepreneurial experience, dichotomous. This may affect the motives of investment and consequently their prioritization of investment criteria.
f) Investment experience: ordinal, with a multiple choice: up to 5 investments (least experience), 6-15 investments (medium experience), over 15 investments (most experience), according to Sudek study (2006).
g) Investment in the cultural sector: dichotomous (Yes or No).
h) Diversification of portfolio: nominal, numeric, and discrete.
i) Total amount of investments ($): nominal, numeric, and continuous.
j) Prioritization of motives: As aforementioned, we asked respondents to rank their motives. As indicated in the literature the three most important motives are mentoring, helping build companies and ROI (Sudek, 2006).

SPSS was used to analyze the responses of angel investors for two reasons. Firstly, due to our familiarization with the online tool and secondly due to the fact that our analysis (mean, frequencies, percentiles, Chi-square and ANOVA test) does not require complicated tools such as STATA and/or MatLab.

4. Results

1. Investment criteria

The primary aim of this study was to understand how business angels on AngeList prioritize their investment criteria. Moreover as Sudek (2006) has underlined, not only the founder but also the attributes of the management team play an important role in the decision process of angels.

The following tables depict the ranking of investment criteria and management team criteria.

Table 1. Results of Investment criteria (N=80)

Investment Criteria	Rank	Mean	Std. Deviation
Trustworthiness/honesty of the entrepreneur(s)	1	4.81	.424
Enthusiasm/commitment of the entrepreneur(s)	2	4.54	.730
Management Team	3	4.29	.803
Growth potential of the market	4	4.21	.807
Return on Investment (ROI)	5	4.13	1.005
Revenue potential	6	4.10	.880
Domain expertise of the entrepreneur(s)	7	3.76	.945
Track record of the entrepreneur(s)	8	3.66	1.059
Liked entrepreneur(s) upon meeting	9	3.57	1.034
Barrier for entry for competitors	10	3.47	.908
Size of the investment	11	3.46	1.048
Potential exit routes (potential liquidity)	12	3.45	1.135
Competition of market segment	13	3.44	.842
Your personal knowledge of the business/industry	14	3.43	1.123
Product’s overall competitive protection (in market segment)	15	3.33	1.016

Profit margin of the business	16	3.30	1.084
Low initial capital expenditures needed (i.e. on assets)	17	3.28	.960
Potential of co-investors present	18	3.19	1.244
Ability for involvement possible (contribute skills)	19	3.08	1.271
Ability to maintain low overhead	20	3.05	1.146
Investor's (your) strengths fill gaps in business	21	2.72	1.260
Niche market	22	2.64	.993
Advisors currently involved	23	2.62	1.169
Ability to reach break-even without further funding	24	2.59	1.250
Product's formal competitive protection (patents)	25	2.43	1.298

Table 2. Results of Management Team Criteria (N=80)

Management Team Criteria	Rank	Mean	Std. Deviation
Perceived sense of survivability of the team (how persistence they will be without giving up)	1	4.55	.727
Passion of the team	2	4.43	.808
Track record of individual team members	3	4.03	.968
Openness of team for mentoring	4	3.85	.969
How complementary the skills of the team are	5	3.83	.808
How much experience the team has working together	6	3.40	1.143
Experience of the advisors	7	2.74	1.290

The results of the quantitative confirm the criteria that were identified in the literature review. Trustworthiness/honesty of the entrepreneur(s) (4.81), enthusiasm/commitment of the entrepreneur(s) (4.54) and management team (4.29) were ranked in the first, second and third place, respectively. These three criteria are subjective and depend on the interaction that the investor has with the founder either this is achieved with the use of technology (Facetime, Skype, Google Hangout) or via face-to-face meetings. The fourth and fifth positions were occupied by growth potential of the market (4.21) and Return of Investment (ROI) (4.13), accordingly. Both criteria are financial. Nevertheless the three first positions were non financial and are directly correlated with the personality of the entrepreneur(s). The literature, except Sudek (2006) study lacks detail on which attributes of the management team are important. Our study shows that the most important is the Perceived sense of survivability of the team (how persistence they will be without giving up) (4.55), followed by passion of the team (4.43). Both criteria underline the importance of management team members' personality to investor's investment decision. Track record of individual team members (4.03)

These results are similar to those of Sudek (2006) and Van Osnabrugge (1998), which also found that trustworthiness of the entrepreneurs, enthusiasm of the entrepreneurs and growth potential of the market amongst the top investment criteria. The tables below show the comparison between our study and the two studies we identified in the literature.

