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Business Angels -
Trust & Relationship Management
in the Post-Investment Phase

Master’s Thesis
to confer the academic degree of
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in the Master’s Program

Joint Master Program Global Business – Kanada/Taiwan
Preface

Upon completing this thesis, our Joint Master Program Global Business, which brought us not only outstanding experiences, growth and challenges but also the best people – now friends – from all over the world, will come to an end.

The time abroad in Canada and Taiwan was one of the best experiences so far and we would not want to miss it. We would not have met all these inspiring people or each other. It was a great opportunity for us to do this thesis together and dig deeper into an interesting topic. Cheers to friendship and many more years of fun and laughter.

This road travelled so far surely would not have been possible without the help and continuous support of our families and friends. A simple statement cannot express how grateful we are for what you did and still do for us. We want to thank you for everything.

We would also like to thank Professor Dr. Matthias Fink, who guided us through this thesis and truly was a mentor. We appreciate your continuous support and feedback along the way. Thank you for being this patient with us, we are sure you will go on to inspire many more people with your excellent work and support in the future.

Frankfurt / Wien, October 14th, 2019
Sworn Declaration

Alexandra Grininger
I hereby declare under oath that the submitted Master’s Thesis has been written solely by me and Julia Goldberger without any third-party assistance, information other than provided sources or aids have not been used and those used have been fully documented. Sources for literal, paraphrased and cited quotes have been accurately credited. The submitted document here present is identical to the electronically submitted text document.

Place, Date

Signature

Julia Goldberger
I hereby declare under oath that the submitted Master’s Thesis has been written solely by me and Alexandra Grininger without any third-party assistance, information other than provided sources or aids have not been used and those used have been fully documented. Sources for literal, paraphrased and cited quotes have been accurately credited. The submitted document here present is identical to the electronically submitted text document.

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Signature
Gender Clause

In order to enhance the readability of this Master’s Thesis, the masculine form for descriptions and formulations was used. It certainly does not imply any discrimination against the other sex. Women and men should be regarded as equal.
# Table of Content

Executive Summary ........................................................................................................... 1 Julia Goldberger

1. Introduction ...................................................................................................................... 2 Julia Goldberger
   1.1. Objective of the Thesis and Research Questions ................................................... 2 Julia Goldberger
   1.2. Structure of the Master’s Thesis ............................................................................. 3 Julia Goldberger

2. Definition of Business Angels (BAs) and Venture Capitalists (VCs) ................. 4 Julia Goldberger

3. Business Angels’ Characteristics and the Austrian Market ............................... 7 Julia Goldberger

4. Investment Decisions .................................................................................................... 10 Julia Goldberger
   4.1. Investment Decision-Making Process ................................................................. 11 Julia Goldberger
       4.1.1. Deal Sourcing & Deal Screening and Evaluation ........................................ 11 Julia Goldberger
       4.1.2. Negotiating and Contracting ....................................................................... 14 Julia Goldberger
   4.2. Post-Investment Relationship .............................................................................. 16 Julia Goldberger
       4.2.1. Value-Adding and Monitoring .................................................................... 17 Julia Goldberger
       4.2.2. Exit ............................................................................................................. 20 Julia Goldberger

5. Post-Investment Business Angel Behavior ............................................................ 21 Alexandra Grininger
   5.1. Roles of a Business Angel .................................................................................... 21 Alexandra Grininger
       5.1.1. Boundary Spanning ..................................................................................... 22 Alexandra Grininger
       5.1.2. Structuring .................................................................................................... 23 Alexandra Grininger
       5.1.3. Leadership .................................................................................................... 23 Alexandra Grininger
       5.1.4. Doing ............................................................................................................ 23 Alexandra Grininger
       5.1.5. Monitoring .................................................................................................... 23 Alexandra Grininger
   5.2. Agency Theory, Adverse Selection and Moral Hazard .................................... 26 Alexandra Grininger
   5.3. BAs and the Internal Rate of Return ................................................................. 31 Alexandra Grininger
   5.4. Appropriate Roles for Different Situations ....................................................... 31 Alexandra Grininger

6. The Role of Control, Trust & Mistrust ................................................................. 33 Julia Goldberger
   6.1. Control .................................................................................................................. 33 Julia Goldberger
   6.2. Trust ....................................................................................................................... 34 Julia Goldberger
6.3. Mistrust ................................................................. 36 Julia Goldberger
6.3.1. Mistrust in General ............................................. 36 Julia Goldberger
6.3.2. Do BAs Forgive Lying? ...................................... 37 Alexandra Grininger
6.4. The Interplay of Trust & Control ................................. 39 Julia Goldberger
7. Methodical Approach .................................................. 42 Alexandra Grininger
8. Results and the Trust Scale ........................................... 45
8.1. Description of Interview Participants ................................ 45 Alexandra Grininger
8.1.1. General Data ...................................................... 45 Alexandra Grininger
8.1.2. Differences & Similarities in Doing Business ............... 48 Alexandra Grininger
8.1.3. Allocation of Trust Types ...................................... 53 Alexandra Grininger
8.2. The Trust Scale ....................................................... 55 Alexandra Grininger
8.2.1. General Introduction to the Scale ............................. 55 Alexandra Grininger
8.2.2. The Trust Threshold ............................................. 56 Alexandra Grininger
8.2.3. Reaching the Trust Threshold in the Initial Investment ...... 58 Alexandra Grininger
8.2.4. The Post-investment Relationship – Achieving and Maintaining a Comfortable Trust Score ........................................... 64 Alexandra Grininger
8.2.4.1. Role and Contribution ........................................ 64 Julia Goldberger
8.2.4.2. Trust ............................................................. 67 Alexandra Grininger
8.2.4.3. Control .......................................................... 69 Julia Goldberger
8.3. Comparison between 2012 and 2018 .............................. 78 Alexandra Grininger
9. Discussion .................................................................. 82 Alexandra Grininger
10. Conclusion .................................................................. 85 Alexandra Grininger
11. Appendix ................................................................... 87
11.1. Email – First Contact ................................................ 87
11.2. Project Description .................................................. 88
11.3. Interview Guide - Short ........................................... 89
11.4. Interview Guide – Base ............................................ 90
11.5. Cartoon .................................................................. 91
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.6</td>
<td>Word Rap</td>
<td>92</td>
</tr>
<tr>
<td>11.7</td>
<td>Coding Table - Detailed</td>
<td>93</td>
</tr>
<tr>
<td>12</td>
<td>Bibliography</td>
<td>95</td>
</tr>
</tbody>
</table>
List of Figures

Figure 1 - The differences between BA and VC (own graphical presentation based on Conway, 2005) ................................................................. 5
Figure 2 - Industries & Expertise (own graphical presentation based on the data of aaia, 2017) . 8
Figure 3 - Process of investment decisions (own graphical presentation) ........................................ 10
Figure 4 - Levels and dimension of the entrepreneurial context .................................................... 22
Figure 5 - Degree of internal and external BA involvement and visibility ...................................... 26
Figure 6 - Summary of key themes and gaps within existing BA literature .................................. 28
Figure 7 - Typical level of trust by investor (own graphical presentation based on Shepherd and Zacharakis, 2001) ......................................................... 40
Figure 8 - Cartoon ......................................................................................................................... 78

List of Tables

Table 1 - Types of investors and typical levels of trust antecedents (own presentation) ............ 41
Table 2 - General Data of BAs (own presentation) ................................................................. 46
Table 3 - Types of BAs (own presentation) .............................................................................. 48
Table 4 - Austrian BAs and Industry Focus (own presentation) ............................................... 51
Table 5 - Business Angels on Trust and Control (own presentation) ........................................ 72
List of Abbreviations

aaia .............................. Austrian Angel Investor Association
ABA .............................. Austrian Business Agency
aws .............................. Austria Wirtschaftsservice GmbH
BA(s) .............................. Business Angel(s)
BP .............................. Business Plan
BTBA .............................. Basic Trust Business Angel
CEO .............................. Chief Executive Officer
ETBA .............................. Established Trust Business Angel
FFF .............................. Family, Friends, Fools
FFG .............................. Austrian Research Promotion Agency
GSA .............................. Germany, Switzerland and Austria
HVBA .............................. High Value-Added Business Angel
incl. .............................. inclusive
IPO .............................. Initial Public Offering
IRR .............................. Internal Rate of Return
MU University ................. Modul University Vienna
NFRs .............................. Non Financial Resources
TTT .............................. Team, Technology, Timing
VC(s) .............................. Venture Capitalist(s)
Executive Summary

Business angels (BAs) do not only serve to fill a financing gap, but get further involved in the venture and usually take on additional roles. Due to their financial and personal involvement, aspects such as trust and control become ever more important. In general, the research on Austrian BAs and their involvement in the post-investment phase is quite limited. Only little empirical evidence exists for Austrian BAs and in German speaking markets in general (Bomholt, 2006). Apart from the obvious lack of literature dedicated to Austrian BAs, a focus on the balance of trust and control in the post-investment phase is missing.

Therefore, the aim of this Master’s Thesis is to provide insights on how trust impacts the relationship between business angels and their founders. The higher involvement of BAs in the post-investment phase and the effects of the aspects of trust and control represent the core of this study. The findings outline the approach of BAs towards relationship management in the post-investment phase. The results are based on interviews conducted with seven Austrian business angels, who had already been part in a similar study in 2012 (Treytl). This thesis builds upon said 2012-study, which focussed on networks and how they are used in the pre-investment phase.

This thesis provides a literature review about the (Austrian) angel market in general and the post-investment phase in particular. A model, labelled the trust scale, was built in order to analyze the interplay between trust, control and mistrust and establishes thresholds and BA categories that need to be considered. The findings of the study in 2012 are compared with the findings from this study. The findings presented here imply that further and deeper research and clarification is required, especially on the impact trust and control have on the post-investment relationship of business Angels and the founders.
1. Introduction

The purpose of this thesis is to investigate the relationship between Austrian business angels (BA) and their founders. As BAs fill a financing gap, they usually also take on additional roles and become involved in the venture. The impact of this potentially higher degree of involvement is at the core of this research. This paper analyzes how BAs approach relationship management in the post-investment phase. The focus of the study is the aspect of trust and how it influences this relationship in the post-investment phase. Moreover, the thesis investigates the impact of control and the correlation of trust and control in the relationship. The insights presented here were gathered from business angels in Austria, who invested in different ventures and who had already participated in a study in 2012 (Treytl). In 2012, the research focused on the use of networks in the pre-investment phase. In parts, this thesis was based on the study conducted seven years ago. The results reflect some changes in the behavior of the BAs that were captured. This showcases the effect of experience on the relationship management strategies that Austrian BAs apply today.

1.1. Objective of the Thesis and Research Questions

The objective of this thesis is to investigate the impact that trust has on the relationship between BAs and their founders. The research and findings in literature with regard to Austrian BAs in general are quite limited. Only little empirical evidence does exist for Austrian BAs. Accordingly, Bomholt (2006) outlines that no scientific literature exists for BAs in the German speaking areas, Germany, Switzerland and Austria. Apart from literature dedicated to Austrian BAs, research also lacks focus on the balance of control and trust in the post-investment phase. The interplay of trust and control as well as trust violations and their consequences require further insight. This thesis highlights, that deeper research and clarification, especially about the impact of trust and control on the relationship between BAs and founders is needed.
Based on the above outlined research gap in the field of business angels and relationship management with the impact of trust, the subsequent research questions are going to be answered:

**Research Question 1:**
*How does trust impact the relationship between BAs and entrepreneurs?*

**Research Question 2:**
*How do trust and control interplay in the relationship management of BAs with their entrepreneurs?*

### 1.2. Structure of the Master’s Thesis

This section briefly outlines the structure of this thesis. After discussing the problem statement, the objective of the thesis, the research questions and the structure of the thesis, a definition of the terms Business Angels and Venture Capitalists (VCs) serves as an introduction. The next section covers the characteristics of Austrian BAs and the Austrian market in general, followed by the process of investment decisions, the post-investment relationship and possible roles and contributions. The aspects of control, trust and mistrust will be outlined to conclude the theoretical part of this thesis.

The methodological approach will be discussed in chapter seven, where details of the conducted interviews will be outlined. Chapter eight presents the results and the trust scale, which was established for this thesis. Chapter nine provides a discussion of the findings of this scientific work as well as limitations and further research implications. Lastly, chapter ten presents the conclusion drawn from this thesis.
2. Definition of Business Angels (BAs) and Venture Capitalists (VCs)

The financial crisis has caused a change in financial markets for new ventures over the last couple of years. Banks drastically aggravated their willingness as well as their conditions and requirements to give credit to new ventures. Moreover, the institutional venture capital industry seems to be facing some serious problems. Not only falling returns, declining investment activities and decreasing inflow capital negatively affect the industry. The early-stage investments by venture capitalists have become relatively rare, based on the fact that institutional venture capitalists tend to take less and less risk in their investment (Mason, 2009).

In the new financial landscape, where banks and venture capitalists are less willing to provide money to a new ventures, BAs or angel groups are an important source of investment. Although research on BAs has been conducted over the last 30 years, a uniform definition of the most central concepts within the area has yet to be found (Avdeitchikova, 2008).

William Wetzel (1983) was one of the first to define the term “Business Angel” as people, who provide young entrepreneurial ventures with some kind of investment. Lerner (2000, p. 515) described BAs as: “A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional or other individual investor." Also, Mason & Harrison (2008) define a BA as

“a high net worth individual, acting alone or in a formal or informal syndicate who invests his or her own money directly in an unquoted business in which there is no family connection and who after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors” (ibid, p. 309).

BAs can be distinguished from other types of investors based on a few key features. BAs invest their own money, mainly consider commercial aspects, make their own investment decisions, take a “hands-on” approach to the company and are not involved in within-family investments. The definition of a BA excludes investments made by “family and friends”. Family-related investments should be excluded due to the fact that investments made by close relatives and friends are not based on the same criteria and considerations as those of external investors. This should not lead to an underestimation of the importance of family funding in the financing of new ventures as
Definition of Business Angels (BAs) and Venture Capitalists (VCs)

friends and family are often an essential source for funding new ventures (Mason & Harrison, 2008). BAs thus fill what is commonly referred to as the “financing gap”, which describes a financial need which cannot be covered otherwise (e.g. through financial institutions, VCs or FFF [Family, Friends and Fools]) (Hoyos-Iruarrizaga, Fernández-Sainz, Saiz-Santos, 2017).

In the following section, the definition of Venture Capitalist (VC) will be outlined in order to make the difference between BAs and VCs clearer.

Literature argues, that differentiating between BAs and VCs is hard and can be somewhat confusing. One rather obvious difference between the two types of investors lies in the amount that they generally invest. On average, BAs invest up to 250,000 £ whereas VCs take on investment from 250,000 to 15 million £. Another important aspect, is that VCs are normally small firms of 5 to 7 partners whereas BAs usually act as individuals. Moreover, VCs and BAs differ in terms of the timing of an investment. VCs support a company from their establishment to the growth phases until a potential merger or acquisition. A BA invests in a company during the seeding phase to initial start-up (Conway, 2005). Figure 1 outlines the difference between BAs and VCs with regard to Conway (2005).

*Figure 1 - The differences between BA and VC (own graphical presentation based on Conway, 2005)*
Definition of Business Angels (BAs) and Venture Capitalists (VCs)

Van Osnabrugge (2000) states, that BAs are mostly private individuals, who have gained experience as a founder and/or manager of their own business or firm in the past. Due to a successful background, those BAs seek new business opportunities in order to invest their money. The author argues, that BAs only invest into start-ups that need less than 400,000 £. As already outlined above with regard to Conway (2005), VCs mainly invest in the early stages of a firm. Consequently, start-ups are increasingly dependent on investments from BAs, as VCs have shifted their investment focus away from start-ups to early-stage firms.

Stevenson, Muzyka and Timmons (1987) as well as Manigart et al. (2002) argue that BAs gain a higher return on their investments when entering long term investments with a holding period of at least three years. This is the time where the BA can support the entrepreneur with access to his network and offer business expertise. For VCs, investments yield higher returns if an exit happens fairly quickly. This is due to the fact that VCs have to return the profits generated from an exit to their investors. The possibility of higher returns based on reinvestment does not work for VCs as an early exit is what leads to successful yields.
3. Business Angels’ Characteristics and the Austrian Market

Characteristics of business angels
Several studies have revealed that business angels in different countries share more similarities than expected in terms of investment approach and activities. (Harrison and Mason, 1992; Landström, 1993; Mason and Harrison, 1996).

The study of Lumme, Mason and Suomi (1998) investigates the characteristics of BAs in Finland. Based on their findings, it can be argued that there is a male dominance when it comes to BAs. These findings correspond with those of previous research on business angels in other countries. From all over the world, studies show that typical business angels are wealthy, middle-aged men, with an entrepreneurial background, who invest in geographically proximate ventures, and often invest together with other business angels they know personally (Kelly, 2009).

Moreover, the study of Lumme, Mason and Suomi (1998) found, that most of the active BAs in Finland used to be entrepreneurs and have experience with founding and running a company. More specifically, 95% of the BAs state, that they have been a member of a founding team or founded at least one company on their own.

Austrian Market
A study conducted by the Austrian Angel Investor Association (aaia) found, that the average business angel in Austria holds about seven investments with a total of € 120,000 per start-up. The average Austrian BA is 47 years old, male and currently holds or has occupied the role of a CEO. On average, the business angel started his investments after 2012 and choses to be a co-investor (aaia, 2017).

Leitner, Zahradnik, Dömötör, Raunig, Pary and Mattheiss (2018) found, that 33% of Austrian start-ups receive at least some business angel financing. In 2017, Austrian BAs invested roughly € 20 million in Austrian firms, which puts Austrian BAs in the top third in Europe (Gassler, Pointner & Ritzberger-Grünwald, 2018).

Normally, the BA undertakes investments in familiar industries. Figure 2 outlines the most important industries that BAs invest in in Austria, namely energy, e-commerce, media, FinTech and IT/software. The BAs that were interviewed for this thesis were also asked whether they have
expertise in one of those industries. 27% have expertise in media, 29% in energy, 32% in e-commerce, 35% in FinTech and 40% in IT/software (aaia, 2017).

Apart from providing funds, BAs usually also provide knowledge and experience. According to the survey by aaia (2017), over 80% of BAs help the start-ups with strategic issues, whereas 68% provide a network. They also offer support with follow-up financing (more than 60%), marketing and sales (nearly 50%) and the business model (46%). More than 20% provide help with of expansion, HR and operative support. Less than 20% of BAs get involved in R&D and internal communication (aaia, 2017).

Interestingly, about half of the interviewed investors stated that they dedicate 1-10 hours of their time per week. 7% answered that they invest more than 60 hours per week and can therefore be considered as heavily engaged (aaia, 2017).

