BUSINESS ANGELS’ APPROACHES TO BEHAVIORAL UNCERTAINTY: THE ROLE OF CONFIDENCE AND TRUST (SUMMARY)

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SUMMARY

BUSINESS ANGELS’ APPROACHES TO BEHAVIORAL UNCERTAINTY: THE ROLE OF CONFIDENCE AND TRUST

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Principal Topic

Business Angels (BAs) face uncertainties in their investment decision, not only regarding the environment but also about actors’ ability and willingness to perform as promised (behavioral uncertainty). This study focuses on behavioral uncertainties arising from the BAs’ relationship with the entrepreneur in the investment decision process, and investigates (1) how BAs perceive behavioral uncertainties towards entrepreneurs in the investment decision process, (2) which approaches they apply in collecting information, (3) how these approaches build on the confidence and trust, and (4) how confidence and trust impact the final investment decision.

Method

Several studies on BAs’ investment decision process have emphasized the importance of trust in the BA-entrepreneur relationship, but few studies have elaborated on the heterogeneity of the BA market. The BA market consists of many different individuals with different behaviors, different “roles” in investments, and different investment decision processes. Thus, in such heterogeneous context we can assume that confidence and trust will play different roles for BAs.

Previous research is mainly based on quantitative methodological approaches. Therefore, we pursued a qualitative methodological approach and conducted case studies based on semi-structured interviews with 12 BAs from England, Sweden and Austria with diverse contextual and personal backgrounds during fall and winter 2011/2012. The cases were analyzed using a “storytelling” approach focusing on cross-case particularities and similarities.

Results and Implications

The study reveals patterns in BAs’ behaviour that can be categorized into different approaches to behavioural uncertainty, which are clearly linked to confidence and/or trust in the entrepreneur. We have identified five distinct roles that BAs take in the investment decision process (Maverick, Rationalist, Ruler, Networker, and Gentleman) and that influence the outcome of the investment decision process. These roles are no traits, but social positions defined by expectations, duties and rights. In fact, the same BA can take different roles in different investments.

Our findings imply that behavioral uncertainty and trust play a crucial role in BAs’ decision process and that BAs can leverage on trust. Entrepreneurs learn what information needs to be disclosed in order to gain BAs’ trust. Policymakers are guided to design regulations/legislation that support trust development in BA investments.

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