Table 3. Comparison of our investment criteria ranking to the rankings or pervious studies.

Investment criteria	Rank of Current study	Mean	Std.	Sudek (2006)	Van Osnabrugge (1998)
Trustworthiness/honesty of the entrepreneur(s)	1	4.81	.424	1	2
Enthusiasm/commitment of the entrepreneur(s)	2	4.54	.730	3	1
Management Team	3	4.29	.803	2	N/A
Growth potential of the market	4	4.21	.807	7	6
Return on Investment (ROI)	5	4.13	1.005	8	11
Revenue potential	6	4.10	.880	5	3
Domain expertise of the entrepreneur(s)	7	3.76	.945	6	4
Track record of the entrepreneur(s)	8	3.66	1.059	12	10

Liked entrepreneur(s) upon meeting	9	3.57	1.034	14	5
Barrier for entry for competitors	10	3.47	.908	9	N/A
Size of the investment	11	3.46	1.048	21	20
Potential exit routes (potential liquidity)	12	3.45	1.135	4	24
Competition of market segment	13	3.44	.842	13	17
Your personal knowledge of the business/industry	14	3.43	1.123	16	27
Product's overall competitive protection (in market segment)	15	3.33	1.016	10	21
Profit margin of the business	16	3.30	1.084	11	15
Low initial capital expenditures needed (i.e. on assets)	17	3.28	.960	23	22
Potential of co-investors present	18	3.19	1.244	18	18
Ability for involvement possible (contribute skills)	19	3.08	1.271	25	13
Ability to maintain low overhead	20	3.05	1.146	17	18
Investor's (your) strengths fill gaps in business	21	2.72	1.260	24	20
Niche market	22	2.64	.993	20	9
Advisors currently involved	23	2.62	1.169	19	N/A
Ability to reach break-even without further funding	24	2.59	1.250	22	18
Product's formal competitive protection (patents)	25	2.43	1.298	15	27

Table 4. Comparison of our management team criteria ranking to previous studies.

Management Team Criteria	Rank	Mean	Std.	Sudek (2006)
Perceived sense of survivability of the team (how persistence they will be without giving up)	1	4.55	.727	2
Passion of the team	2	4.43	.808	1
Track record of individual team members	3	4.03	.968	4
Openness of team for mentoring	4	3.85	.969	3
How complementary the skills of the team are	5	3.83	.808	5
How much experience the team has working together	6	3.40	1.143	7
Experience of the advisors	7	2.74	1.290	6

2. Socio- Demographics

The sample was predominately male (male=76, female=3, N=79). Since there were only three females, no analysis was performed related to the gender differences. Forty-three percent of the respondents were from 35 to 44 years old (N=80, 25-34= 17, 35-44=34, 45-54=20 and 55-64=9). Sixty-nine angels had start up experience out of eighty.

Most of the respondents have placed more than 15 investments (N=80, over 15 investments=34, 6-15 investments=24 and up to 5 investments=22). Angels were also asked if they have invested in the cultural sector. The percentage that had invested in the cultural sector was 33.8(%). The majority of the respondents were Americans (87.5%), while 61.3 percent have a Master's degree (N=80, High school Diploma=5, Bachelor's degree=20, Master's Degree= 49 and PhD=6). Lastly, the mean total amount of investment $34.728.714,29, while the minimum amount was $10.000 and the maximum $2billions. Also the mean number of markets that angels on AngelList have invested in is 4.

3. Correlation

Our study showed that the most important motive for angels on AngelList was Return of Investment (ROI) (1.60056) followed with no significant difference by helping building companies (1.6197).