The findings regarding Austrian BAs in literature are quite limited. Only little empirical evidence for Austrian BAs does exist. Bomholt (2006) states that no scientific literature exists for BAs in the German speaking areas (i.e. Austria, Germany and Switzerland).
In 2016, the Modul Vienna University in cooperation with the Austrian Chamber of Commerce published a report about making Vienna a leading start-up center in Europe. The study found that, compared to the European average, Vienna is lagging when it comes to equity funding of start-ups (Goldstein, Christopoulos, Peer and Sedlacek, 2016).

Austria has comprehensive funding and support systems for entrepreneurs which can be attributed to the relatively high levies and tax rates. The start-up scene benefits from proceeds from these taxes. When it comes to funding sources, the Austrian Research Promotion Agency (FFG) and Austria Wirtschaftsservice GmbH (aws) are the most important institutions. Specifically, they are supporting start-ups with non-repayable subsidized loans, guarantees and grants (ABA – Invest in Austria, 2017).

The Austrian Angel Investor Association (aaia) is the leading angel investment network in Austria. It has 200 members and provides an international network, investment opportunities and know-how. A survey conducted by the aaia found, that one third of the interviewed investors accomplished their investments through the network. The main reasons for investors to join the aaia is the efficient knowledge transfer, the possibility to connect with experts and the network with co-investors that is characterized by high quality (aaia, 2017). The study conducted in 2012 (Treytl) confirmed these statements, as the interviewed BAs highlighted the importance of the network provided by aaia.

Goldstein et al. (2016) argue, that a large number of VC investors who are supporting Austrian companies come from outside the country. This cannot simply be attributed to the fact that foreign VCs have a strong interest in Austrian start-ups. This is rather due to the underdeveloped Austrian VC sector. Additionally, the global financial crisis in 2008 had a hugely negative impact on the Austrian private equity market. Nevertheless, BAs as a source of Austrian start-up equity funding are still a growing group.
4. Investment Decisions

The choice to invest in a new venture is preceded by an array of decisions leading up to the final investment. The investment decision process helps to evaluate which investments seem profitable and which ones are not worth considering due to reasons such as insufficient financial returns (Paul, Whittman and Wyper, 2007).

The process itself (e.g. DalCin et al., 1993; Riding et al., 1995; Duxbury et al. 1997; Van Osnabrugge, 2000) is divided into two main phases and includes five stages of investment. The phases are called investment decision-making process and post-investment relationship. The investment decision-making process contains the stages of deal sourcing, deal screening and evaluation as well as negotiating and contracting. The post-investment relationship phase includes the value-adding and monitoring stage as well as the exit. Figure 3 provides an overview of the above-outlined phases and their stages. The following sections will provide a description and explanation of the different phases and stages.

*Figure 3 - Process of investment decisions (own graphical presentation)*

- **1. Investment decision-making process**
  - 1.1. Deal sourcing
  - 1.2. Deal screening and evaluation
  - 1.3. Negotiating and contracting

- **2. Post-investment relationship**
  - 2.1. Value-adding and monitoring
  - 2.2. Exit
4.1. Investment Decision-Making Process

It is easy believe, that the investment decisions of BAs and VCs are made in a similar manner. Rostamzadeh, Ismail and Zavadskas (2014) point out, that this statement is not correct since there are differences in the motivation of both parties and those motivational factors influence their decision processes.

A profound understanding of the investment decision-making process is essential for entrepreneurs to prepare and improve their investment. BAs are able to improve the quality of decisions after gaining insights on how investment decisions are made. This in turn will facilitate the identification of profitable investments (Maxwell, 2016).

Paul et al. (2007, 107) argue, that a process that is readily understood and soundly based offers several advantages to different stakeholders during the investment process. Entrepreneurs and BAs can benefit from equally appreciating each other’s concerns or by gaining insights into the complexities that reaching an agreement cause. The authors further state, that BAs may be able to highlight their key activities that need to be managed in an effective way to generate a successful outcome.

In the following section, the different phases of the investment decision-making process will be explained in more detail. The post-investment relationship phase will be investigated in more depth since it is a vital aspect of this thesis. For the investment decision-making process, the stages of deal sourcing and deal screening and evaluation will be summed up briefly.

4.1.1. Deal Sourcing & Deal Screening and Evaluation

During the deal sourcing, deal screening and evaluation stage, BAs investigate business opportunities and decide whether they are worth considering. This stage contains a more detailed assessment of preselected opportunities. The initial screening is based on objective and tangible criteria such as investor fit, the entrepreneur and the market (Mason & Botelho, 2016).

Maxwell, Jeffrey and Lévesque (2011) state, that BAs do not use a large number of attributes in a decision model for their investment decision making. Rather, BAs use an approach which they call elimination-by-aspect, in order to sort the available investment opportunities and reduce them to a more manageable size. As simple as that, all opportunities that have no fatal flaw progress to
Investment Decisions

the first stage of the decision-making process, while opportunities that are diagnosed with fatal flaws are rejected.

One main objective that BAS aim to reach is to structure their financing instruments in a way that achieves a desirable balance of risk and cash. Therefore, certain criteria represents a useful tool for identifying potential investment opportunities. As already mentioned by Mason & Botelho (2016), BAs recognize opportunities based on the market, technology or the team to name just a few. BAs prefer to invest in and support projects that are not only in alignment with their personal interests or strategic position of their own corporation. The projects should also be run by an entrepreneurial team with an excellent understanding of the marketplace and should be operating in an interesting and profitable market (Lindsay & Craig, 2002).

Harrison et al. (2015, 530) argue, that the first question of a BA presented with a new business opportunity is how the emerging investment opportunity fits his personal investment criteria. The range of criteria might include aspects such as location, interest in and knowledge of the sector or the ability to generate and add value. The authors claim, that BAs will approach this stage with a negative mindset, expecting that the investment opportunity will be poor.

BAs do not invest according to comprehensive research, they frequently invest based on their “gut feel”. Consequently, BAs often make their investment decisions under circumstances of uncertainty while having information that is incomplete and complex. Therefore, the decision-making techniques of BAs are of heuristic nature. Research based on interviews with BAs suggests that they prefer to invest in technologies and/or markets where they have had some direct experience or which they are familiar with. During the screening process, their decision tends to be more affected by the entrepreneurial team (Lindsay & Craig, 2002).

Mason & Botelho (2016, 160) argue, that, at this stage of the process, intangible rather than quantifiable items are of higher importance to the BA. In other words, people factors like the management team and its personal qualities such as capability for hard work, coachability or trustworthiness are essential.
Investment Decisions

During the decision-making process, the entrepreneur and the market are the key considerations of the BA. Regarding the market, factors such as market potential, customer engagement and the route to market are important. When it comes to the entrepreneur, any prior experience that the management team offers is highly relevant. Moreover, financial aspects, service and product factors, e.g. protectability or product status, are equally important in the deal screening and evaluation stage (Harrison et al., 2015).

As mentioned earlier, the decision-making process is an interaction between entrepreneurs and investors, which is affected by risk. It can be divided into two main types of risk, namely agency and market risk. Market risk by extension can be seen as performance risk, whereas agency risk is seen as relationship risk. Market changes, failures in implementation and competitor behavior are only a few examples of external and operational factors that influence performance risk. Fili & Grünberg (2016) state, that the risk of a venture to fail in its market offering is market risk, whereas the question if the venture will behave according to its agreement with the business angel is relational risk. More about the agency theory will be outlined in section 5.2.

Literature argues, that BAs in general are more concerned with agency risk while VCs take issue with market risk. These concerns can be related to what risks BAs and VCs consider to be the hardest to control. There are several reasons why BAs emphasize agency risk. When it comes to the analysis of market-related information (due diligence), VCs generally have more funds and resources available, which puts BAs at a disadvantage. Moreover, there is a lack of comparative data for the evaluation of market risk based on the limited deals flows of BAs. Contracts between entrepreneurs and BAs are usually informal and simple, which makes it challenging for BAs to impose sanctions. Based on the industry experience BAs often gathered themselves, they feel comfortable in assessing the market risk and focus on the entrepreneur as a potentially troublesome aspect (Mason and Stark, 2004, pp.231).

Compared to VCs, BAs do not intend to replace entrepreneurs but to work along with them in the long run. Therefore, BAs consider this aspect in the deal sourcing and screening as well as the evaluation stage of the investment decision making process. BAs take their own role for the post-investment relationship into account in the early stages of the investment decision process. BAs rather consider trust as a potential, whereas VCs focus on due diligence in the sourcing process. Moreover, BAs emphasize relationship risk as the investment is considered as the beginning of a long-term relationship between the BA and the entrepreneur, whereas VCs put their primary focus on market risk (Maxwell, 2016).
Investment Decisions

Interestingly, BAs engage in a more structured assessment process during the screening and evaluation stage. Hard and soft data are used to screen the business and entrepreneur(s) behind the opportunity. During the primary screening stage, meetings between the investor and the entrepreneurial team are held. Those meetings provide a possibility for the BA to confirm his first impressions and to analyze the investment in greater detail. Furthermore, BAs use their network to gather information about the entrepreneur(s) background. Moreover, an accurate review of the proposal and business plan is not unusual during this stage (Paul et al., 2007).

Although it seems logical that BAs invest based on the motivational factor of financial returns, data demonstrates that it is less relevant to BAs and indeed more important to VCs. BAs often have different motives for their investment. Those motives are to become an active part of the entrepreneurial process and occasionally, to invest just for fun (Van Osnabrugge, 2000).

In conclusion, the stage of deal sourcing is about searching and identifying business opportunities where investments might be possible. This stage is about a first (in)formal evaluation of businesses. At the end of this stage, BAs decide whether to further analyze a proposal or whether to reject the identified investment opportunity. The deal screening and evaluation process contains the due diligence and a more detailed analysis of the business plan. Moreover, this stage is about conducting internal and external evaluations of the business opportunity. Further, BAs meet with the entrepreneur and examine the management team. This stage concludes with the BAs’ decision on whether to enter negotiations with the founders (Rinding et al., 2007).

4.1.2. Negotiating and Contracting

The negotiation and contracting stage commences after BAs have invested enough time in the due diligence process and are ready to conduct formal pricing negotiations. These negotiations often appear to stretch across several stages of the investment decision-making process due to the fact that investors and founders have different perceptions of the relative values of their contribution to the company. Usually, the BA provides the capital needed whereas the entrepreneurs put forward the initial innovation (Rinding et al., 2007).
Fili (2014) states, that the negotiation process itself can be divided into three phases, the background phase, the process phase and the outcome phase. The background phase includes elements such as personality, perceptions as well as expectations. The behavior of a business angel during the negotiation and contracting stage is limited by expectations and perceptions of the venture. The BA has to build a role based on previous behavior and has to stay true to his chosen role throughout the negotiation.

Paul et al. (2007) claim, that the due diligence process is already completed in the negotiation and contracting stage. Moreover, as outlined by Rinding et al. (2007), the key issue in the negotiation stage is to reach an agreement on the differing expectations of how much the BA receives for his investment. Additionally, literature argues that BAs face a more value attributing opportunity, where the entrepreneur(s) already established the business and invested time and money (Paul et al., 2007).

“The tricky exercise for both entrepreneurs and early stage investors is to negotiate a company valuation and appropriate deal structure that positions the firm well for raising subsequent rounds of investment.” (De Noble, 2001, p. 366). The authors recommend the development of an effective negotiation strategy due to the importance of negotiations along the whole investment process (De Noble, 2001).

Reaching a final agreement in the negotiation stage is often more difficult than BAs and entrepreneurs anticipate. Different kinds of conflicts hinder the process. Conflicts may arise because one party wants to transfer shareholdings to a family member, for example (Paul et al., 2007).

Compared to VCs, BAs use more entrepreneur-friendly terms in their usually simpler contracts. In general, it can be argued that BA contracts do not contain any of the methods VCs have developed to mitigate agency costs, uncertainty and information asymmetry in start-up investments. Moreover, traditional BAs prefer common stock instead of preferred stock for their investment. Another important fact is that board seats do not appear in common angel rounds but are commonly granted in venture capital rounds. Furthermore, just a few BAs aim for negative covenants that allow investor to veto management decisions. Another important fact worth mentioning when it comes to BA contracts is, that specific exit rights are less frequently used by BAs than VCs (Ibrahim, 2008).
To conclude, the negotiating and contracting stage is dedicated to negotiating the terms and conditions of the deal between the founders and the BA. This stage either ends with an agreement or discontinuation, if no deal can be reached (Rinding et al., 2007). Paul et al. (2007) argue, that the end of the negotiation and contracting stage is reached once the entrepreneur(s) and BAs come to a formal agreement.

4.2. Post-Investment Relationship

Within this section, the post-investment relationship will be examined in more detail. The first section will dig deeper into value-adding and monitoring activities, whereas the second section will examine the exit. The post-investment stage commences after a deal is reached and closed, but the foundation is built far ahead.

Although, BAs' investments normally are of different contextual composition, they do not vary their behavior regarding the post-investment relationship management based on the different ventures they invest in. Basically, BAs often us a one-size-fits-all approach and show little flexibility in their post-investment behavior. Conversely, the investment involvement and investment activity are rather homogenous. In other words, BAs are creatures of habit. BAs proactively rather than reactively contribute to post-investment activities. Fili & Grünberg (2016) observe, that inexperienced and experienced BAs do not differ in terms of their post-investment contribution. They further state that the involvement of BAs in the post-investment stage is of consistent nature. Typically, BAs assume an official position on the board of directors and involve themselves by taking on a consulting role. BAs will rarely take on an employment role in the venture. Also, Politis (2008) argues that the most common form of BA involvement in a venture is to work on the board of directors and to offer consulting service to the company.

Over time, a difference in goals and motivation will likely arise between the entrepreneur and the BA. A distinction between task conflicts and relationship conflicts can be made. While relationship conflicts are personal in nature, task conflicts arise through divergence of opinion on how to formulate and solve a certain task. It is interesting, that although both kinds of conflicts have negative effects on performance, relationship conflicts have a greater negative impact. One explanation could be, that task conflicts may result in relationship conflicts. Therefore, BAs try to handle task conflicts during the post-investment relationship in a way that does not result a relationship conflict (Fili, 2014).
Nevertheless, literature argues that the post-investment involvement of BAs is an area that requires further research, particularly since this area is of high importance (Hoyos-Iruarrizaga et al., 2017).

### 4.2.1. Value-Adding and Monitoring

In general, it is assumed that BAs are value adding investors, who, besides providing financial support, also provide personal and professional knowledge and skills. This is due to the fact that BAs have an entrepreneurial background and management experience. A lot of BAs also contribute experience gathered from starting their own business (Politis, 2008).

The value adding contributions include entrepreneurial experience, commercial skills, access to contacts or business know-how (Politis, 2008). One way that BAs add value is through one of the value-adding roles. The four different roles a BA can take are the sounding board/strategic role, the monitoring/supervision role, the resource acquisition role and the mentoring role. These four roles are based on two dimensions, namely whether the involvement of BAs is via social capital or human capital. This will be discussed in greater detail in section 5.1.

For entrepreneurs, the most valuable contribution is a BA who acts as a sounding board, whereas the involvement of BAs in the development of business strategies, products and marketing plans is perceived as highly rewarding by entrepreneurs (Politis, 2008).

Fili (2014) states, that BAs create value in different ways through active involvement in their ventures. The post-investment relationship is influenced by a strong social element and a high degree of informality. Moreover, it is argued that BAs’ involvement is part of a personal relationship. Business angels act as mentors and most of them consider themselves as co-entrepreneurs instead of investors. This can be attributed to the fact that most BAs used to be entrepreneurs themselves.

The resource-based view is a conceptual framework that helps to explain the post-investment relationship between the founders and the BAs. BAs help the firm to create a sustainable competitive advantage with the contribution of diverse resources. Therefore, the value added as a unique resource is hard for other start-ups to replicate or imitate. Moreover, BAs have the ability to increase the resources of a company by allowing entrepreneurial learning through providing experience, skills and knowledge (Hoyos-Iruarrizaga et al., 2017).
Investment Decisions

Ardichvili et al. (2002) outline that intellectual capital is the umbrella term for the knowledge resources of an organization, which include social capital, human capital and organizational capital. Social capital is the exchange of knowledge and other resources between individuals with regard to relationship networks. For the entrepreneurial context, social capital is seen as potential and actual resources individuals generate from knowing others, being integrated into a social network or often just by being known and having a valuable reputation. Relationships can emerge through personal involvement or from the entrepreneur’s family. When it comes to establishing a competitive advantage of new ventures, social networks are crucial due to the fact that those networks help to build knowledge assets that are shared between multiple parties. An individual would not be able to generate as many assets as the sum of assets that is established by the network. Social capital also refers to the reputation of the BA as a “competent and trustworthy businessperson”, as Fili & Grünberg (2016, p. 92) put it. Human capital includes abilities, skills as well as the knowledge contributed by employees. These skills are often gained through training and experience (Fili & Grünberg, 2016). When considering these aspects from an entrepreneurial perspective, factors like creativity, innovativeness, vision and the ability to identify opportunities are included. Organizational capital is defined as knowledge that can be found in databases, manuals, patents or which is integrated in the culture of an organization. For start-ups, components of importance are business ideas, models, plans and concepts.

Another interesting aspect is the different perspectives BAs can assume. BAs with a strategic perspective contribute through redefining business structures and recruitment processes. VCs normally contribute strategically whereas BAs also contribute operationally. Evidence shows, that contributing operationally includes becoming part-time consultants, mediators in strategic partnerships or being a business advisor. By becoming co-entrepreneurs or by taking management posts temporarily, BAs can also contribute on an operational basis (Hoyos-Iruarrizaga et al., 2017).

Hoyos-Iruarrizaga et al. (2017) state that BAs focus on mentoring or advising activities based on their experience, knowledge and professional background. It is argued that the post-investment involvement is a major component in the BA funding process and this stage is of great interest to the research of entrepreneurship. Nevertheless, further research is required to identify the key aspects of why some BAs get involved in their ventures and others do not.
Investment Decisions

As outlined above, BAs face agency risk and market risk. Therefore, it seems logical that BAs do provide more than money to entrepreneurs. The basic idea is to simply minimize or even avoid those risks (Ardichvili et al., 2002).

Apart from value adding activities, the monitoring process is another important aspect of the post-investment relationship. It evaluates processes and measures their outputs. Leadership and boundary spanning activities help the BA to gain access to information necessary for monitoring. Leadership provides the BA with information and the ability to learn from other team members through formal and informal interaction. Formal interaction includes meetings whereas informal interactions contain telephone calls, social interactions, emails or on-site visits. (Fili & Grünberg, 2016).

Moreover, there is an informal and a formal way to monitor the performance of an organization. Formal monitoring contains a detector and an assessor function. Formal monitoring is defined as a formal reporting system at its most basic level. The detector is responsible for gathering the information whereas the assessor compares the information to a set of standards. (Fili & Grünberg, 2016).

