A LONGITUDINAL INVESTIGATION OF BUSINESS ANGEL RELATIONSHIP RISK MITIGATION STRATEGIES WITHIN INVESTMENTS: A THREE-DIMENSIONAL APPROACH (SUMMARY)

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SUMMARY

A LONGITUDINAL INVESTIGATION OF BUSINESS ANGEL RELATIONSHIP RISK MITIGATION STRATEGIES WITHIN INVESTMENTS: A THREE-DIMENSIONAL APPROACH

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Principal Topic

Business angel (BA) investing is associated with various types of risks, where relationship risk often is highlighted as being especially critical (Fiet, 1995). Three investor strategies for mitigating relationship risks associated with BA investing in young private firms can be traced in the literature: (i) indirect control through monitoring and rewarding/punishing entrepreneur behavior and output, (ii) direct control through active involvement, and (iii) relying on mutual trust (Van Osnabrugge and Robinson, 2000; Maxwell and Lévesque, 2011). While early research in the field adopted a rather static view on BA categorization (Coveney and Moore, 1998; Sørheim and Landström, 2001), more contemporary research shows that BAs change investment roles across investments (Avdeitchikova, 2008; Lahti, 2011). However, whether BAs behave differently regarding risk mitigation within investments is less explored. This explorative study contributes to the opening of the black box of how BAs may shift risk mitigation strategies over time within single investments.

Method

Extensive iterative theory and cross-case comparisons from primary data, collected from 32 interviews with four matched BA-entrepreneur dyads, were carried out during the period of 2010-2013.

Results and Implications

We show that BAs do shift strategies over time within investments to overcome relationship risks associated with investing in young private ventures and that these are constituted by a mix of various degrees of direct, indirect and trust-based control mechanisms. Moreover, we argue that the triggers behind such shifts are context-specific, rather than determined by characteristic of the angels, the entrepreneurs or the investee firms. We also develop propositions for the two triggers that emerged particularly strong from the data, namely an angel's current perception of the entrepreneur’s ability and the entrance of new investors.

Thereby the findings from this study improve our understanding of how BAs can respond to variations in relationship risks in single investments. Trust will vary over time due to personal expectations, the entrepreneur's behavior and external factors, whereby the investor can chose to increase or decrease the degree of direct and indirect control activities. For entrepreneurs the results may contribute to filling knowledge gaps about what to expect from angel investors.

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