Table 5. Motives of Investing (N=71)

Motives	Mean	Std. Deviation
Return of investment (ROI)	1.6056	.66502
Helping build companies	1.6197	.64067
Mentoring entrepreneurs	2.7746	.51262

Interestingly this does not apply to the investors who have invested in the cultural sector. Our findings show that angels who have invested in the cultural sector place ROI third in their list of investment motives showing that non financial motives drive their investment activity. This can be explained by the fact that creative industries are characterized by great uncertainty and risk (Caves, 2000). Hence it is logical that there might be other motives, apart from ROI that drive investors to invest in the cultural sector. The following table depicts the percentages of those who placed Return Of Investment first, second and third respectively in correlation with whether they have invested in the cultural sector. In addition, we should mention that there is statistical significance as probability was below 0.05 (symbolized with p)(sig> 0.05).

Table 6. Motives that influence the investment activity.

		Have your ever invested in the cultural sector?		
		Yes	No	Total
Return of investment (ROI)	1.00	22.9%	77.1%	100.0%
	2.00	34.5%	65.5%	100.0%
	3.00	71.4%	28.6%	100.0%
Total		32.4%	67.6%	100.0%

5. Conclusion

1. Our Findings

The existence of technology and the ever-growing pace with which it evolves has affected all aspects of how business is conducted. Similarly, technology has influenced the fundraising process of early stage ventures.

The aim of this study was to understand how angels on AngelList, which if it is not the most important online fundraising platform, it is definitely amongst the most important ones currently, prioritize their investment criteria.

The findings of this study provide proof that the personality of, not only the founder(s) but also each members' that is part of the management team plays the most important role during the fundraising process. Apart from this finding, which is important as it provides valuable advices to entrepreneurs who want to succeed in raising financial capital from angel investors in AngelList. First, this study does not imply that entrepreneurs who seek funding should not invest time in building complete and structured business plans. Conversely, our study showed that Return of Investment and Growth Potential of the Market are amongst the top five criteria. However, attributes that are correlated with the personality of the founder and so forth with the management team as well are even more important in the eyes of angel investors on AngelList. The most important criteria are trustworthiness/honesty of the entrepreneur and passion of the entrepreneur. The quality of the management team follows at the rankings. Thus founder, if they want to successfully allocate financial resources, should invest time in order to allocate passionate team members, who will be persistent to succeed without giving up. Moreover they should invest time to rehearse their oral presentation or elevator pitch, as criteria such as honesty of the founder and enthusiasm of the founder are the two most important criteria angels on AngelList value.

This study apart from understanding what angels on AngelList are looking for when evaluating an investment opportunity, it showed that the motives of the investor play a significant fact in his investment activity. Our study demonstrated that angel investors who have invested in the cultural sector are driven by non-financial motives.

Hence founders of startups that belong in the cultural sector should appeal in the non-financial motives the investor has.

Further, our study has provided a demographic profile of the angel on AngelList, who is predominately male, American, between the ages of 35 and 44. Moreover he attains a Masters degree. He has approximately paced over 15 investments, in 4 different markets.

To our knowledge this is a novel study, not only in respect to the prioritization of investment criteria of angels on AngelList, but also in any funding platform in general. Hence this study is innovative and contributes to a field where the existing literature is scarce.

2. Limitations and future studies

All methodologies have limitations. The limitation of the retrospective view of surveys lays in the fact that it neglects the type of the investment opportunity (Smith et al., 2010). Also, it does not take into account the different funding stages; initial screening, detailed investigation, negotiation and contacting, post-investment involvement and exit (Smith et al., 2010).

Additionally, the retrospective data collected via interviews or surveys entails recall bias and post-hoc rationalization, because it is based on recollections that the investor has to make in order to answer the questions (Smith et al., 2010). This error might be unconscious, due to poor memory or conscious, because he wants to portrait himself in a manner that it’s likable by the interviewer (Bryman, 2008). This phenomenon is usually more frequently seen during interviews and not in anonymous questionnaires. Further, a larger sample could be attained to verify the finding or our study.

Our research setting is unique and thus has significant inherent strengths. As aforementioned, our study is the only study that assesses the prioritization of investment criteria f angles in an online platform. Nevertheless, the implications of our study are limited by the fact that the data were obtained from angels using AngelList. Our observations do not necessarily apply to the general angel investors’ context. Although the results of the study will shed light on the preferences of the investors and will facilitate the creators of startups to fund their business venture on AngelList, they cannot be generalized to other online platforms. Hence, there might be a lack of external validity. Nevertheless, this creates avenues for future research on different platforms, comparing the results of this study with future ones.