Paul et al. (2007) argue that the entire BA investment process underlies monitoring. Further, Van Osnabrugge & Robsinson (2000) state, that the whole post-investment process is a period of monitoring the venture progress. BAs involve themselves in different individual monitoring activities, ranging from seeking information (Prowse, 1998), analyzing financial and operating performance (Ehrlich et al., 1994) to monitoring strategy (Mason & Harrison, 1996) and the constant monitoring for signs of deterioration of the relationship and indicators for an increase in relational risk (Berggren & Fili, 2008).

To sum it up, monitoring, through its potential of increasing resource efficiency, does not only have a strong effect on relational risk. It also affects the cognitive dimension by signaling where and what the focus of the venture should be. In addition, monitoring includes the evaluation of the venture’s competitive market performance, which addresses market risk as well (Fili & Grünberg, 2016).
4.2.2. Exit

During the stages of investment appraisal or the post-investment process, BAs give little or no thought to the exit. Mason & Botelho (2016) claim, that BAs are relaxed about the timing of the exit and they do not have a clear exit plan at the time of investing into a new venture. Literature states that there is no evidence that in the post-investment stage, BAs prepare the business for an exit which could be counted as a value-adding activity (Politis, 2008). A study ranked “potential exit routes” as the 24th investment criterion, demonstrating that BAs tend to value other factors when contemplating an investment (Van Osnabrugge & Robinson, 2000). Collewaert (2012) states that an investor’s intention to pursue an exit may be a source of conflict with the entrepreneur.

It is argued that there is less literature on exit strategies of BAs. The main contribution stems from practitioners (McKaskill, 2009; Peters, 2009). Those state, that an exit-centric approach to investing is necessary, where an exit is taken into account at every single stage of the investment process (Mason & Botelho, 2016). Moreover, the exit needs to play a key role in the investment decision due to the fact that the exit is the pivotal event of the investment (McKaskill, 2009). Therefore, it is important to already consider how much money will be necessary to bring the business to the point where it can be sold and who could be a potential buyer at the stage of initial screening. Another important aspect is to discuss the possible exit with the entrepreneurial team in the sense of taking into consideration their aspirations, ambitions and expectations (Mason & Botelho, 2016).

Achieving an alignment of interests of the different parties involved is a challenging task. The entrepreneur and investor normally follow different interests. Therefore, both parties will want to structure the deal in a way that allows maximum flexibility as to when the exit is going to happen. An example for a key consideration therefore would be the class of shares a BA would accept, as investors would gain more rights when holding preferred shares of a company (Mason & Botelho, 2016).

When it comes to crafting an exit strategy, Kensinger et al. (2000) suggest that this should be considered and undertaken long before the exit occurs. Whether the BA wants to exit the investment for financial or strategic reasons will require an adequate exit strategy (Mason & Botelho, 2016).
Post-Investment Business Angel Behavior

A strategic exit “involves assigning value on the basis of future profits achieved by a buyer who is able to exploit the assets, competences or capabilities of the business to generate significant revenue opportunities or solve a threat” (Mason & Botelho, 2016, p. 161). Therefore, it is not most important that the business has achieved profitability. The identification of ideally several, but at least one business that is interested in a firm and might want to acquire it is vital. Furthermore, understanding why an external party would be interested in the acquisition is key for developing an advantageous strategy. Therefore, an appropriate positioning of the business in a way that causes the attention of potential buyers is crucial. McKaskill (2009) argues, that setting up commercial relationships with interested parties is recommended in order to have a clear path to a strategic sale.

The exit-oriented approach, where the exit is already planned in the early stages of the investment or by consciously investing in companies that are about to fail, is another option. This scenario has characteristics of portfolio management, meaning that on the one hand, investments will be conducted by putting money into firms that are expected to be successful. On the other hand, money is also invested into firms that continue to trade although a successful exit can be ruled out. In literature, these types of investments are referred to as the ‘living dead’ (Mason & Botelho, 2016).

5. Post-Investment Business Angel Behavior

The following section analyses a selection of paths that BAs can take after they have closed a deal. As indicated before, the basis for the post-investment phase is set well ahead of negotiating a deal. The following pages outline to different roles and advantages and drawbacks that come along with shaping the relationship in a certain way.

5.1. Roles of a Business Angel

During the post-investment stage, BAs can choose between a set of roles and behaviors, which Politis (2008) categorized into four distinct roles: (1) the sounding board/strategic role, (2) the resource acquisition role, (3) the monitoring/supervision role, and (4) the mentoring role. These roles and behaviors serve the purpose of minimizing relational and market or performance risk (Das & Teng, 1998). Initially, Politis (2008) grouped the roles according to whether the BA would contribute human or social capital. Another distinguishing factor was whether the BA was focused on acquiring external resources or governing internal operations. Ruef and Lounsbury (2007) distinguish between the material/resource dimension and the cognitive dimension. Figure 4
Post-Investment Business Angel Behavior

illustrates this multi-level analysis, which examines the roles of a BA according to material and cognitive dimensions as well as according to their effects on an environmental, organizational and individual level.

Fili and Grünberg (2016) built upon these ideas and conducted a meta-synthesis of 29 papers. They developed five governance processes, which are similar to the ones suggested by Politis (2008) and which will be examined in more detail. They distinguish between the boundary-spanning process, the structuring process, the leadership process, the doing process and the monitoring process. Fili and Grünberg (2016) argue, that the five governance processes might neutralize and counteract each other, but combinations might also yield synergies (Politis, 2008).

5.1.1. Boundary Spanning

The boundary-spanning process refers to a function where a BA mediates between the environment and the organization (Leifer & Delbecq, 1978). This role includes boundary-spanning activities such as external representation and information processing (Aldrich & Herker, 1977), providing access to further financing (Ardichvili, Cardozo, Tune, Reinach 2002; Harrison & Mason 2000; Paul, Whittam, Johnston, 2003; Madill, Haines, Riding, 2005; Sörheim, 2005) and credibility (Harrison & Mason, 2000; Madill et al., 2005) as well as establishing contacts to key players and talent pools (Paul et al., 2003; Ardichvili et al., 2002). These key players may include clients, educational institutions, R&D-centers as well as competitors (Ehrlich, De Noble, Moore, Weaver, 1994). BAs not only provide credibility for further investors but also improve debt-equity ratio of a venture, thereby increasing the likelihood of further funding (Osnabrugge, Robinson, 2000). Fili & Grünberg (2016) state that these activities are not part of ordinary operations (e.g. marketing is
technically also boundary-spanning). They also claim that the boundary-spanning process influences market risk, but not relational risk.

5.1.2. Structuring

The structuring-process refers to a set of actions including strategic planning (Ehrlich, De Noble, Moore, Weaver, 1994), the introduction or rules and regulations (Macht, 2011a) and the codification of knowledge (Nonaka, 1994). This influences both market and relational risk (Fili & Grünberg, 2016).

5.1.3. Leadership

The leadership-process deals with the shaping of corporate “[...] realities, identities and values [...]” (Osborn, Hunt, Jauch, 2002). When BAs assume the role of a leader and start to exert influence, they affect the material dimension. BAs will steer decision making in their desired direction as a member of the board (Mason & Harrison, 1996) or by actively participating in operational discussions. On a cognitive level, BAs can mentor and coach their entrepreneurs on an individual level (Brettel, 2003; Amatucci & Sohl, 2004). The leadership process allows BAs to reduce relational risk, which correlates positively with market risk (Fili & Grünberg, 2016).

5.1.4. Doing

The doing-process describes situations where BAs overtake parts of daily operations. This hands-on role might lead to part- or full-time employment of the BA (Wetzel, 1983) and increases the direct influence as well as the visibility of the BA. A minority of BAs is actually referred to as “income-seekers” and intends to become an employee at their investment (Kelly and Hay, 2003). It allows the BA to transfer tacit and explicit knowledge related to tasks and people (Polanyi, 2009). Being heavily involved in ongoing operations enables the BA to minimize both relational and market risk. The symbolism of active BA-involvement can be interpreted as positive (high degree of dedication) and negative (lack of trust) (Fili & Grünberg, 2016).

5.1.5. Monitoring

Trust issues also come into play when BAs engage in formal an informal monitoring, referred to as the monitoring-process. This includes actively seeking information through performance monitoring or strategic evaluations (Mason & Harrison, 1996; Ehrlich et al., 1994). While some of the other processes also grant access to formal and informal information, the entire post-investment stage can be considered as a monitoring of the investment progress (Fili & Grünberg, 2016). Assuming that BAs intend to monitor the performance of the venture after deal closure, it
Post-Investment Business Angel Behavior

is of interest at which time, for what purpose, due to which reasons and in which ways BAs decide to intervene.

The governance processes, which were introduced above, all aim at influencing the trajectory of the venture. They, however, vary in terms of involvement and visibility, both internally and externally. Ardichvili et al. (2002) introduced a continuum of involvement, which illustrates the possible activities that BAs can carry out.

Macht and Robinson (2009) divide the roles of BAs according to the type of their involvement, namely hard or soft activities. Munck and Saublens (2006) suggest four different value-adding roles for BAs. This value can be added by satisfying financial needs (via equity funding), contributing human capital (skills, knowledge and experience), granting access to networks and business contacts and facilitating access to further funding. Similarly, Politis (2008) defines four possible roles which include mentoring activities, monitoring activities, strategic activities and resource acquisition. While these roles, activities and processes are all considered as “value-adding”, De Noble (2001, pp. 359) notes that “[…] in some cases, investor involvement can be construed as positive and value adding while at other times, such involvement can be intrusive and counterproductive”. He adds, that whether a cooperation is fruitful depends on the responsiveness of the founders (Landström, 1992) and the willingness of the BA and is very much linked to the BAs experience and expertise. A lack thereof, combined with a management who is not prepared to accept and leverage BA-involvement (Politis, 2008), might lead to the destruction of value.

Previous research has debated the active or passive involvement of BAs during post-investment and labelled activities as hand-on or hands-off (Sapienza, Manigart, Vermeir, 1996). While a clear distinction is difficult, Sapienza et al. would for instance consider parts of Fili & Grünberg’s (2016) mentoring-process (particularly financial monitoring) as well as the structuring-process (strategic advice, board membership) as passive. Macht & Robinson (2009) simply declare everything apart from providing capital and monitoring reports as active involvement.

Value-Adding Activities
BAs serve a higher purpose than just filling the “financing gap”, as Hoyos-Iruarrizaga et al. (2017) point out. They can significantly contribute to the success of their investment by also influencing the “operational gap”, which consists of the lack of skills and knowledge of the (inexperienced) founders. In fact, entrepreneurs often possess product-related know-how and technical skills but
lack business expertise and experience (Freel, 1999; De Clercq and Sapienza, 2001; Mosey and Wright, 2007). Hoyos-Iruarrizaga et al. (2017) claim, that the degree of involvement, which a BA will display in the post-investment phase of a venture, is already determined in the pre-investment stage. The Spanish team thus tried to discover predictors of High Value-Added Business Angels (HVBA). Carpentier and Suret (2015), support this claim by arguing that BAs, who lack the time and resources for extensive venture screening before deal closure, tend to make up for possible unidentified risks by greater involvement during the post-investment stage. During this phase, BAs can contribute non-financial value that is hard to replicate, and which includes know-how, expertise and corporate learning (Hoyos-Iruarrizaga et al., 2017).

A BAs ability to add value to a venture is frequently linked to his familiarity with the according industry (Mason, 2007). Whether a BA knows the relevant market and chooses to invest in ventures which operate in it also affects the meticulousness with which the due diligence is carried out. As mentioned in a previous section, some BAs opt to invest in industries that they are familiar with while others seek a personal fit. Consequently, BAs might screen the management with regards to their gut feeling, rather than assessing the market risk of an investment (Haines Jr, Madill, Riding, 2003).

Hoyos-Iruarrizaga et al. (2017) were able to confirm that the more meticulous the due diligence during post investment, the more likely it is for BAs to become HVBA. They also found that frequent exchange between the investor and the founders – via e-mail, phone calls or meetings – increases the likelihood of the investor to become a HVBA. This highlights the importance of presence and visibility in daily operations, which is linked to Fili & Grünberg’s (2016) findings. The team was, however, unable to link entrepreneurial experience or family ties to a particularly valuable post-investment BA-involvement. Their work suggests that a better network, BA-cooperation and professional platforms might enable investors to screen projects more carefully and might consequently influence the likelihood of high value-added post-investment phases.

These ideas are applied to Fili & Grünberg’s (2016) governance processes and after a personal interpretation summed up in Figure 5 (graph below).
5.2. Agency Theory, Adverse Selection and Moral Hazard

The following section analyzes the different levels that are affected by the five governance processes. The roles influence either the environmental, organizational or the individual level or a combination of them. Additionally, a cognitive/institutional and material dimension come into play. Fili & Grünberg (2016) argue, that the cognitive dimension, which refers to the symbolic rather than material value of actions, may be the more crucial one and could substantially influence venture performance. Trust works in two ways and needs to be established and maintained from BA to the entrepreneur and vice versa. Consequently, the BA, who can be considered an outsider with reference to agency theory, will need to establish trust in whichever function or role he chooses. In order to counter the disadvantages form being considered an agent, BAs can try to become organizational insiders. Jensen & Meckling (1976) state that agents can counter the risk of opportunistic behaviour by closely monitoring the founders. Intense involvement, however, is a double-edged sword.
Post-Investment Business Angel Behavior

Given the nature of the founder-investor relationship, cognitive (character and predictable behavior) and affirmative (mutual concern and care) trust play a crucial role (Colquitt, Scott, LePine, 2007; Dirks & Ferrin, 2002). Bammens & Collewaert (2014) argue that cognitive trust has more far-reaching consequences in the founder-investor relationship and is tied to the perception of fairness and integrity. Trust is, for instance, required when managers have to communicate sensible data to the investor, who depends on this information in order to provide adequate advice and feedback (De Clercq, Sapienza, 2006). This interdependence is labelled intrateam-trust and affects venture performance. Trust is key when it comes to successful communication, as the parties become particularly vulnerable (e.g. managers who come forward with problems within the firm) (Colquitt et al., 2007). Consequently, cognitive trust is a prerequisite for both active and passive BA-involvement. When it comes to affirmative trust, some research is dedicated to the darker side of trust. This refers to high levels of trust which render the parties blind to unethical behavior and abuse (Gargiulo, Ertug, 2006).

Opting for a monitoring role – for instance – has two potential outcomes: reduced motivation and loss of trust (Falk & Kosfeld, 2006) or increased performance (Davila & Foster, 2007). This might result in an improvement of market risk but a deterioration of the BA-founder rapport. The more involved a BA becomes, the more likely it is for relational risk to decrease – yet not without a trade-off.

Macht & Robinson (2009) highlight the lack of existing research on the founder’s perspective concerning value-adding founder-investor relationships. They found, that entrepreneurs, who were required to regularly provide reports to their BAs had to be more disciplined and accountable. By monitoring venture performance (considered passive), BAs could consequently significantly influence the way that operations were carried out. The study also unveiled that, while most BAs are involved in strategic decisions and measures, entrepreneurs do not necessarily wish for their investors to get involved in the management of their business. The managers, however, appreciated help upon request and support during difficult times. Interestingly, the managers neither wanted their investors to get involved, nor did they assume that their investors desired to do so. The fact that the managers who were interviewed in this study only sought active BA-involvement during critical situations might be because the interviewed managers had all been very experienced. Even though these experienced managers had networks and contacts of their own, they benefited from the fast links to a wider network that BAs could provide. In essence, Macht & Robinson concluded that the degree of BA-involvement does in part depend on the founder’s attitude and expectation.
The role that entrepreneurs play during the post-investment stage ought not to be underestimated. Studies (Barney, Busenitz, Fiet, Moesel, 1996) show that value-adding relationships are more likely if the investor can provide experience which the founder lacks (inexperienced management – experienced BA). This becomes particularly evident in managers of highly innovative firms with little industry experience and a rather short employment with the firm. De Clercq and Fried (2005) add, that the value of BA-activities depends on the quality and quantity of BA-involvement as well as the responsiveness of the venture’s management. Other studies found that a BA’s stake in a firm also influences the acceptance of their involvement (Barney, Busenitz, Fiet, Moesel, 1989). The greater the share a BA holds, the more likely it becomes for his actions to be accepted. In addition, justice and fairness are crucial concepts when it comes to the effect of BA-involvement. Founder responsiveness improves if an investor’s actions are deemed fair and just (Higashide, Birley, 2002). Macht (2011) summarizes these ideas in the following Figure 6:

While De Clercq and Fried (2005) argue that the frequency of interaction between a BA and the founder is crucial, Harrison, Mason and Robinson (2010) conducted a study to prove that long-distance investments work as well. Van Osnabrugge and Robinson (2000) found that BAs
consider distance to be a rather insignificant criterion when choosing to make an investment, but how can proper contact and involvement be managed?

A study by Mason and Harrison (1994), on the other hand, showed that the majority of British investments were made within 100 miles of a BA’s location and that there was a significant gap between BAs who claimed to be willing to invest long-distance and those who actually did. Geographic proximity between the investor and the founder is claimed to be crucial in order to increase the chances of becoming aware of the investment opportunity (Mason & Harrison, 1994), monitoring and coaching the founder (Mason & Stark, 2004) and of reducing agency risk (Landström, 1992). Landström showed that distance heavily influences contact between investor and founder and that the ease of getting in touch might be more significant than the actual need to contact the founder.

Paul et al. (2003) add that this becomes particularly evident during crises, where BAs might be needed on site. Several studies also found that BAs become more sensitive to distance as they gain experience (Freear, Sohl, Wetzel, 1992; Mason & Harrison, 1994; Paul et al., 2003). Interestingly, larger investments and investments that BAs' consider to have a low demand for involvement are more likely to be long-distance (Innovation Partnership, 1993). The Innovation Partnership claims that financially strong BAs might perceive the travelling costs (opportunity costs) to be a less significant burden.

Harrison, Mason and Robinson (2010) hypothesized that the more youthful an investment was (early stage, start-up), the more involvement and presence was needed. When they conducted their study on long-distance investments, believing that proximity was crucial for the much-needed hands-on BA-involvement, they, however, found that early-stage investment did not necessarily have to be local. They further confirmed that larger investments are more likely to be long-distance while investments carried out in a BA-syndicate tend to be local, highlighting the importance of local networks. Their study also showed that BAs with an entrepreneurial background prefer to invest locally, while particularly active investors tend to expand their reach. This might be due to the fact that they have to look further in order to identify new opportunities.

Macht (2011a) refers to the founder’s management as “gatekeepers” who decide on which BA-involvement or advice to accept and which to disregard. Consequently, their receptiveness influences whether BA-activities can affect and add value to a venture. She found that receptiveness does not depend on the frequency of interaction, a manager’s previous experience
Post-Investment Business Angel Behavior

or an alignment of skills and expertise between the investor and the entrepreneur. Her study showed that BAs expect their involvement and suggestions to be acknowledged and that the rejection of ideas should be communicated properly. BAs also expect access to information upon demand. Quite intuitively, the rate of acceptance of BA-involvement also depends on the initiator, meaning that any contribution requested by the founder is more likely to be accepted.

