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THE ENTREPRENEUR-BUSINESS ANGEL INVESTOR RELATIONSHIP: HOW DOES IT INFLUENCE INITIAL AND FOLLOW-ON INVESTMENT DECISIONS AND INVESTMENT OUTCOMES? (SUMMARY)

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THE ENTREPRENEUR-BUSINESS ANGEL INVESTOR RELATIONSHIP: 
HOW DOES IT INFLUENCE INITIAL AND FOLLOW-ON 
INVESTMENT DECISIONS AND INVESTMENT OUTCOMES?

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Principal Topic

The paper takes a process perspective to examine how the entrepreneur-business angel (BA) investor relationship influences the initial investment decision, deal structure and post-investment stages leading to follow-on funding and investment deal outcomes. The paper considers social capital and network perspectives suggesting that the characteristics of a given entrepreneur (e.g. personality, experience, social and human capital) might interact with characteristics of the individual investor to influence decision-making in a way that is specific to a given investor–entrepreneur relationship. The paper also considers the concept of trust as a factor in facilitating collaboration, reducing agency and transaction costs, and improving a venture’s ability to adapt to complexity and ambiguity.

Method

The study represents exploratory research and uses a case study design in which the emphasis is on developing hypotheses generated through eliciting the experiences of three key actors involved in an 13 year investment relationship that culminated in an initial public offering (one entrepreneur and two business angel investors). Data collection activities included interviews, site visits and an examination of archival material. An open-ended questioning technique was utilized, drawing upon previous discussions and highlighting key events and issues related to the progressive reflection of the relationship and investment process.

Results and Implications

The study finds that social endorsement and the emotive nature of a business concept take precedence over its technical merit in attracting initial investment from nascent BA investors. We identify a “liability of newness” effect, as nascent BA investors apply a more rigorous level of due diligence to their later investments. Our findings suggest that certain relationship attributes provide powerful positive decision biases on initial investment decisions and on critical strategic decisions post-investment. Theoretically, we suggest that these attributes may minimise search and transaction costs and allow the two different actors to get on with the investment deal and building of the business rather than attempting to mitigate risks and closely manage performance. Findings suggest that such a positive relationship in the pre-investment stage may minimise the incentive problem arising when investors must identify, manage and monitor their investments and undertake legal and other contractual activities.

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