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Appendix A.

Table 1. Results of Investment Criteria of Sudek (2006) Van Osnabrugge (1998) studies, respectively.

	Sudek (2006) n=72			Van Osnabrugge (1998) n=143
Investment Criteria	**Rank**	**Mean**	**STD**	**Rank**
Trustworthiness/honesty of the entrepreneur(s)	1	4.81	0.399	2
Management Team	2	4.64	0.657	N/A
Enthusiasm/commitment of the entrepreneur(s)	3	4.63	0.592	1
Potential exit routes (potential liquidity)	4	4.53	0.712	24
Revenue potential	5	4.47	0.581	3
Domain expertise of the entrepreneur(s)	6	4.44	0.603	4
Growth potential of the market	7	4.29	0.701	6
Return on Investment (ROI)	8	4.26	0.805	11
Barrier for entry for competitors	9	4.19	0.781	N/A
Product's overall competitive protection (in market segment)	10	4.11	0.815	21
Profit margin of the business	11	4.08	0.746	15
Track record of the entrepreneur(s)	12	4	0.839	10
Competition of market segment	13	3.94	0.785	17
Liked entrepreneur(s) upon meeting	14	3.9	0.922	5
Product's formal competitive protection (patents)	15	3.56	0.933	27
Your personal knowledge of the business/industry	16	3.53	0.822	27
Ability to maintain low overhead	17	3.46	1.02	18
Potential of co-investors present	18	3.44	1.033	18
Advisors currently involved	19	3.4	0.899	N/A
Niche market	20	3.31	1.121	9
Size of the investment	21	3.26	0.769	20
Ability to reach break-even without further funding	22	3.24	1	18
Low initial capital expenditures needed (i.e. on assets)	23	3.22	0.996	22
Investor's (your) strengths fill gaps in business	24	2.92	1.017	20
Ability for involvement possible (contribute skills)	25	2.85	0.914	13

Table 2. Results of Management Team Criteria of Sudek (2006) study.

Item	Rank	Mean	STD

Passion of the team	1	4,71	0,568
Perceived sense of survivability of the team (how persistence they will be without giving up)	2	4,72	0,707
Openness of team for mentoring (coachability)	3	4,33	0,628
Track record of individual members	4	4,04	0,759
How complementary the skill of the team are	5	3,87	0,691
Experience of the advisors	6	3,67	0,888
How much experience the team has working together	7	3,22	0,826

Table 3. Questionnaires.

1. Please grade each of the following criteria as to their importance to you when considering an investing opportunity.

(1=least important, 5=most important)

Investment Criteria	1	2	3	4	5
Trustworthiness/honesty of the entrepreneur(s)					
Ability for involvement possible (contribute skills)					
Growth potential of the market					
Niche market					
Potential exit routes (potential liquidity)					
Return on Investment (ROI)					
Ability to maintain low overhead					
Competition of market segment					
Investor’s (your) strengths fill gaps in business					
Potential of co-investors present					
Liked entrepreneur(s) upon meeting					
Product’s formal competitive protection (patents)					
Revenue potential					
Size of the investment					
Track record of the entrepreneur(s)					
Advisors currently involved					
Ability to reach break-even without further funding					
Product’s overall competitive protection (in market segment)					
Domain expertise of the entrepreneur(s)					

Enthusiasm/commitment of the entrepreneur(s)					
Barrier for entry for competitors					
Low initial capital expenditures needed (i.e. on assets)					
Management Team					
Profit margin of the business					
Your personal knowledge of the business/industry					

2. Please grade each of the following criteria regarding the management team as to their importance to you when considering an investing opportunity.

Investment Criteria	1	2	3	4	5
Track record of individual team members					
Openness of the team for mentoring					
How complementary the skills of the team are					
Experience of the advisors					
How much experience the team has working together					
Passion of the team					
Perceived sense of survivability of the team (how persistent they will be without giving up)					