In a later publication, Macht (2011b) claims that even investors with little to no prior experience might be able to add value to a venture. She proposes to divide BA-activity into soft (people) and hard (tasks), rather than active and passive. Macht argues that BAs possess relevant (fields of expertise) and non-relevant capital (areas with no experience). If a BA offers non-relevant capital for “hard” tasks, conflicts rather than gratitude might arise. Non-relevant contributions to soft matters can – on the other hand – be appreciated. The relevance of an activity, however, does not necessarily align with the perceived value of it.

Due to the nature of their role, BAs face moral hazards and have to handle opportunistic behavior or adverse selection with regard to the provided information (Gompers & Lerner, 2001). As much as founders depend on financing, the BA depends on the quantity, quality and reliability of the information that he receives. While it appears natural that a value-adding post-investment relationship would be desirable, there are many obstacles to its realization. Conflicts do arise frequently and affect the quality and duration of the investor-founder relationship (Higashide, Birley, 2002).

Collewaert and Fassin (2013) examined the effects of perceived unethical behavior on this relationship and on conflict management. During their effort to maximize the value of their venture, a conflict will decrease the perceived value of BA-involvement (Sapienza, 1992) and increase the desire to exit (for both parties) (Collewaert, 2012). Higashide and Birley (2002) have also found that conflicts negatively affect venture performance. Causes for these conflicts might include incongruences regarding common goals, a lack of resources, communication issues, issues on a personal level or interdependencies (Bartos, Wehr, 2002).

Another cause for conflict may be different definitions for unethical and unfair behavior (Collewaert, Fassin, 2013). Collewaert and Fassin found, that when conflicts arise without unethical behavior, a shared responsibility for the failure could be observed. If, however, unethical behavior was perceived, accounts of the situation deteriorated, and the involved parties blamed each other. Consequently, conflicts with unethical behavior lead to a more aggressive conflict
management strategy. The consequences of unethical behavior will be discussed in great detail in sections 6.3.

5.3. BAs and the Internal Rate of Return

After having listed a number of roles and crucial factors for the founder-investor relationship, Capizzi (2015) provides a set of determinants for returns on a BA-investment. Capizzi discussed the link between BA-experience and the IRR (internal rate of return) of an investment. Studies show, that BAs with medium experience sometimes achieve higher IRRs than BAs with very low or very high levels of experience. Inexperienced BAs should thus consider syndicates for investments and seek training. Capizzi argues that highly experienced BAs might become too confident and underestimate risks. Moreover, they tend to take on more investments, which does not allow them to monitor their ventures as closely (Hoberg, Goldfarb, Kirsch, Triantis, 2009).

Thirdly, BAs do not tend to learn a lot from previous investments and are thus technically as likely as virgin investors to make mistakes (Farrell, 2006). In accordance with other studies (Wiltbank, Read, Dew, Sarasvathy, 2009; Parhankangas, & Hellström, 2007), Capizzi (2015) thus found that IRR increases up to a certain point of experience and decreases after that. He also found that holding an investment for more than three years and being more selective about new investments increases financial returns. Capizzi consequently suggests that BAs carefully select investments, take multiple small ones rather than few big ones, refrain from overconfident behavior and invest over a longer horizon, in order to increase the potential IRR. He believes that BA-networks would be beneficial and promotes public incentives.

5.4. Appropriate Roles for Different Situations

While there are many different ways of defining the different roles that BAs can take on, it is also vital to analyze when they are most appropriate and useful. Post-investment behavior is dynamic and varies with regards to an entrepreneur’s experience or available capital, the maturity of an investment as well as founders characteristics (Söderblom, Samuelsson, Mårtensson, 2016). Several studies (Politis, 2008; Lahti, 2011; Fili & Grünberg, 2016) point out that a shift in post-investment involvement throughout the course of one investment is, however, an under researched aspect.

The roles and governance processes that have already been presented above aim to mitigate relational risks by monitoring ongoing developments (Bruton, Fried, Hisrich 2000; Shepherd &
Post-Investment Business Angel Behavior

Zacharakis 2001; Parhankangas, Landström, Smith 2005) and performance risks through value-adding activities (Manigart, De Waele, Wright, Robbie, Desbrières, Sapienza, Beekman, 2002; Busenitz, Fiet, Moesel 2004; Mäkelä & Maula 2005). Söderblom et al. (2016) argue that relational risks lead to control mechanisms, rather than simple monitoring, in order to limit adverse selection and moral hazard.

Avdeitchikova, (2008) conducted a study to show that BA involvement peaks during early development stages with inexperienced management. Avdeitchikova (2008) identified a number of key characteristics which greatly affect BA behavior (e.g. investment stake, distance, syndicate or independent investment, etc.). Söderblom et al. (2016) present a number of external and internal triggers that cause BAs to shift their post-investment involvement. An internal trigger might be plummeting trust into the founder and his competencies, which BAs try to compensate through value-adding activities. The study showed that improving competencies allowed and inclined the BA to reduce value-adding activities and to increase monitoring efforts. Söderblom et al. claim that monitoring activities do not change the entrepreneur’s behavior. If an entrepreneur failed to improve his competencies, value-adding and governance activities were intensified. These governance activities include both incentives and punishments which are intended to decrease moral hazard.

In the case of an external trigger (e.g. new investor enters), BA behavior was heavily linked to a possible change of control (new investor became lead investor). If that was the case, the initial investor reduced active involvement and turned to monitoring activities. Additionally, structures and schedules for reports and meetings were formalized in order to combat information asymmetries. The study aligns with and builds upon De Clercq and Manigart (2007), who separated relational risk from performance risk. Interestingly, Söderblom et al. (2016) propose that BAs react to internal and external triggers in similar ways, which leads them to assume that BA behavior is determined by the nature of a trigger and the entrepreneurs’ reaction, rather than personal characteristics or general attributes of an investment.
6. The Role of Control, Trust & Mistrust

Within this section, the influence of control, trust and mistrust on the founder-investor relationship will be discussed. First, existing literature on BAs and control will be outlined. Second, the meaning of trust for BAs will be examined and third, the impact mistrust has on the relationship between BAs and founders will be outlined. In the end, an overview on the correlation between those three factors will be discussed.

6.1. Control

Within this study, the term control refers not to political power or superiority, but to methods and mechanisms of checking the state and progress of a firm. The processes serve the purpose of gathering information and becoming aware of the status quo, rather than gaining influence or power over the founders and the firm.

Wong, Bhatia and Freeman (2009, p. 221) outline that “although exposed to greater uncertainty by investing earlier in the life of a firm compared to venture capital investors, angel investors do not rely on traditional control mechanisms such as board control, staging, or contractual provisions to protect against expropriation”. It is argued, that BAs tend to use more informal methods of control and do not implement the same methods of managerial oversight as venture capitalists do. BAs tend to focus on three factors when it comes to mitigating risk. First, the amount of funding, second, the use of syndication and third, the geographical proximity between BAs and their investments.

As outlined later (6.4. The Correlation of Control & Trust), there is a link between control and trust. Currall and Judge (1995) show that where trust in a relationship is reduced due to behaviors that cause trust-violation or trust-damage, the introduction of controls through the investor is what can reduce the relationship risk to an acceptable level.

These controls include indirect and direct control. Indirect control clarifies the output or behavioral control. Behavioral control defines behaviors and boundaries of conduct that fulfill stated rules while output control defines measures for the venture’s and entrepreneur’s performance. Direct control instead allows the BAs participation in the management of the venture. This direct participation of the BA allows the investor to demand to be asked for permission before the founder takes any measures. Controls of an indirect manner can be introduced in the shareholder agreement through contract clauses (Currall and Judge, 1995; Kelly and Hay, 2003; Kaplan &
The Role of Control, Trust & Mistrust

Strömberg, 2004). Wiltbank, Read, Dew and Sarasvathy (2009) suggest that BAs who focus on control tend to face fewer investment failures without experiencing fewer homeruns.

In a study conducted in 2015, Wasserman takes a different angle at control and considers it from the founder’s perspective. He argues, that founders face a control dilemma in which they have to trade resource uncertainty (lack of key resources) for control uncertainty (sharing control with cofounders, employees, investors, etc.). Frequently, the decision to maintain control singlehandedly stands in the way of achieving success. Wasserman found, that founders who do not share control are likely to be less valuable. Investors might face surprises if – due to an improper due diligence – they chose founders who do not focus on monetary value creation.

6.2. Trust

Harrison, Dibben and Mason (1997, p. 67) have defined trust as “the expectation that arises, within a community, of regular honest and cooperative behavior, based on commonly shared norms, on the part of other members of that community.”

Literature makes a common distinction between affective and cognitive trust (Colquitt, J., Scott, B., & LePine, J. 2007; Dirks & Ferrin 2002). Affective trust is about the emotional bond between trustee and trustor and is characterized by intimacy, care and further, provide the basis for mutual positive expectations. Cognitive trust is more based on the trustor’s insights and information gathered about the trustee’s moral character and competence. This should help the trustor to build a cognitive understanding and therefore make the behavior of the trustee more predictable (Lewis & Weigert, 1985; Schoorman, Mayer & Davis, 2007; McAllister, 1995).

It is argued that entrepreneurs believe that their business can be kick started and helped to grow through the capital and mentoring of BAs. Entrepreneurs turn to private investors for capital and therefore, BAs have become a major source of informal investments. For BAs, it is important to establish a trustful environment where they are able to control their investments. Based on these findings, literature argues that trust plays a crucial role in the analysis of the informal venture capital market (Ali, Berger, Bothelo, Duvy, Fencia, Gluntz and Pellens, 2017). Moreover, it is commonly agreed that trust is a beneficial factor in organizational relationships (Dirks and Ferrin, 2002).
Landström (2007) found, that BAs state that they rely on their “gut feel” and simply have to trust when it comes to trusting the people that are involved in the investment and that they intend to work with. Also, Van Osnabrugge (2000) confirmed that BAs do not invest based on a detailed research but rather on their gut feeling.

Nevertheless, building a trusting relationship between the BA and the entrepreneur seems to be essential for the investors in order to have successful capital investments (Landström, 2007). A study of Bammens and Collewaert (2014) investigated how the degree of trust is affected by the perceptions of a BA’s and an entrepreneur’s degree of trust. They criticize, that trust based research in this field is largely too optimistic. Their findings outline, that if angel investors perceive high trust, the performance-related evaluation of a venture is better. Further, the level of perceived trust is also affected by the quality of the information exchanged. The author argues, that both the quality of information exchanges as well as the level of perceived trust may bring benefits to the relationship between entrepreneurs and angel investors.

Research shows, that angel investors are more interested in having an informal relationship – based on empathy and trust – with entrepreneurs compared to venture capitalists, who prefer a more formal relationship (Ding et al., 2015).

Ding et al. (2015) show, that angel investors are more interested in having an informal relationship – based on empathy and trust – with entrepreneurs compared to venture capitalists, who prefer a more formal relationship. They examined the direct and indirect effects general trust has on individual angel-investment decisions. The study included data from 25 countries and 191,907 individuals and the findings outline, that in countries where the level of trust is high, angel investments are more likely to be conducted.

When comparing angel investments with other forms of investments, it can be observed that angel investment decisions tend to be based on empathy and trust. Research has identified two forms of trust, namely particularistic trust and general trust. Particularistic trust involves trusting a narrow circle of familiar others, whereas general trust refers to trusting a wider circle of unfamiliar others. Therefore, general trust can also be considered as social trust (Ding et al., 2015).

General or social trust is described as the extended trust to unknown others within the society (Fukuyama, 1995). Another definition of social trust claims that “It is a society-level construct that
The Role of Control, Trust & Mistrust

arises when a community shares a set of moral values in such a way as to create expectation of regular and honest behavior” (Dyer and Chu, 2003, pp. 57).

Under the aspects of interdependence and risk, trust is even more important (Rousseau et al., 1998). Interdependence and risk are present in the environment in which entrepreneurs and investors meet, interact and cooperate (Maxwell and Levesque, 2011). Trust is a crucial component of angel-investments (Harrison et al., 1997) due to the fact that angel investment is recognized as a form of risk capital (Haar et al., 1988).

Kwon and Arenius (2010) argue, that more entrepreneurial opportunities are received in countries with greater social trust. In those societies, the flow of information between socially distinct groups is easier. Cooperation between groups as well as a decline in inter-group conflicts are beneficial outcomes.

Nevertheless, Welter and Smallbone (2006) argue that the research on entrepreneurs as trust-builders is generally considered as an “under researched topic”.

6.3. Mistrust

Within this section a general overview on trust violation and mistrust is provided. The first part discusses mistrust in general and trust-damaging as well as trust-violating behaviors. The second section addresses the consequences BAs draw when they are lied to.

6.3.1. Mistrust in General

Mayer, Davis and Schoorman (1995, pp. 709) argue that a trust-based relationship is one where “the willingness of a party to be vulnerable to the actions of another party is based on the expectation, that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.”

Nevertheless, Maxwell and Lévesque (2010) did research about the entrepreneur’s behavior and how the BA’s assessment of the risk in the relationship with the entrepreneur is influenced by that. Therefore, the authors created a behavioral scheme for the entrepreneur’s trust-building, trust-damaging, and trust-violating behaviors. The findings of the study outline that the entrepreneurs with trust-building behaviors are more likely to receive an offer of BA funding compared to entrepreneurs that display trust-damaging behaviors. Moreover, there was a tendency that the
corresponding interactions last longer with entrepreneurs that have trust-building behavior. Another important finding is, that in the case of damaged trust, it could be repaired while in the case of violated trust it rarely was the case.

Lewicki, Tomlinson and Gillespie (2006) claimed that while the development of trust in the BA-entrepreneur relationship is based on displayed behavior that supports trust development, negative behaviors reduce the trust level in the BA-entrepreneur relationship. Mistrust develops, when the trustee’s behavior confirms untrustworthiness and trust is violated.

Another negative aspect that damages trust can be suspicion. Suspicion will occur when the trustee’s behavior fails to confirm trustworthiness (Deutsch, 1973).

Whitener, Brodt, Korsgaard and Werner (1998) argue, that the type and extent of negative behavior that creates mistrust, distrust or suspicion, has an impact on the likelihood that the relationship will continue. Kim, Dirks and Cooper (2009) agree, that the way trust is damaged has an impact on whether the relationship can be repaired or not. Moreover, McKnight, Cummings and Chervany (1998) explain that the immediate termination of a relationship is often caused by trust violations.

Maxwell and Lévesque (2010) distinguish between behaviors that violate trust and behaviors that damage trust. The authors argue, that “while trust damage can be inadvertent and unintended, trust violations are intended to deceive” (Maxwell and Lévesque, 2010, pp. 5). Moreover, it is argued, that trust-violating behaviors confirm the untrustworthiness of the trustee by creating distrust in the relationship. It is important to note, that a trust-based relationship goes both ways, meaning that both parties need to work on building and maintaining trust and ought to abstain from trust violations. In the case of damaging trust, it happens because of the entrepreneur’s inexperience where he “over-trusts” and relies on a partner who is inappropriate (Goel & Karri, 2006).

**6.3.2. Do BAs Forgive Lying?**

Entrepreneurs who manage early-stage firms face the dilemma of a financial gap, which external investors such as BAs and VCs help to fill. In order to attract these investors, managers have been found to present their venture in a more positive light, choose not to disclose sensitive aspects and misinform potential investors about critical issues (Martens, Jennings, Jennings, 2007). Entrepreneurs are inclined to lie in order to compensate for their firm’s lack of ability to attract
investments, based on its performance record and missing desirable outputs (Singh, Tucker, House, 1986; Rutherford & Buller, 2007). Kawasaki (2008) developed a list of the 11 most popular lies that entrepreneurs of early-stage firms tend to tell. It includes falsehoods regarding order pipelines, patents, key employees, the rarity and inimitability of the product or the entrepreneur’s record of accomplishments. Pollack and Bosse (2014, p. 742) claim that this unfortunate stakeholder management might “[...] result in retaliation, revenge or avoidance.”

While a certain degree of exaggeration and lying seems acceptable and natural, Jones (1995) argues, that a trust-based investor-founder relationship can be considered as a competitive advantage and should therefore be attained. Entrepreneurs who choose to lie and deceive their investors break moral and social norms and risk their reputation (Freeman, 2010). What they engage in can be related to social risk, which describes the concept of human behavior being the major cause of uncertainty (Bohnet, Greig, Herrmann & Zeckhauser, 2008). Pollack and Bosse (2014) state, that lying is particularly common in high stake environments where crucial outcomes need to be achieved. They highlight that lying is part of an impression management strategy that allows entrepreneurs to influence a BA’s impression to their advantage and might compensate a lack of legitimacy. The legitimacy of a firm, which cannot be created but must be attributed to a firm by outsiders (e.g. investors and stakeholders), is a crucial criterion for the investment decision. Early-stage firms trying to attract investors do, however, lack this legitimacy, which makes the entrepreneur and his behavior all the more important. From a stakeholder’s point of view, distributional, procedural and interactional fairness is vital (Bosse, Phillips, Harrison, 2009). Bosse et al. found that as lying affects all three types of justice, it can cause BAs to punish the entrepreneur by reducing their efforts, for instance (Brandts & Charness, 2003).

After a breach of trust, an investor can choose to terminate (retributive justice) the relationship or to forgive (restorative justice) the employer (Strelan, Feather, McKee, 2008). Investors are likely to forgive if they perceive a high level of relationship value combined with a low expected exploitation risk (Burnette, McCullough, Van Tongeren, Davis, 2012). Pollack and Bosse (2014) propose a number of aspects that influence the investor’s perception. These include the commitment and satisfaction with the relationship, the entrepreneur’s performance, the severity, potential harm and intentionality of the lie, the needed trust repair efforts or any existing negative experiences.
6.4. The Interplay of Trust & Control

Based on and in addition to the work of Harrison et al. (1997), Manigart, Korsgaard, Folger, Sapienza and Baeyens (2001) conducted research about private equity contracts and the impact that trust has on them. The results show that trust between the investor and the entrepreneur is essential in order to overcome problems of control. This especially applies in the case of incomplete contracts and an environment with massive agency risk. The study also found, that trust has no impact on the contracts of investors but on the contracts of entrepreneurs. The findings of the study emphasize, that control and trust seem to play a complementary role for investors faced with potential agency problems.

Kelly and Hay’s (2003) research on contracts between BAs and entrepreneurs outlines that, based on their interpretation of agency theory, contracts tend to be “looser” in cases where trust has already been established between the BA and the founders.

Literature argues, that BAs can achieve high levels of confidence in partner co-operation. This can only be achieved by a unique combination of control and trust. For BAs, this means that a high level of confidence in partner co-operation is achieved when there is a moderate level of both, trust and control (Shepherd and Zacharakis, 2001).

Figure 7 provides an overview of the correlation between trust and control based on different kinds of investors. It also highlights what this balancing act means for the in-partner co-operation, which can be high for every investor-founder relationship, given an appropriate combination of control and trust. It appears obvious, that family and friends generate elevated confidence levels in entrepreneurial co-operation through high trust and low control. BAs achieve a high level of confidence in with a moderate level of both, control and trust. For VCs, a high level of control and low level of trust leads to high confidence in entrepreneurial co-operation (Shepherd and Zacharakis, 2001).
Additionally, the authors provide an overview of the types of investors and the typical levels of trust antecedents. Therefore, Table 1 outlines why the tradeoff with control varies, based on the investor types along the different dimension of trust. The signaling commitment and consistency is very high with family and friends and lowest for VCs. Moreover, perceived fairness and justice is the perception of fair processes and allocation of rewards. From the entrepreneur’s point of view, a fair allocation of rewards is rated poorly with VCs. This can be explained by the notion, that the less formal the investment process, the more flexibility is added to the process and the investor pays attention to the individual entrepreneur. The same applies to the fit, which is highest with friends and family and decreases across the types of investors. These findings are based on the fact, that the entrepreneur has a long personal history with family and friends, who will have shaped the type of entrepreneur he became. The fit with BAs is relatively high, due to the fact that BAs normally invest in industries where they have gathered operational experience. Therefore, the fit is likely to decrease as the investor becomes more formalized and institutionalized, due to a decreasing amount of life experiences shared between the investor and entrepreneur. When it comes to communication, it can be argued that the frequency of communication decreases across the types of investors. Interestingly, the BAs’ hands-on approach usually leads them to achieve a higher level of communication than family and friends. Typically, a VC’s involvement decreases as his portfolio grows. To sum it up, based on the given relationship between communication and the other dimensions of trust, BA are in the right position for building high confidence in partner co-operation (Shepherd and Zacharakis, 2001).
Table 1 - Types of investors and typical levels of trust antecedents (own presentation)

<table>
<thead>
<tr>
<th></th>
<th>Friends &amp; Family</th>
<th>Angels</th>
<th>VCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signalling commitment and consistency</td>
<td>Very high</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Perceived fairness and justice</td>
<td>Very high</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Fit</td>
<td>Very high</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Open Communication</td>
<td>Moderate</td>
<td>Very high</td>
<td>Moderate</td>
</tr>
<tr>
<td>Control</td>
<td>Very low</td>
<td>Moderate</td>
<td>Very high</td>
</tr>
</tbody>
</table>
Methodical Approach

7. Methodical Approach

Methodology
This section describes the research methodology used and applied to conduct the empirical survey and analyze its results for this thesis. It includes a description of the general research approach as well a detailed outline of the data collection and analysis process.

Basic Approach
This study follows a set of previous research that was conducted in 2012 (Treytl) and included participants in Austria, Sweden and the UK. In 2012, the study aimed at exploring and comparing how BAs use their network resources in the pre-investment phase in different countries. With this paper, the focus is shifted away from networks towards trust, control and the BAs relationship with the founders in the post-investment phase. A country comparison is excluded and the study only examines BAs who operate in Austrian. This paper analyses the participants’ attitudes, perceptions and experiences and hence follows a qualitative approach. As Rust (1981) puts it, qualitative content analysis works without a set framework of processes or regulations. This multifaceted approach and its advantages and drawbacks became particularly apparent in this thesis, as two authors worked on the data gathering and analysis.

Selection
The units of investigation applied for this study were Austrian BAs. As this study follows prior research, the pool of possible candidates was limited to the previously contacted and interviewed BAs. While the study conducted in 2012 incorporated candidates from Sweden and the UK, their participation was deemed unlikely and only Austrian candidates were considered. From the existing list of twenty-two BAs, eighteen were contacted individually and seven agreed to participate in the study.

Data Gathering
The seven all-male BAs were interviewed individually and in person. Each interview was audio-recorded and later transcribed. The participants did not receive the questions prior to the interview, but were given a short description of the purpose and field of interest of this study.

Interviews
The semi-structured expert interviews were conducted face-to-face and loosely followed a guideline which was based on the interview guideline used in 2012. It matched the previously
Methodical Approach

created one in terms of structure and the elements that were used but introduced new sections and focused on a different research question. The guide consisted of four different parts and started with a set of broad, open questions in order to establish a comfortable basis for conversation. The initial set of questions addressed the BAs background, investment portfolio and experiences and gradually shifted towards more delicate trust-related issues. The guideline allowed the interviewers to choose from a variety of questions and adapt to the course of the interview. The questions were neither asked in order nor in their entirety. Becoming ever more structured, the interview then moved on to a cartoon with the desire to set an impulse by offering a controversial input. The cartoon was discussed and followed by a set of open questions. The third part was labeled “Word Rap” and included half-sentences that required completion and justification. The cartoon and word rap had been included in 2012 and were only slightly adjusted for this study. These sections were hence used to compare how the participants’ attitudes have since changed. To conclude the interview, the BAs were confronted with a set of decisional questions (e.g. trust vs. control). These questions provide insights into whether a participant’s answers were consistent and whether the BAs self-perception matched the previously given answers. This section was also used to follow-up on any topics that needed clarification or elaboration.

Kvale (1983, p. 174) points out that qualitative studies aim at acquiring “[…] descriptions of the life-world of the interviewee […].” The research design applied for this thesis matches Kvale’s definition of qualitative research, namely a fairly unstructured approach, predominantly open questions and questions who relate to experiences and certain situations, rather than abstract concepts. The goal here is, thus, to comprehend a topic from the interviewees’ viewpoints (Cassell & Symon, 2004). As Opdenakker (2006) explains, the face-to-face interviews conducted within the present study framework are characterized by synchronous communication. Consequently, the displayed and observable non-verbal communication will change the way that answers are perceived and might influence the pace and trajectory of the interview.

Content Analysis
The content-analysis-phase started with a thorough preparation of the data. The interviews, which were held in German, were transcribed in German and rendered anonymous. Anonymizing the interviews was essential to allow the participants to speak freely.

The transcribed data was sectioned into cohesive statements and then coded, loosely following the coding scheme that was used in 2012. The 2012 coding scheme was expanded and updated,
but the basic approach remained identical. This was mainly motivated by the desire to ensure comparability. The coding scheme began with a section for technical aspects such as the part of the interview that a certain statement belonged to. It was followed by a section dedicated to personal aspects of the participants, including their entrepreneurial and educational experience, investment track record and personality. Personal traits such as risk propensity and motivation were later used to analyze the BAs investment approach and decision-making.

The third section focused on the BAs’ general investment activity and explored their portfolio and deal flow. The next part was labeled “Phase of the Investment Process” and assigned statements to an investment stage. It also included a variety of investment criteria that BAs applied when assessing an investment. These insights were particularly valuable in analyzing the BAs’ expectations towards a business and its founders. These insights were used to explore the BAs’ relationship with the founders and the start of a trust-based relationship. Data from the fifth part, which focused on the investor-founder relationship, revolved around the role of the investor and the different kinds of support provided and introduced the aspect of control, which was an essential element of this study.

Upon analyzing the gathered data, “constant comparative analysis” (Glaser & Strauss, 1967) was the gold standard of examination. Different sets of data were compared against each other, against what one interviewee had said previously and against how the research team interpreted these data sets. The gathered data was then consolidated and conclusions were drawn thereafter.
8. Results and the Trust Scale

This chapter presents the results of the expert interviews conducted for this paper. In order to provide an appropriate analysis of the data, a trust scale was developed. This section starts with a description of the participants including the differences and similarities of the BAs when it comes to doing business. Moreover, each BA is assigned to a certain trust category. Further, under 8.2., the trust scale and how aspects such as expectations towards a business and the founders, the post investment relationship, role and contribution, control and the management of mistrust affect the trust scale are investigated in more depth.

8.1. Description of Interview Participants

A brief description of the Austrian BAs, who were interviewed for this project, serves as an introduction to this section. It is important to mention up front, that the sample of this study is not representative. Therefore, inferences for the BAs in general cannot be drawn. Further, the data and results definitely underline the heterogeneity of Austrian business angels.

8.1.1. General Data

As previously explained, the selection of BAs for this study was limited to the pool of Austrian BAs that were contacted in 2012. Quite obviously, all of the interviewed BAs were male. Out of the 28 BAs who were contacted for the initial study in 2012, only two were female, limiting the gender variety of our participant pool. Unfortunately, we did not receive a positive reply from a female BA. The participants’ age spanned from 40 to 64 years old and the average age of the interviewed BAs was 53 years.

Even though the selection of BAs was limited, the interviewed participants correspond with the average BA described in literature. Lumme, Mason and Suomi (1998) found, that there is a male dominance when it comes to BAs. Studies from all over the world find that the typical BA is a wealthy, middle-aged men (Kelly, 2009). This is in line with the aaia’s findings on the average Austrian BA, who is 47 years old, male and currently holds or has occupied a CEO position (aaia, 2017).

Further, all participants have a university degree, whereas all but one, who specialized in tech and law, have an education in management. The interviewees provide a wide selection of areas of expertise ranging from consulting, internet and real estate to media and pharma. When it comes to managerial experience, the data shows that all the interviewees have managerial experience
Results and the Trust Scale

and half of them previously founded or managed their own company. The rest of the BAs held top management positions and one took over the family business. Table 1 provides an overview of the general data that was gathered.

Also, these results match the findings of Lumme, Mason and Suomi (1998) who argue that 95% of BAs have been a member of a founding team or even founded at least one company on their own. The study of the aaia outlined the most important industries that Austrians BAs invest in and these findings overlap with the result of this study, as Austrian BAs do invest in media, fintech and IT/software.

Table 2 - General Data of BAs (own presentation)

<table>
<thead>
<tr>
<th>CODENAME</th>
<th>AGE</th>
<th>EDUCATIONAL BACKGROUND</th>
<th>INDUSTRY BACKGROUND</th>
<th>MANGERIAL EXPERIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARNEY</td>
<td>64</td>
<td>Tech + Law</td>
<td>Consulting</td>
<td>High Level Management</td>
</tr>
<tr>
<td>BASTIAN</td>
<td>40</td>
<td>Management</td>
<td>Internet</td>
<td>Founded &amp; sold own company</td>
</tr>
<tr>
<td>BENJAMIN</td>
<td>55</td>
<td>Management</td>
<td>Real Estate</td>
<td>Took over family business</td>
</tr>
<tr>
<td>BOGOMIL</td>
<td>43</td>
<td>Management</td>
<td>Media</td>
<td>Founded &amp; sold own company</td>
</tr>
<tr>
<td>BOJANGELS</td>
<td>60</td>
<td>Management</td>
<td>Pharma</td>
<td>Founded &amp; sold own company</td>
</tr>
<tr>
<td>BONIFACIO</td>
<td>63</td>
<td>Management</td>
<td>Media</td>
<td>High Level Management (incl. Corporate VC)</td>
</tr>
<tr>
<td>BORIS</td>
<td>46</td>
<td>Management</td>
<td>Consulting (Pharma)</td>
<td>High Level Management (incl. Corporate VC)</td>
</tr>
</tbody>
</table>
Results and the Trust Scale

Based on the study, three types of BAs can be identified according to how much time they dedicate to their BA-activities. These three types are the “Full-Time Business Angel”, the “Part-Time Business Angel” and the “Institutional Business Angel”. The study clearly outlines that the type of BA correlates with his age. Therefore, full-time BAs are likely to be older with no day job other than investing. Instead, they are already retired or semi-retired. Those types of BAs can choose to dedicate all of their resources and time to their investments. The following citation can be considered representative for a full-time BA.

“I am not selecting anymore, since last year I am strictly not investing into new projects. So, in 2017, I haven’t had a new investment and for the moment, it will be like that, because I am still a “One Man Show”: I have no structure and do everything on my own and at a certain point, the limit is reached, and I have crossed the limit already twice.”

(BOJANGELS, pp.77).

The “Part-Time Business Angels” is the second type of BAs. In comparison with the full-time BA, this BAs still manages his own business or company. Therefore, time and resources for the BA-activities are limited. The following citation presents a typical statement of a part-time BA.

“I think at the times when I was most involved, I had four investments at the same time … whereas I was really involved in two and for the other two investments my partners were more involved. Actually, it is a financial question, if I had more financial resources or if I had had them years ago, I wouldn’t have done anything else, because I always thought investing was exciting.”

(BOGOMIL, pp.176).

The third form of BAs are “Institutional Business Angels”. In general, these kinds of BAs are similar to a full-time BA, but they want to exploit a niche-market by founding a company and further, raising capital from BAs that are more passive.

“We have 80 and in the current fund another 20. So, 80 are the first two funds, 20 in the first, 60 in the second. In summer it’s going to be 80 in the second plus the 9 funds we raise, maybe someday we have 500.”

(BASTIAN, pp. 434).
Table 2 provides an overview of the three types of BAs that were identified.

<table>
<thead>
<tr>
<th>CODENAME</th>
<th>CURRENT “EMPLOYMENT” STATUS</th>
<th>OTHER ACTIVITIES</th>
<th>CURRENT INDUSTRY AFFILIATION</th>
<th>TYPE OF BA</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARNEY</td>
<td>(semi)-retired</td>
<td>board &amp; other independent positions</td>
<td>diverse, outside of experience</td>
<td>full-time BA</td>
</tr>
<tr>
<td>BASTIAN</td>
<td>works for an investment fund</td>
<td></td>
<td>media relevant business models and e-commerce, FinTech, IT (deep tech and core technologies)</td>
<td>institutional BA</td>
</tr>
<tr>
<td>BENJAMIN</td>
<td>manages family business</td>
<td></td>
<td>diverse, outside of expertise</td>
<td>part-time BA</td>
</tr>
<tr>
<td>BOGOMIL</td>
<td>involved in a finance project</td>
<td></td>
<td>crypto currency</td>
<td>part-time BA</td>
</tr>
<tr>
<td>BOJANGELS</td>
<td>(semi)-retired</td>
<td></td>
<td>diverse, outside of expertise</td>
<td>full-time BA</td>
</tr>
<tr>
<td>BONIFACIO</td>
<td>(semi)-retired</td>
<td>board &amp; other independent positions</td>
<td>not only media, as this industry is quite challenging due to the comparisons to the US; FinTech and SureTec</td>
<td>institutional BA</td>
</tr>
<tr>
<td>BORIS</td>
<td>works as a consultant</td>
<td></td>
<td>pharma, nutrition, pharma products that can be patented</td>
<td>institutional BA</td>
</tr>
</tbody>
</table>

8.1.2. Differences & Similarities in Doing Business

8.1.2.1. Motivation to Invest

Within this section, motivational factors that incline BAs to do investments, their investment approach regarding e.g. risk preferences and the different ways of doing business are presented. The study distinguishes four types of motivational investment factors, namely, financial, hedonistic, altruistic and entrepreneurial. This categorization of BAs investment motivation is based on Sullivan & Miller (1996).

The financial motivation focuses on classical economic key figures like return on investment. The statements about motivation based on financial aspects mainly incorporate goals such as a decent financial return of investments or working toward a potential and successful exit.
Results and the Trust Scale

Hedonistic motivation for an investment can be seen as the total opposite of financial motives. BAs invest based on personal well-being and pleasure. Typical statements in the interviews conducted are about BAs doing investment for “the fun of it”. Sometimes BAs even see it as a hobby or even a mental challenge.

Hedonistic motivation is all about the personal well-being and the pleasure of the BA, while altruistic motivation concerns the personal pleasure and well-being of others. Statements of BAs with altruistic motivation are about not generating a direct benefit for the BA himself but more about the desire to help entrepreneurs and to give back in the form of money or experience.

An additional motivational dimension identified on the basis of the interviews is the entrepreneurial drive. Armstrong and Hird (2009, pp. 442) define entrepreneurial drive as “an individual drive toward entrepreneurial behavior that comprises multiple personality factors”. The following statements of the BAs motivational backgrounds represent the above-outlined concepts.

Based on the study and the BAs interviewed, it can be clearly outlined that most of the BAs invest based on financial motivation and hedonistic motivation. For most BAs interviewed, both indicators count for the investment motivation of these BAs.

Financial Motivation:

INT: “If you take a company, as you mentioned, where the exit brings 35 times more than invested, would you as a BA be satisfied, if you say: on the financial level everything worked perfectly, but on a personal level, it was not what I expected. Do you have a good or bad feeling looking back on this investment?”

BA: “I think this aspect compensates a lot, right? I think all people involved would have forgotten and displaced any negative aspects and would say, today is a day to celebrate.”

(BENJAMIN, pp.728)

Hedonistic Motivation:

“Yes. So, we have invested in shares and partly experienced huge losses and partly generated huge profits, but we always had a lot of fun. Even back then, I already had the attitude, that money is not unimportant, but if I always went about things in the way that generated the highest return on profit, I would have to do something different.”

(BOGOMIL, pp.824).
Results and the Trust Scale

Altruistic Motivation:

“...I really enjoy working with young people and helping them build something new, which did not exist in that way before. I am in, that’s cool for me and I can see, how those young people develop to personalities.”

(BOJANGELS, pp.359).

“...I have fun with it, I will, I really do it, because it makes me happy and from this joy, I take my energy. When I go somewhere, I do not feel comfortable, then I do not have this energy and I ask myself, do I really need this. No. It’s that simple.”

(BOJANGELS, pp.375).

Entrepreneurial Drive/Motivation:

“But is important …. it is important …. important is the company, not the founder. The founder is important as well, sure, but he has to put his appearance into serving the company.”

(BORIS, pp.463).

“And... and something like that is really not for serving self-realization. So, regarding this I am more purposeful and meaning-oriented towards: What’s the plan for the company? And sure, also not to present the own personality in meetings ... or, I don’t know, to impress others, but rather to contribute.”

(BENJAMIN, pp.1001).