3. Please prioritize your motivation for investing, using the numbers 1,2,3 with the 1 indicating the primary.

Return of Investment (ROI)	
Mentoring entrepreneurs	
Helping build companies	

4. Please state your investment experience.

Up to 5 investments	6-15 investments	Over 15 investments

5. How many (different) markets you have invested in?

6. Have you ever invested in the cultural sector?

Yes	No

7. Please enter the amount of money ($) you have invested in total.

8. Do you have start up experience?

Yes	No

9. What is your nationality?

10. What is your educational level?

High School Diploma	Masters Degree
Bachelors Degree	PhD

11. What is your gender?

Male	Female

12. What is your age?

18-24	25-34
35-44	45-54
55-64	65-74
75-84	85 or older

Appendix B

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Please enter the amount of money ($) you have (approximately) invested in total.	70	10000	2000000000	34728714.29	238998363.000
Valid N (listwise)	70				

Please state your investment experience.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	up to 5 investments	22	27.5	27.5	27.5
	6-15 investments	24	30.0	30.0	57.5
	over 15 investments	34	42.5	42.5	100.0
	Total	80	100.0	100.0	

How many (different) markets you have invested in?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	1	1.3	1.4	1.4
	1	4	5.0	5.6	7.0
	2	16	20.0	22.5	29.6
	3	18	22.5	25.4	54.9
	4	7	8.8	9.9	64.8
	5	14	17.5	19.7	84.5
	6	5	6.3	7.0	91.5
	8	1	1.3	1.4	93.0
	10	2	2.5	2.8	95.8
	12	2	2.5	2.8	98.6
	20	1	1.3	1.4	100.0
	Total	71	88.8	100.0	
Missing	System	9	11.3		
Total		80	100.0		

What is your nationality?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Usa	70	87.5	87.5	87.5
	GB	1	1.3	1.3	88.8
	Canadian	1	1.3	1.3	90.0
	French	1	1.3	1.3	91.3
	Australian	1	1.3	1.3	92.5
	Swiss	2	2.5	2.5	95.0
	Dutch	1	1.3	1.3	96.3
	German	2	2.5	2.5	98.8
	Iranian	1	1.3	1.3	100.0
	Total	80	100.0	100.0	

What is your level of education?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School Diploma	5	6.3	6.3	6.3
	Bachelors Degree	20	25.0	25.0	31.3
	Masters Degree	49	61.3	61.3	92.5
	PhD	6	7.5	7.5	100.0
	Total	80	100.0	100.0	

What is your gender?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	76	95.0	96.2	96.2
	Female	3	3.8	3.8	100.0
	Total	79	98.8	100.0	
Missing	System	1	1.3		
Total		80	100.0		

What is your age?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 - 34	17	21.3	21.3	21.3

	35 - 44	34	42.5	42.5	63.8
	45 - 54	20	25.0	25.0	88.8
	55 - 64	9	11.3	11.3	100.0
	Total	80	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
How many (different) markets you have invested in?	71	0	20	4.08	3.023
Valid N (listwise)	71				

Return of investment (ROI)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	35	43.8	49.3	49.3
	2.00	29	36.3	40.8	90.1
	3.00	7	8.8	9.9	100.0
	Total	71	88.8	100.0	
Missing	System	9	11.3		
Total		80	100.0		

Helping build companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	33	41.3	46.5	46.5
	2.00	32	40.0	45.1	91.5
	3.00	6	7.5	8.5	100.0
	Total	71	88.8	100.0	
Missing	System	9	11.3		
Total		80	100.0		

Mentoring entrepreneurs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	3	3.8	4.2	4.2
	2.00	10	12.5	14.1	18.3
	3.00	58	72.5	81.7	100.0
	Total	71	88.8	100.0	

Missing	System	9	11.3		
Total		80	100.0		

Have your ever invested in the cultural sector?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	27	33.8	33.8	33.8
	No	53	66.3	66.3	100.0
	Total	80	100.0	100.0	

Do you have start up experience?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	69	86.3	86.3	86.3
	No	11	13.8	13.8	100.0
	Total	80	100.0	100.0	

Crosstab

% within Return of investment (ROI)

		Have your ever invested in the cultural sector?		
		Yes	No	Total
Return of investment (ROI)	1.00	22.9%	77.1%	100.0%
	2.00	34.5%	65.5%	100.0%
	3.00	71.4%	28.6%	100.0%
Total		32.4%	67.6%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	6.381[a]	2	.041
Likelihood Ratio	6.066	2	.048
Linear-by-Linear Association	5.359	1	.021
N of Valid Cases	71		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.27.