8.1.2.2. Investment Activity

As mentioned above, the interviewed BAs show a wide variety of different industries that they invest in. The BAs invested in sectors ranging from media, pharma, e-commerce to Fin- and SurTec as Table 5 outlines below.
Results and the Trust Scale

Table 4 - Austrian BAs and Industry Focus (own presentation)

<table>
<thead>
<tr>
<th>Business Angel</th>
<th>Industry Experience</th>
<th>Industry Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARNEY</td>
<td>Consulting</td>
<td>outside of his industry expertise</td>
</tr>
<tr>
<td>BASTIAN</td>
<td>Internet</td>
<td>three focus areas: media &amp; e-commerce, fintec and IT</td>
</tr>
<tr>
<td>BENJAMIN</td>
<td>Real Estate and Facility Management</td>
<td>industry focus of his investments varies; doesn’t mind investments outside of his experience/area, as long as he understands the business model</td>
</tr>
<tr>
<td>BOGOMIL</td>
<td>Media (Business Media), Real Estate, Internet</td>
<td>currently: investments into cryptocurrency</td>
</tr>
<tr>
<td>BOJ ANGELS</td>
<td>Pharma</td>
<td>different industries as long as the idea is good and the team competent</td>
</tr>
<tr>
<td>BONIFACIO</td>
<td>Media</td>
<td>outside of experience, FinTec, SurTec; not only media as this industry is quite challenging due to the comparisons to the US</td>
</tr>
<tr>
<td>BORIS</td>
<td>Pharma &amp; Healthcare</td>
<td>only expertise; pharma and nutrition; won’t invest in things that he does not understand</td>
</tr>
</tbody>
</table>

Most interviewed BAs argue, that they are happy to conduct their investments outside of their core industry. Nevertheless, the BAs claimed they would only do so as long as they understand the business model, the idea is good, the team competent and the risk manageable or controllable. Interestingly, most BAs have started to invest outside of their area of experience and start investing in the Tec and IT area. Only one BA does not invest outside of his core industry and remains within his areas of expertise.

“The most important criteria … if I have … an understandable business model, if it is understandable for me, but … also even if it comes from another area, a group of people that stands behind it and a contract …. a sustainable concept and in the end also a greater say, at least in the phase where I am active, and I am involved in the approval of the important decisions.”

(BENJAMIN, pp.201).
Results and the Trust Scale

“It is the case, that the things don’t … where you are not experienced in – you should stay away from. Because that … that … even if it sounds super easy, it is always complicated. If it is something simple, then the implementation is difficult. If something already sounds complicated then perhaps the entry barriers are high, but you have to understand that on your own. If I don’t understand something, then I rather stay away.”

(BORIS, pp.172).

When it comes to geographic considerations, the BAs clearly have a fairly narrow focus. They mainly choose investments in GSA (Germany, Austria, Switzerland). The portfolios of the BAs were barely international and generally quite saturated. Consequently, they have limited capacity to enter new investments. With Austria being a fairly small country, geographic considerations within the country seem to be less important.

When it comes to stage preference, it can be said that the BAs are generally quite flexible when it comes to the stage the firm operates in, as it often is the founding team that represents the most important decision-making criteria. Nevertheless, the general stage preference of most BAs can be summarized as early, but not too early. The BAs are clearly not interested in “ideas” only, but rather prefer to invest in a venture with a proof-of-concept and a certain track record.

As for deal flow generation, it is apparent that most BAs receive their investments opportunities through their network. One BA also stated that he receives the business plan of every Austrian start-up. Quite understandably, part-time BAs tend to have a lower deal flow than other types of BAs, like the full-time BA. The institutional BA usually has the highest deal flow. The study conducted in 2012 focused on the value of networks in deal sourcing and provides further insights (Treytl, 2012).

Analyzing the portfolio considerations, the BAs clearly demonstrate different viewpoints. One BA argued, that he currently has no capacities for new investments. Another BA outlined, that he prefers fewer investments in order to be able to properly monitor and control the actual investments. One BA argued that he cannot understand BAs that invest large amounts of money into only one company, where they do not understand the business, market or area of the investment. One BA also mentioned that he is very selective and focused on investments. In general, the BAs appear cautious to not take on too many investments due to time and financial constrictions.
Results and the Trust Scale

Around 50% of the interviewed BAs demonstrate low post investment involvement while the other half is quite heavily involved. Three quarters of the BAs have a strategic role, while a quarter is more actively involved and takes on operative roles. On average, the role of the BA in the post investment phase is a more supervising than an operational one. The importance of supervision and control will later be described in greater detail. The average BA is the chairman of the board or a member of the advisory board. Moreover, the BA will provide support and the network he has access to and will provide council as a coach or mentor. Most important, the BA will adjust his behavior based on the needs of the founder’s team and usually takes an operational role, only if necessary.

8.1.3. Allocation of Trust-Types

As trust is one of the focal points of this thesis, a sound description of the interviewed BAs’ viewpoints forms a vital basis for the following chapters. This section will, however, only provide a basic overview. While a substantial part of the interview was dedicated to trust-related issues, many interviewees struggled to answer sensitive questions surrounding trust, mistrust and related conflicts and failures.

Generally speaking, the interviewed BAs agreed that accepting a certain degree of risk and trusting the management team to an extent is in the nature of investing into start-ups. BAs are well aware of the risks and – given the lack of hard facts and track records – rely on their impression and gut feeling. They all try to increase trust in the post-investment phase, but start out with a different mindset initially. BAs tend to either provide basic trust or need trust to be established over time. Upon investing, roughly 70% of the interviewed BAs provide the management team with basic trust. This is frequently justified by referring to the management team’s prior experience, reputable references or a successful track record. BAs who provide basic trust also claim to heavily rely on their experience, judge of character and gut feeling. They usually quickly decide whether they trust their counterpart, often on a first-impression basis.

These findings are confirmed by literature. Landström (2007) states, that BAs rely on their gut feel and have to put forth basic trust when it comes to establishing a relationship with the founders. In part, our findings support Van Osnabrugge’s (2000) claim that BAs invest rather based on their gut feeling than doing a detailed research. A number of BAs highlighted the importance of a proper due diligence, demanding less uncertainty on the basis of (thorough) research. Landström (2007) further argued, that building a trust-based relationship between the BA and the entrepreneur is of high importance to the investors in order to gain successful capital investments.
Results and the Trust Scale

Interestingly, the basic trust BAs (BTBAs) differ in terms of how they conduct their initial screening and due diligence, prior to investing. In terms of the business plan, the interviewees agreed that they value form over content. As one BA put it, taking the data presented in a business plan and “doubling cost estimates and cutting revenues in half” (Barney, pp.247) usually matches reality more closely than the presented figures. They also expect delays with achieving milestones and higher capital needs. Consequently, the BAs look for a properly executed and comprehensive business plan, based on a plausible and attractive business idea. Rather than relying on figures and estimates, they focus on intuition and make quick decisions.

The remaining 30% provide less initial trust and aim to establish it over time. In this study, the are called established trust BAs (ETBAs). They need to be able to trust that the business model itself has potential but will build up confidence in the management team gradually. Methods for establishing and maintaining trust will be discussed in a section below.

The analysis of the gathered data shows that balancing trust and control was a key aspect of the post-investment relationship. The interviewed BAs used a broad selection of control mechanisms and had very different views on when and how to use control. While some BAs barely checked on their venture’s performance and progress, others installed rigorous and frequent checkpoints. The approach to control also differed depending on how often and in which way the BAs were in touch with the management team and how involved they were in general. Popular tools to implement control were installing a board, establishing a reporting system, regularly checking budgets and milestones and constant target-actual comparisons. While some BAs regarded control as necessary to maintain trust, others argued that too much control can decrease the level of trust.

Manigart, Korsgaard, Folger, Sapienza and Baeyens (2001) did their research in addition to and based on the work of Harrison et al. (1997). Their findings outline that trust between the BA and entrepreneur is essential in order to overcome problems of control, especially in environments characterized of high agency risk. They argue that trust and control seem to play a complementary role, especially for the investors that face potential agency problems. The extent to which this notion is true for the current research will be discussed in section 8.2.4.2.
Results and the Trust Scale

While most BAs focus on the fact that they need to be able to trust their counterpart, one BA acknowledges that it takes mutual effort from both the BA and the management team to form a trust-based relationship. This aligns with Macht’s study (2011a), who labels the founders “gatekeepers”, who chose which input to implement and which to discard. Focusing on gaining the founder’s trust consequently seems advisable.

“They don’t need to gain my trust, I have to win theirs. After all, I am expressing my trust by investing in their business. It’s the other way around – the key thing is that they trust me. And sometimes, that takes a while.”

(BASTIAN, pp.221).

8.2. The Trust Scale

8.2.1. General Introduction to the Scale

After providing a general description of the interviewed BAs, this section presents the results gathered on trust and relationship management. The data portrayed in this part is sensitive and very subjective. Apart from simply stating results and insight gained from this study, this section also intends to present the data in a way that provides a framework for future reference. Therefore, an intuitive model was developed. This model aims at providing a comprehensive look at the results and to function as a guideline for BAs and entrepreneurs alike. It is, however, limited to the focus of this study and additional aspects and viewpoints should be explored.

With trust at the center of this study, determining a BA’s expectations and viewpoints was key in order to understand post-relationship management. Initially, establishing how the presence or absence and the level of trust affected the investment decision was required. This refers back to the previously mentioned concepts of basic and established trust. It is also linked to a BA’s risk profile, personality and experience. When it comes to deciding on whether or not to invest in a business, trust is one of many aspects that determine the outcome of this decision. While each BA has a different trust comfort zone, no investment will be made in an absence of trust. In order to understand the required trust comfort zone of a BA, a threshold had to be established. In other words, how much trust does a BA need in order to feel comfortable to invest?
Results and the Trust Scale

For the purpose of this model, a trust scale from 0 to 10 was assumed. With 0 representing the lowest and 10 being the highest score, a trust continuum is used to visualize the score.

![Trust Scale Diagram]

8.2.2. The Trust Threshold

Insights from the interviews showed, that – upon making a new investment – the majority of BAs take a leap of faith and put basic trust into the management team. The interviewees provided a number of different expectations that they have regarding the founding team. These need to be fulfilled in order for them to invest. While some expectations were common and applied to every interviewee, each BA had an individual set of standards and requirements. Consequently, all of them wanted to achieve a comfort zone before investing, but these comfort zones had different characteristics. Applying this to the trust continuum, it means that every BA defines a trust score of 0, 5 or 10 or anything in-between, according to his set of standards. In other words, matching the expectations of one BA might not suffice to make another BA comfortable enough to invest as well. Putting this into numbers on the scale, one could assume that a BA will not chose to invest if a management team scores 0/10 on the trust continuum. The BA would invest if a team scored 10/10, but full trust is not given when investing in start-ups. This is due to the lack of a track record, large number of uncertainties, unfamiliarity with regard to the team and the need to establish a relationship.

Given that two different types of BAs have been identified, namely the basic trust BA (BTBA) and the established trust BA (ETBA), these types can be applied to the continuum. The BTBA provides basic trust to the management team when he invests. On the continuum, this would be represented by a score of 5/10. 5/10 represents the threshold that starts the BA’s comfort zone and generally, every investment will initially receive 5/10, if a BTBA feels comfortable to invest. The BTBA provides this trust in advance and tries to maintain and increase the score in the post-investment stage. Ideally, this BA will aim for a score between 5 and 10 over time.
Results and the Trust Scale

The citation below shows a quote from the study conducted in 2012 (Treyt!), where a BA explains that he actually gives everyone a 6 out of 10 initially. It was this statement that provided the basis for the trust scale applied in this thesis and that caused a number of discussions between the two research partners, who worked on this thesis. Given that a risk averse student and a student with a higher affinity towards risk worked on this paper, a discussion on whether basic trust should start at 5 or 6 occupied the researchers for a while. The argument was settled on 5/10, but this disagreement underlines the individual preferences that influence a sensitive topic such as trust. The research partners agreed on 5 instead of 6 as it is half of trust scale, meaning that the BA gives the entrepreneur an initial trust of 5 out of 10 based on the scale and the entrepreneur has to work for earning more of the BAs trust and climb up the scale to 10. The research partners agreed that giving a leap of faith of 5/10 is quite fair, as it marks exactly the middle. Essentially, this discussion circled around the question of whether 5/10 was enough or if a tip towards more trust (i.e. 6/10) was more reasonable.

“I’d say I’m someone who generally gives basic trust to everyone. I would say on a trust scale from 0 to 10, when I start talking to someone, I give everyone a 6. Everyone starts with a 6. And by talking and I’m not sure what… when I get to know them better, it can slowly climb up to 6, 7, 8 or 9. Or they can use it up. And then I’ll be at 3 and if I have the feeling it moves towards 3 or 4, I probably won’t continue. But everyone gets basic trust in advance from me.”

(BOJANGELS, 2012, pp.1263)

An ETBA would initially give a lower score to a new management team. They need to be comfortable enough to invest, but they will seek to establish trust over time. Consequently, their threshold is lower and would represent around 3/10 on the trust continuum. This does not mean that they are willing to take more risk or have lower expectations than BTBAs. It simply reflects the fact that they do not provide as much trust in advance.
Results and the Trust Scale

Over the course of the investment, ETBAs do, however, also seek to reach a trust level of at least 5. They are not as trusting when they invest and establish a trust-based relationship over time. In the post-investment phase, they also feel most comfortable on a score between 5 and 10.

A variety of triggers and incidents can cause the trust-score to drop below the 5/10-threshold. In this case, mistrust can harm the relationship and cause failure on a financial and personal level. If the BA’s trust is breached, the investor tends to pursue three different options. They will either try to repair the relationship, replace the team members that are causing friction or reject the investment altogether. The BAs stated, that exiting the investment under those circumstances will only be done as a last resort. If the trust score slips below 5, restoring it to the comfort zone is challenging and not always possible.

Establishing and maintaining a satisfactory trust score as well as ways to handle mistrust will be the focal point of the following chapters. The following sections will briefly discuss expectations towards a firm prior to the investment but will generally concentrate on the post-investment phase.

8.2.3. Reaching the Trust Threshold in the Initial Investment

While the previous section explained the trust continuum, this part will focus on how trust can be established prior to the investment. Expectations that a BA might hold towards a business tend to concern the pre-investment phase, whereas expectations towards the founding team rather affect the pre- and post-investment phase.
8.2.3.1. **Expectations Towards the Business**

Just as the ways that BAs invest are heterogeneous, so are their expectations towards the business that they are considering. BAs apply a number of different standards and frameworks to judge whether an investment might appeal to them. These range from highly detailed and meticulous requirements to rough guidelines and very general ideas. BAs will usually seek an investment that matches their portfolio in terms of the industry and stage that it operates in. In addition, the business idea and business plan will be scrutinized in the pre-investment process.

Initially, BAs will screen a deal for how well it matches the industry that they desire to invest in. Generally, most BAs have a fairly narrow selection of sectors that they feel comfortable investing in, which are usually related to their own industry. However, only one of the interviewed BAs stated that he will only invest in one industry (highly selective). This is simply due to the fact that BAs desire to utilize and leverage the expertise that they have acquired. The remaining BAs happily invest outside of their area of expertise, but usually focus on a small range of industries that they select from.

“Well with things that you are not familiar with… it is best to stay away from. Because even if it sounds outstandingly easy, it will always be difficult. If it is too easy, then the implementation will be difficult. And if it sounds too difficult, you might have entry barriers, but you’ll have to be able to understand it. So, if I don’t understand something, I leave it.”

(Boris, pp.168)

Generally, the BAs also applied a geographic focus, mainly choosing investments in the GSA-region. Overall, the BAs portfolios were barely international and quite saturated. Consequently, the interviewed BAs had limited capacity to take on new investments.

When it comes to a specific business idea, the BAs requirements largely overlapped. They all require a business idea to be plausible, understandable and feasible. Some BAs prefer a solid product over an app or a service while others want the product to have already demonstrated its marketability. Again, other BAs want the business idea to be based on a certain problem that the product attempts to solve. One of the BAs stated that founders with a good business idea should dare to ask for a high enough investment. He claims, that “founders become more credible if they ask for more money” (Barney, pp.545).
Results and the Trust Scale

As for the business plan (BP), the participants generally focus on form rather than content, as mentioned in a previous section. The BAs acknowledge that, since many of the figures in the business plan are guesswork, they do not rely on the assumptions and forecasts in the BP. The BAs state that the BP needs to be logical, consistent and properly done, but is usually too optimistic and does not happen as planned. One BA demands that founders' salaries are included in the BP while another wants it to be tailored to the skills and personalities of the founders. The BP may be flawed, but it is the basis for a due diligence process and a starting point for a trust evaluation. As Carpentier and Suret (2015) found, BAs who opt for a more superficial due diligence (often due to resource constraints) are usually more involved in later stages. In our study, only one very experienced BA is low on (formal) control and low on involvement, thus supporting this claim.

“Is it done properly? Is it just hastily scribbled down? Is it well researched? Not too long, not too short? In that sense, the business plan is important for me, but not the numbers that it contains.”

(Barney, pp.247)

As already mentioned, the findings in literature for Austrian BAs are quite limited. Only little empirical evidence for Austrian BAs exists. In general, scientific literature for BAs in German speaking countries (i.e. Switzerland, Germany and Austria) is practically non-existent (Bomholt, 2006).

8.2.3.2. Expectations Towards the Founders

As mentioned above, the expectations that a BA might hold towards a business tend to concern the pre-investment phase whereas expectations towards the founding team rather affect the pre- and post-investment phase. Therefore, the following aspects will represent main contributors that need to be fulfilled in order to reach and stay in the comfort zone of the trust scale in the post-investment phase.

As BAs consider a great variety of business ideas and are generally fairly flexible in terms of the stage and industry that a firm operates in and the BP that they are presented with, it is often the founding team that represents a bottleneck in the decision-making process. As Lindsay and Craig (2002) confirm, the decision is heavily affected by the founding team during the screening process. Mason & Bothelo (2016) agree, that intangible factors are crucial at this stage. It is the expectation towards the founders that allows the BAs to separate the wheat from the chaff. Consequently, this section discusses a crucial element which mainly includes soft factors, and which shapes the post-
Results and the Trust Scale

investment relationship. A BA's preferences regarding the founding team are heavily influenced by the role that he intends to play as well as his attitude towards control. These aspects will be discussed in section 8.2.4.

Firstly, the term “founders” and the “founding team” need definition. In this study, the term represents those people in a potential investment that run daily operations and have decision-making power. In other words, it means the people that the BA will mainly deal with in the post-investment stage. Therefore, these “founders” can – but do not have to – be the actual founders of the potential investment. The term “founders” is used here for simplification.

Initially, it is vital to note that around 70% of the BAs that participated in this study prefer a founding team over a single founder. Justifications for a preference of teams include the wish to avoid exceeding workloads and the desire to make sure that several different areas of expertise can be covered by the founding team. A suitable division of roles and a clearly communicated hierarchy within the founding team are hence necessary. One BA wants at least two founders – one for the business side and the other for technical expertise. Another BA considers any more than two founders to be disposable and will also invest in single founders. Noting that BAs will usually prefer investments with founding teams is important when considering the BAs’ expectations towards the founding team. A single person would hardly be able to fulfill all the requirements that a team might be able to cover. Consequently, in the following section, any expectations that the BAs stated are generally set to be met by a team, not a single person.

Upon analyzing the interviews, it became apparent that BAs tend to either stress skills or personality when it comes to assessing the founders. Mason and Botelho (2016) claim that in early stages of the decision making process, BAs value personality over skills. The present findings only partially confirm this claim. While both aspects arguably are important, the BAs have at least a slight tendency towards one or the other. 4 out of the 7 interviewed BAs valued the founders’ skills over their personality. They seek teams that cover any technical aspects which are often fairly product-centric. The BA can then contribute his business intelligence and help with related issues and his general management expertise. Skill-oriented BAs want the teams to have prior work experience, be dedicated and passionate about running the business and able to create synergies. While the founding team needs to cover an array of skills (related to product, technology or sales), some BAs prefer a clear leader in the founding team.
Results and the Trust Scale

The BAs that value personality over skills argue, that most failures are caused by management mistakes and a good personal fit helps to avoid related issues. One BA claims that success is based on TTT (team, technology and timing). According to him, the quality of the team is particularly important in early stages. The founders need to appropriately handle information, criticism, questioning and external suggestions. Nevertheless, he adds that the founding team also needs excellent specialized skills. The two BAs that stressed the importance of personality share a number of different traits. They both have a broad industry focus, invest in early stages and are usually highly involved in the post-investment phase. They do, however, maintain a business relationship, rather than a personal friendship, with the founding team.

Even though some BAs prefer to focus on the team’s skills, each participant was asked about their founding team’s ideal personality and character. The BAs agreed, that being coachable, honest and passionate about the project were key characteristics. The importance of accepting help and being ready to learn new things was highlighted several times, as was the idea to find and share common goals. The BAs also look for someone who is disciplined, fair, reasonable and rational. They want the founders to show perseverance and value leadership and problem-solving skills.

About half of the founders pointed out that they seek founders with strong personalities who are tough negotiators and protective of the firm. Some others look for experienced founders who are self-aware (of flaws and strengths) and able to cope with failures, rather than founders who are power seekers. One BA ideally looks for a team with mixed skills and traits (e.g. conservative and innovative/daring) and was very aware that the founders’ behavior and reputation reflects upon him. Therefore, fairness and an appropriate behavior are vital to him. One of the few BAs who prefer personality over skills wants the founders to have something to fight for (e.g. family, reputation) and usually tries to preserve the corporate culture he finds in a firm. This BA also pointed out, that frugal founders usually do not succeed and believes that they should demand high enough investments.

“BA: Well, I have tried to invest small amounts a few times, I’ve tried it twice. And both times it did not work out. INT: So you learned from that? BA: Saving does not lead to success. This is really important for young start-ups. You won’t succeed if you’re frugal, quite the contrary…”

(Barney, pp.588)
Results and the Trust Scale

On the other hand, one of the four BAs who emphasize the founders’ skills remarked that he focuses on product over people in the beginning.

A vital aspect of the relationship between the BA and the founding team is communication. Most of the participants largely agree on how to communicate. They want the communication to be open, direct, clear and transparent. Problems and major changes have to be communicated honestly and immediately. Both parties should also be able to communicate criticism freely and objectively. The BAs did not agree on whether they prefer informal (i.e. the German “du”) to increase the likelihood of open problem-sharing or formal (i.e. the German “Sie”) communication to preserve a certain distance.

The (in)formality of the communication style is linked to the sort of relationship that the BA and the founders share in the post-investment phase. Most BAs seek a business relationship rather than a friendship. They want to separate feelings from finance and prefer to maintain a certain emotional distance. They argue, that this helps to uphold a level of professionality and believe that friends are at risk of overlooking important issues. On the contrary, those who prefer to operate on a more personal level claim that an informal approach helps to motivate the team and facilitates problem-sharing in a more relaxed atmosphere.

8.2.3.3. Additional Expectations
Apart from the above-mentioned expectations, the BAs also listed a number of additional expectations that they have. Five BAs had a set of knock-out criteria that they were fairly set upon. Two BAs considered a single founder as a knock-out criteria, wanting a team of founders. While one Ba argues that a frugal approach (asking for too little money) was problematic, too high of a valuation is a knock-out for another. Other knock-outs were founders who are resistant to advice, start-ups with no track record and a lack of marketability or simply a refusal to invest in hypes. One BA highlighted that he avoids investments that require too much commitment.
8.2.4. The Post-investment Relationship – Achieving and Maintaining a Comfortable Trust Score

This section will have a look at what BAs expect in the post-investment phase of their investments. More specifically, it addresses the role a BA wants to have towards or within the founders’ team and what the BA wants to contribute to the investment. Options range from being on the board or even having an operational role in the company. The second part of this chapter will be about control in general, how BAs control their investments and how important control is to BAs. In general, this section reflects upon how the post-investment relationship can be shaped in order to maintain and balance trust within the comfort zone.

8.2.4.1. Role and Contribution

Within this section, the role and contribution of BAs in the post-investment relationship will be investigated. Concerning the BA’s contribution, the aspects of financial vs non-financial support as well as addable value will be taken into consideration. Therefore, the following aspects will again be considered as the main contributors in order to reach and stay in the comfort zone based on the trust scale. Other than venture capitalist, BAs frequently act as entrepreneurs rather than investors. As we learned, they usually become involved in the venture and take on additional roles (Harrison and Mason, 2007).

The role of BAs in the post-investment phase is clearly a more supervising than operational one. The average BA is a member of the advisory board or the chairman of the board. BAs commonly do not take on an operational role in the company and remain fairly hands-off. This does, however, not mean, that the BA is not involved in the investment. The average BA will become a sort of mentor or coach and will provide support as well as the network he has access to. The BA adjusts his behavior to the needs of the founders’ and will take on operational roles, if need be.
Results and the Trust Scale

“Yes, I am not involved on an operative level, only in the background. When I am in the background, I can’t be more important, because then it would be my business. Everybody does what I say, because I want it like that. No. The entrepreneur needs to tell and explain how the business should work.”

(Bogomil, pp.683).

“Engaging in the daily operative business only if necessary. So, it shouldn’t be the main task. Concept development is good, reflection is good, variance analyses – together – is good. Location determination but being involved in the daily business only in emergencies.” (Benjamin, pp.1090).

Only a minority of the interviewed BAs, want to be heavily involved in an investment and take the role of a team member or the managing director, where an involvement in administrative task, planning, HR and finance is given.

“Operative …that’s not true, operative indeed. In the new model, we take the role of the managing director. That means …we take intense care of these people. I mean, I don’t involve myself into R&D, but there’s a budget that needs to be observed …. Firstly, prepared, needs to be observed, there are a lot of tasks.”

(Boris, pp.244).

In terms of financial support, it can be argued that the BA is usually responsible for raising new investments and takes care of new rounds of financing.

“I have to say that my startups in the lead investment do not face these financial issues. That means, whether I am responsible for the financing rounds or if we cannot make it in time, I will provide a bridging loan, as long as we are on track of course.”

(BOJANGELS, pp.884).

In general, the BA provides non-financial support by being a coach or mentor to the team. Giving strategic advice, helping through times of crisis and challenges and criticizing the team to trigger improvement are common tasks. Moreover, the BA provides a network and contacts for e.g. attracting new investors.
Results and the Trust Scale

“On the operative level less, if so, then my son is involved a little bit on the operative level. Erm, operative less, but being a mentor, talking with them, providing my network, indeed.”

(BONIFACIO, pp.168).

When it comes to adding value to the business, the BA wants to contribute in different ways. Taking over tasks that the BA can carry out more efficiently than the team or providing input as well as pointing out possible options are considered value-adding aspects. Furthermore, the BA can give strategic support in order to foster the growth of the company and help with arising troubles and problems.

“They know, that they can always ask me when they have troubles or problems.”

(BOJANGELS, pp.643).

Politis (2008) outlined a set of roles and behaviors the BA can choose from during the post-investment stage. Based on the findings of our study it can be argued that BAs would commonly assume three of the roles described by Politis, namely the mentoring role, the resource acquisition role and the monitoring/supervision role. The board/strategic applies for half of the BAs.

Fili and Grünberg (2016) built upon these ideas and conducted an analysis for distinguishing five processes. The most representative process for the interviewed BAs is the boundary-spanning process. According to Leifer & Delbecq (1978) this process refers to a function where the BA meditates between the organization and environment. To sum it up, these main contributors to reach and stay in the comfort zone, based on the expectations of the founders and on the role & contribution of the BA, can be concluded.

<table>
<thead>
<tr>
<th>Main Contributors</th>
<th>Expectations Founder</th>
<th>Role &amp; Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founding Team</td>
<td>Mentor / Coach</td>
<td></td>
</tr>
<tr>
<td>Skills</td>
<td>Adding Value</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>Taking over Tasks</td>
<td></td>
</tr>
</tbody>
</table>

comfort zone 5-10
Results and the Trust Scale

It can be argued, that the founders should provide a suitable division of roles and a clearly communicated hierarchy. Moreover, it is of high importance that the founding team is coachable, honest and passionate about the project. Further, the BAs expect the founders to have the required skills and skills are predominantly ranked over personality. Lastly, the communication with the team is essential. It should be clear, direct, open and transparent. The BA normally takes the role as a mentor or coach. He is in charge of valued adding activities such as strategic advice or support, helping through tough times or criticizing the team to trigger improvement. Last but not least the BA takes over tasks which he can carry out more efficiently than the founders’ team. All these main contributors help to build and establish trust in order to remain within in the comfort zone.

8.2.4.2. Trust

As trust is a focal point of this thesis, the concept is woven into all parts of the results presented here. This section takes a blunt look at how trust shapes the post-investment relationship and how the BAs self-reflect on their stance towards trust.

The difference between a BTBA and an ETBA was already explained above. The majority of the interviewed BAs claim to be BTBAs. They claimed that initial trust is necessary, that optimism and a positive outlook are vital and that gut feeling and intuition help them steer clear from untrustworthy individuals.

“As a BA, you have to be an optimist. Period. And trusting is part of being an optimist. Trust in the future, trust in people, and the like.”

(BARNEY, pp.917)

However, when asked whether they provided basic trust, the answer was not “Yes.”, but rather “Yes, but not blindly.” This seems intuitive, but it is a crucial nuance. Basic trust was always tied to certain terms and conditions, which largely centered around control and uncertainty avoidance. The BAs demanded a thorough due diligence and conducted background checks on the founders. Some BAs chose to trust the founders’ skills, rather than their personality and motivation. While every BA stated that in a void of trust, investments are impossible, basic trust was never as straight forward as it seemed. One BA simply said that trust is key, control is better, and a good due diligence is never a bad idea. This notion quite accurately reflects the reality of the relationship uncertainty and how BAs attempt to manage it.
Results and the Trust Scale

After the investment, most BAs give trust some time to establish itself and more or less actively foster a trust-based relationship. While some BAs believe that reinvestment is one way of actively promoting and demonstrating trust, others contribute more keenly. One BA argues that assertiveness hinders trust, particularly in the beginning and chooses not to conduct the initial negotiations with the founders too aggressively. A more conservative BA is well aware that tight control can be misinterpreted and might damage trust, so he tries to establish an informal relationship and basis of communication. Another BA is very aware of the two-fold uncertainty and claims that it is the investors who have to win the founders’ trust, not the other way around. In general, the BAs demand transparency, open communication and control mechanisms to maintain trust levels.

The interplay between control and trust became quite apparent when the BAs were asked to choose one or the other. Benjamin, one of the more conservative BAs, explained that he starts with a high level of control and might decrease it, as trust grows. He considers control as a stabilizer and as a way of reducing his anxiety and puts it at the basis of every relationship. A more daring BA stated that trust is a consequence of resource constraints in his case, as he simply cannot find the time to control tightly and frequently. This BA also describes the trust vs. control dilemma in the following quote:

“I'm either lucky or my knowledge of human nature is good enough, that just because I team up with them, it works, because I happen to have selected the right ones again. Or you are rational enough to know that you can only do as much as you can oversee yourself. If you want to take an operative role in four firms at the same time, then you cannot trust nobody. Otherwise, you’d either be sent to a madhouse after half a year or suffer from burnout or something like that or you’ll categorically fight with everyone.”
(BOGOMIL, pp.794)

One of the senior BAs noticed, that control is more important than trust, even though it cannot solve everything. Another BA confirms the notion that his affinity towards control increased with experience. Interestingly, 5 of the 7 BAs chose trust over control when asked directly. During the interview, however, they frequently revealed a different reality. Nevertheless, control can only but diminish uncertainty, it fails to eradicate it.
Results and the Trust Scale

“Yes, we had a platform, it was a financing platform, it was unmanageable even with control. They had… they lent bad firms or bad entrepreneurs some money and insurance did not cover anything. This resulted in a failure, but eventually a [INCOMPREHENSIBLE] was able to cushion the blow. But you wouldn’t have been able to manage this with control either.”

(BONIFACIO, pp.297)

8.2.4.3. Control

In the following section, different aspects of control that BAs follow in their relationship with the founders will be outlined. These aspects include the type, method and frequency of control.

When it comes to the type of control it can be clearly argued that BAs follow a proper control approach for their investments. The demand for control from BAs is high and so a thorough initial screening forms the basis of any investment. Also, throughout the whole investment process and during the post-investment phase, frequent a rigorous controls and planning are required by the BA.

“Yes, it is quite special, but I think that a well-established and modern company needs a proper circle of control and reporting.”

(BENJAMIN, pp.590).

„More is more important than less – in the case of control. You don’t have to call it control, but it’s a kind of question and answer.”

(BORIS, pp.376).

As for the method of control, BAs follow different approaches, but they do have one thing in common: the BA normally requires a report in order to control the investment.

“I don’t have a scheme that fits everyone, instead every startup, I always want to know where they are heading and if there is a problem, that means there is a reporting, which is extremely rudimentary, that means, I am not a person that is building up on figures.”

(BOJANGELS, pp.500).
Results and the Trust Scale

“Either a monthly or quarterly reporting and then you have a look at it, but most of the time, the reality often is that projects are either shortly before going bankrupt and then you have to deal with it or the projects are so successful, that new investors show up, then you also have to deal with it.”

(BONIFACIO, pp.285).

One BA mentioned that besides reports, the balance sheet or facts and figures of sales activities are required. Interestingly, this BA’s involvement is fairly low. Apparently, tightly controlling the firm without high involvement helps him to maintain a satisfactory trust level.

“Ahm…yes, sure I am looking at everything I can control. Reports about activities, sales success, sales activities, sales success. Sure, I have a look at those things, if there is a balance sheet, I have a look at the balance sheet, yes, because it would be irresponsible not to do so.”

(BOGOMIL, pp.447).

An interesting fact is, that one BA argued that control cannot be seen as an irritating check-up, it is rather considered as a mutual exchange.

“You don’t have to call it control, but it also is called question and answer. He needs to …He or she has to want it, that they…how should I call it…have a counterpart. I don’t want to call it monitoring or control, but rather a … regular exchange.”

(BORIS, pp.377).

Therefore, it can be argued that in the case of method of control BAs follow different approaches in how to set their control but do all require a regular reporting system from the founders.

In terms of frequency of control, the results outline, that there is a strong correlation with the development and volume of the investment. Most BAs have initiated a monthly control, nevertheless, once the business is going well, the intervals of control extend up to quarterly or semi-annual check-ups.

“Yes, he needs to report every month. That is not only for us, primarily, he needs to do it for himself. Yes, it simply has to …he needs to have the condition of health of his company under control.”

(BASTIAN, pp.340).
“Yes, it depends on the value of the investment. In the case of a larger investment, more intense, at least quarterly, if not monthly. In the case of a smaller investment, you can only follow and maybe meet once or twice a year.”
(BONFICAIO, pp.158).

Regarding control, we also wanted to know how the BAs contrast trust vs. control and how they balance these aspects. Interestingly, BAs choose different approaches, but upon going deeper into the results it is clearly visible that BAs have a shared take on trust vs. control. Some BAs argue that control is better than trust and crucial to trust while others claim that the statement “trust is good, control is better” is a stupid statement or that they would not do any investment without trust. However, the results clearly illustrate that control is crucial to every investment and not dependent on the level of trust, at least not in the beginning of investments. One BA argued, that people in leading positions tend to control more than others. The importance of control may decrease slightly over time, when more trust is established and the first results affirm a positive outlook of the investment. Based on the findings, it can be argued that control plays a crucial role in every investment and is ranked before trust. In other words, no matter how high the level of trust, BAs still heavily rely on control. They depend heavily on control mechanisms and the possibility to execute oversight. The BAs claim to trust, but frequently meticulously control their investments, which appears to contradict their trusting appearance. Söderblom et al. (2016) argue, that control can be increased as soon as value-adding activities can be reduced, thanks to improved competencies of the founder. In our study, risk averse BAs tend to be high on both, involvement and control. Clearly, Söderblom’s concept depends on the stage of the relationship, which will adapt as is develops.

“Well, trust, as I already told you, you need to have a proper due diligence and if that is fine, one can trust.”
(BASTIAN, pp.568).

“What do you think in general of the statement: “Trust is good, control is better?”
(INT, 404)

“I agree for sure, in any case, because everyone should know, you are investing a lot of money in something that has a high risk.”
(BORIS, pp.407).
Results and the Trust Scale

“That’s exactly what I have said, if somebody has experience in a leadership position for thirty years in a bank or insurance company and he is going to be a BA, he probably will act differently compared to somebody like me, because he always has thought in reports, quarterly reports.” (BOGOMIL, pp.854).

Table 5 provides an overview of the BAs and their risk preference and degree of involvement. It also categorizes them into BTBAs and ETBAs and displays their attitude towards control. As stated before and emphasized by Table 5, control plays an important role for the BAs in their relationship management with the entrepreneurs and seems to be of higher importance than the trust aspect.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Industry</th>
<th>Involvement</th>
<th>Risk</th>
<th>Trust</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barney</td>
<td>64</td>
<td>Consulting</td>
<td>high</td>
<td>risk neutral</td>
<td>ETBA</td>
<td>low</td>
</tr>
<tr>
<td>Bastian</td>
<td>40</td>
<td>Internet</td>
<td>low</td>
<td>risk affine</td>
<td>ETBA</td>
<td>high</td>
</tr>
<tr>
<td>Benjamin</td>
<td>55</td>
<td>Real Estate</td>
<td>high</td>
<td>risk averse</td>
<td>BTBA</td>
<td>high</td>
</tr>
<tr>
<td>Bogomil</td>
<td>43</td>
<td>Media</td>
<td>low</td>
<td>risk neutral</td>
<td>BTBA</td>
<td>high</td>
</tr>
<tr>
<td>Bojangles</td>
<td>60</td>
<td>Pharma</td>
<td>high</td>
<td>risk affine</td>
<td>BTBA</td>
<td>high</td>
</tr>
<tr>
<td>Bonifacio</td>
<td>63</td>
<td>Media</td>
<td>low</td>
<td>risk affine</td>
<td>BTBA</td>
<td>high</td>
</tr>
<tr>
<td>Boris</td>
<td>46</td>
<td>Pharma</td>
<td>high</td>
<td>risk averse</td>
<td>BTBA</td>
<td>high</td>
</tr>
</tbody>
</table>

(Table 5 - Business Angels on Trust and Control (own presentation))

It is interesting to see that nearly all BAs that are categorized as BTBAs rank high when it comes to control. BTBAs would be those who would provide basic trust while ETBAs require trust to be established over time. Since there seems to be a high correlation between BTBAs and being high on control, it can be suggested that basic trust is not given based on nothing, but rather is provided based on the fact that the entrepreneurs and their activities are controlled thoroughly. This notion was already briefly presented in section 8.2.4.2. The statements below from BTBAs with fairly elevated control measures is representative for what the findings of this study outline, that basic trust can be associated with high control.

“Well, I have explained that, all. Without trust no investment. Indeed, without personal trust, without sympathy and trust, but the trust you have, if you get to know somebody, you have a certain amount of basic trust based on a first conversation and you have to build up on that.” (BOJANGELS, pp. 258).
Results and the Trust Scale

„What do you think about the statement, trust is good, control is better?“

(INT, pp.586)

„Well, for sure I do have the minimum of control, but you have to trust, that the information you receive is true and complete. It will always be true, they won’t write anything that’s not true, but sometimes it is incomplete. It is really important to me, that the information is complete. That means I have to establish a certain control.“

(BOJANGELS, pp.586)

“Well this has never happened to me [trust violation, see cartoon]. But that’s probably due to my way of doing business, I treat things with caution and have tremendously many reservations, everyone has their double-safety net or their possible exits… But I can imagine, that his happens [smiles]. INT: How would you… BA: I’m afraid… I’m afraid this does happen in lots of firms.. Where people are trigger happy and eager for war, in a verbal or tactical sense… [smiles].”

(BENJAMIN, pp.802)

8.2.4.4. Managing Mistrust

Within this last section of the model, a BAs response to mistrust will be examined. On the trust scale, this would represent a drop below 5/10 and consequently out of the comfort zone. A brief introduction will establish a common understanding of a BA’s definition of mistrust, the events that may cause it and the possible responses. Then, the findings will outline how trust is reduced and the consequences this may entail. BAs also outlined personal experiences of mistrust and trust reduction. In the end, there will be a comparison of risk vs. trust.
Results and the Trust Scale

**Mistrust**

When it comes to the definition of mistrust, BAs have a variety of viewpoints. One BA sees trust violation as special rights for certain shareholders that can be problematic.

“Special rights for me are the gun behind there. I have always successfully kept it that all partners and shareholders have the same rights. Special rights of single shareholders, that could it be.”

*(BARNEY, pp.671).*

Another one states, that the lack of transparency and reporting or partners who focus on their own benefit and hide devious measures can lead to mistrust. Other BAs mentioned, that poor contracts or contract clauses that put a favor on one of the parties can reduce the levels of trust. Founders who quit halfway through, talk to other investors or diverge from established plans also cause mistrust.

“Where you discover later … it wasn’t as … as processed as open and to the benefit of all, instead there was a little self-interest and hide-and-seek and [SMILES]… There happened things that one wouldn’t expect initially.”

*(BENJAMIN, pp.362).*

The issue that Benjamin addresses here can be linked to a 2013 study from Collewaert and Fassin. They found, that conflicts that were caused by unethical behavior were the cause of more sever trust breaches. Working against shared goals, as mentioned in the quote, would therefore likely have a severe impact on the post-investment relationship and on the way forward.

“Well he could talk to others, he could have other investors as well or he could plan something completely different other than he told me. It could be, he could use my money but actually conclude the contract with somebody else. That’s probably the greatest danger. Or he states that he is quitting. Then I am standing there with a semi-finished product. That’s actually the biggest danger, anything else … is part of it.”

*(BORIS, pp.684).*

Two BAs argued that they will not accept all breaches of trust and that there is a certain point of no return when it comes to trust violation. Also, trust can be used up if it is breached too often. Other BAs outline that in case of hidden information and finding out about an issue later, trust is
Results and the Trust Scale

reduced. Others state that the abuse of trust on purpose and working for the own benefit can lead to a trust reduction.

“…. Mhm, well, all setbacks, such absolute statements are always dangerous, yes. Well, all setbacks, I don’t think so, that anybody is able to overcome them all, yes. At some point trust is used up. The future prospects ähm to such an extent äh darkened, that ähm … Simply at a certain point someone simple stops to work together with those companies, but … “

(BASTIAN, pp.599).

Sure, there are again, again entrepreneurs or it happens again and again, both in Germany and Austria, that there are those guys, but it also gets around fast in the industry, well, so, one that worked in an unserious way once, with those you don’t work.”

(BONIFACIO, pp.439).

Once the BAs trust is reduced, consequences will follow. Here it can be clearly argued that BAs pursue different approaches of consequences and that there are no standard sanctions, it rather depends on e.g. the current stage the investment is in. One BA argued, that there would be a careful consideration of further investments with a company that caused mistrust. This BA also stated that it does not make sense to work against the founder, it makes more sense to write the investment off.

“Well, trust is the most essential thing. Whenever I notice, that this disappears or so, then ahm … I don’t know, working endless against the will of the founder would never work. If he doesn’t want to work with us on a trusting basis then it wouldn’t happen. Even though we have invested but then … then we would write if off. I …that’s the nature of our business.“

(BASTIAN, pp.210).

Another BA outlined, that he would select investments more critically after trust was violated. If an issue occurs in the middle of the investment, the BA would seek a consensual solution for both parties. If the breach of trust happens at the end of an investment, the BA argues there is nothing one can do.
Results and the Trust Scale

“Ahm yes … So, a case appeared in the end. You can't do anything in that sense. You can only say: Ok, that is forgotten. If it appears in the middle and it is not bridgeable, then we try to somehow find amicable solution on the next occasion.”

(BENJAMIN, pp.448).

One of the BAs interviewed provided a quote that he follows in the case of mistrust, “love it, change it or leave it”. Deal with disappointments as fast as possible and try to clarify what happened, if a clarification is impossible an exit is arranged.

“Love it. Change it or Leave it. Either it works, … or you can change it … or then you have to liquidate it.”

(BOGOMIL, pp.406).

One of the BAs argued that he loses interest in the investment and it is difficult to continue. He prefers to withdraw from the investments and provide no further financial support.

“Okay, it is bad if I lose trust. I normally immediately lose interest as well.”

(BOJANGELS, pp. 286).

Two other BAs state that the founders or the person who caused the damage of mistrust should be replaced.

“Well, either … either you say: we need to change it immediately. But most of the time it is already too late. Then … probably … then we … someone new came. That happens.”

(BORIS, pp.432).

When it comes to mistrust and personal experiences with investments, the BAs outlined the following. Two BAs stated that they never experienced mistrust in an investment or at least not in a lead investment. Nevertheless, they have experienced lies, but wouldn't consider them as big enough in order to call it mistrust.

“Okay, it is bad if I lose trust. I normally immediately lose interest as well. If a founder, the especially the main founder, which I, in the lead investment it never happened to me, I have to say.”

(BOJANGELS, pp.286).
Results and the Trust Scale

Other BAs argued that they experienced mistrust in an investment once. The reasons why vary. Two BAs stated that it happened due to insufficient control, while the parties worked for their own benefit. Another BA argued that their expectations did not align with those of the founders, therefore the investors were replaced, and everyone was happy with this decision.

“The money was gone, and I will never do a project with them or no project where he would be involved, I wouldn’t do that again.”

(BONIFACIO, pp.253).

“Well, well. Because it is about … Let’s say we agreed on things, things were done but things weren’t because of certain reasons … not done right or maybe the market wasn’t good. And it was communicated way too late, we should have stopped it way earlier, taken other people, the founder was overstrained, would have needed a second person, who looked after the additional things. I was involved way too less.”

(BORIS, pp.419).

The BAs in this study claim to barely have experienced trust violations/mistrust before. They admitted to either 0 or 1 cases of mistrust. The chances of this observation being accurate might be questionable.

In the case of risk vs. trust, one BA argued that being very cautious is important. Another BA stated that the risk perception does not change after a case of mistrust happens and other investments are not affected at all. Clearly, this BA outlined that he takes no unjustified risks and the risk itself should be controllable, manageable and influenceable. One BA also argued that setbacks and risks are part of the business that one has to deal with.

“So, personally it didn’t happen to me. But that’s probably my style of doing business, that there is a lot in reservation, everybody has its double safety net or methods to get out or … but I can imagine, that it happens.”

(BENJAMIN, pp.802).
Results and the Trust Scale

Well, setbacks belong somehow to the business. It is … if you reach a ratio lets say where 10 projects, that two perform well, three maybe save money again, ahm, save and five are a flop, than this is a good relation.”
(BONIFACIO, pp.261).

8.3. Comparison between 2012 and 2018

As described in the methodology section of this thesis, the current study is based on research conducted in 2012. The guidelines used in both studies are similar (in style and structure) and two items were intentionally taken directly from the 2012-study for reasons of comparability. With the aim of seeing how a BA’s replies would change over the span of 5 years, the elements called “word rap” and “cartoon” were only slightly adjusted. The two elements were presented to the BAs after the open discussion. The figure below shows the cartoon as well as the questions that were posed in 2012 and 2017.

Figure 8 - Cartoon

The BAs were given a piece of paper that included the cartoon (picture) and the following five questions.

Question 1: What’s the story behind this image?
Question 2: With regard to the relationship between BAs and founders, could this cartoon be considered realistic?
Question 3: Have you ever experienced something similar to this? How did it come about? What were the consequences?
Question 4:  How would you describe the relationship between you and the founders that you support?

While the picture was identical to the one used in 2012, the questions were somewhat adjusted. After analyzing the cartoon, the BAs completed a set of statements and provided justifications for their answers. This element was called “word rap”.

Statement 1:  *In my opinion, it is vital to trust the founders straight away, even if I have to take unjustified risks, because…*

Statement 2:  *I am convinced, that I am able to address and overcome any setbacks in the relationship with the founders, because…*

Statement 3:  *I seek to generate financial returns as fast as possible, because…*

Statement 4:  *I avoid risky business decisions, even if they have the potential to generate significant revenues, because…*

Statement 5:  *I adjust my behavior to the needs of the founders, because…*

The interviewees were made aware that the statements were purposely pointed and frequently denied them. According to a study by Farrell (2006) the BAs should not be expected to learn from previous mistakes. Fili & Grünberg (2016) also observed, that the post-investment behavior of a BA is consistent, which would suggest that they should not have changed over time. Analyzing the changes between the responses in 2012 and 2018 showed, that some of the BAs did, however, change their views over time. In general, the comparison revealed, that the BAs were more willing to take risks, expected more setbacks and were happier to adjust to the needs of the founders in 2018. They were also more realistic regarding the time it takes to generate profits, demanded more control and generally displayed a higher degree of involvement in the current study. The intensified involvement might be linked to a desire to have more influence and to be able to identify problems sooner. As one BA puts it in 2018:

“*Well, it’s like this, people have to understand: We take the majority. Then they say: Well why can’t I have the majority? That’s how we do things, but isn’t it better to own 10% of 10 million than 50% of 100.000? But of course, that is always difficult for people, but it is a conversation that you have to have.*”

*(BORIS 2018, pp.636)*
Results and the Trust Scale

“I mean, I don't get involved in R&D, but there is a budget and it has to be met… First it has to be set up, then it needs to be realized, and that entails a lot of tasks. And… people have to accept and want that, but once they understood this, they are usually quite happy.”

(BORIS 2018, pp.244)

In 2012, the same BA had a different perspective on involvement and control:

“[…] Well it’s nothing that takes up all your time. It’ll be 10, 20 maybe 30 %, depending on the different phases, but nothing that requires 100% involvement. Because, at the end of the day, it’s the founder that started the firm and who should then lead it as well. […] Sometimes you have to say “It doesn't work like this or I would do this differently.”, and then he will have to do that, but you can easily… your basis of communication… The basis of your communication can easily be disturbed, if you’re too aggressive and too active. It’s always a balancing act.”

(BORIS 2012, pp.457)

In 2012, another BA claimed, that the story shown in the cartoon was unlikely to happen in a trust-based relationship. In 2017, he stated that trust can – unfortunately – be faked. While generally, control seemed to grow more important over time, one BA mentioned, that with more experience, he was able to rely on intuition rather than control a bit more. Other BAs contradicted this statement.

When it comes to handling mistrust, the BAs seem to have changed over time as well. Generally, they appear to be less radical in their consequences. While they would abandon an investment entirely as a consequence of mistrust in 2012, most BAs are aware that once you are in it, it is hard to get out. The BAs used the metaphor of sitting in the same boat to describe their dilemma. As they claim that impactful events that trigger mistrust have rarely happened to them, they generally do not have a standard set of sanctions or way of dealing with mistrust. Most of them try to solve issues as they arise and work with the founders, to achieve at least a small exit. They are also inclined to replace the troublesome founders. Afterwards, most BAs lose interest, shift their focus away from the investment and will not work with these founders again.
Results and the Trust Scale

Generally, the most crucial takeaway from this comparison, was the fact that the BAs’ need to control seems to have increased over time and with more experience. This complements findings described in earlier sections. It underlines the notion, that control and trust are both crucial factors in the management of post-investment relationships.
9. Discussion

This chapter discusses the results gathered from this study with existing literature and contrasts the findings against commonly accepted concepts within this field of research. Ultimately, this section aims at answering the research questions presented at the beginning of this thesis. It also outlines research limitations and identifies areas that require further research.

The insights presented in this study center around the concepts of trust and control in a mutually vulnerable relationship. This became apparent rather gradually, as the initial concept leaned slightly more towards an analysis of appropriate roles in the post-investment phase. The importance of control that was unveiled in the results has shifted our gaze away from other interesting aspects that could have been explored.

In order to provide a framework for the analysis of the findings, the trust scale was introduced and broken down into zones and segments. It is here presented in its entirety in order to showcase the general assumptions of the trust scale.

![Trust Scale Diagram]

With a set of participants who generally match the average Business Angel as described in literature (Harrison & Mason, 1992; Landström, 1993; Lumme, Mason & Suomi, 1998; aaia, 2017), a number of generally accepted ideas were quite obviously confirmed by the results. This includes the notion that trust is essential for an investment (Ali, Berger, Bothelo, Duvy, Frencia, Gluntz and Pellens, 2017; Landström, 2007). The participants of this study confirmed the gravity of a trust-based relationship and were largely identified to be BT BAs, who provide a base set of initial trust. In an absence of trust, an investment decision would not be pursued, and the BAs tirelessly confirmed the importance of trust in their post-investment relations.

When pending trust against control, however, the results show that control seems to trump trust in most cases, even if the BAs occasionally claimed otherwise. The notion of control discussed here refers to formal check-ups, reporting or target-actual-comparisons, not political power in the sense of e.g. more shares. The interviews showed, that a connection between BTBAs and high
Discussion

control can be drawn. BAs who appear to be particularly trusting in the light of a lack of track record and no prior relationship with the founders do, in fact, rely on control heavily. Each in their own way, these BAs rely on a proper due diligence and continue to control their investments quite rigorously throughout the post-investment phase. This observation could be interpreted as cowardice or the result of dishonest replies, but this is not necessarily the case. Attempting to rank the importance of trust vs control is somewhat of a chicken-and-egg-dilemma, neither can exist without the other. Having the ambition to indicate a tendency, we conclude that trust cannot exist without control and argue that control paves the way for trust.

The results also show, that control and involvement exist independently. Some BAs who are highly and frequently involved in their investments also need high levels of control. Others are less involved but still rank control as crucial. This indicates, that informal opportunities of control that usually present themselves when frequently interacting with the founding team do not suffice. Apparently, involvement does not sufficiently balance a BAs uncertainty and causes him to additionally demand formal control structures.

As a section of the interviews also centered around trust violation, trust reduction and mistrust, conclusions were drawn to provide insights on these issues. The results indicate, that after an impactful event, BAs do not have a standard set of sanctions but usually choose between three options: repair, reduce and replace or repel. Generally, we observed that a loss of trust goes hand in hand with a loss of interest. The BAs are aware, that immediately discarding the investment puts them at risk of losing their entire financial input. If the business angels deem a relationship to be beyond repair and replacing the founders is not an option, they usually invest the bare minimum (time, but no capital investment). Unfortunately, none of the BAs confirmed that they had experienced a real case of trust violation or provided actual examples. This might have been due to the personal setting of the interviews, which did not provide the security of anonymity.

When comparing the results of this study with the research conducted in 2012 (Treytl), the BAs appear to have changed a bit. These changes can mainly be linked to additional experience or – occasionally – a shifted investment focus. The comparison reveals, that the BAs tend to be more realistic and pragmatic, but also more dedicated to the investments and their founders. They expect more complications, assume profits to be generated much later and are generally willing to take on more risks. These observations seem intuitive, as more experience renders the BAs more sober and more confident. Interestingly, the investors also tailored their support more closely to the needs and requirements of the founding teams. Thanks to an increased involvement, they
are now more aware of the founders’ expectations. Along with the trust-centered results of this study, it is not surprising that the BAs demanded more control in 2018 than in 2012. Taking these findings into account, the two research questions can be answered.

**Research Question 1:**

*How does trust impact the relationship between BAs and entrepreneurs?*

This study found, that trust is at the core of the characteristically vulnerable relationship between BAs and founders. The majority of BAs provides significant initial basic trust and strives to maintain and safeguard a trust-based relation throughout the investment. Trust violations significantly impact the relationship, usually beyond repair. If mistrust taints the relationship, a point of no return is reached quickly and causes the BA to abandon the investment.

**Research Question 2:**

*How do trust and control interplay in the relationship management of BAs with their entrepreneurs?*

While BAs are frequently driven by intuition, willing to take risks and quick to put their faith into a group of founders, this study shows that control forms the basis of a trusting relationship. High trust is ultimately linked to high control and a founder’s inability to fulfill the BAs need for control will foster uncertainty and decrease trust. A positive correlation between the two aspects was identified, at least from the BAs point of view. Whether this is true for the founders will have to be explored in future research.

A number of limitations applied to this thesis, which ought to be taken into account when considering the results. With respect to the small sample size, the interview style and the lack of comparability (equally to other countries, former research or relevant literature), limitations apply. The results presented in this study also examine a field that includes aspects which have yet to be researched thoroughly (Hoyos-Iruarrizaga et al., 2017; Welter and Smallbone, 2006). This thesis shows, that the correlation between trust and control in particular deserves more attention. Further investigations into different trust types (see ETBA and BTBA) and explorations into trust scales are desirable. As a general observation, we find that BAs as a whole, compared to VCs, and Austrian BAs in particular require additional study.
10. Conclusion

While this study set out to analyze the aspect of trust in the post-investment phase, the significance of control and the interplay between the two aspects became apparent. Our findings confirm the idea that control is necessary to reduce relational risks (Currall & Judge, 1995). The results, which show that BAs claim to trust but heavily rely on control, also align with Bammen and Collewaert (2014), who state that research into trust is largely too optimistic. We agree with Shepherd and Zacharakis (2001), who found that confidence in a mutually vulnerable relationship is only possible when moderate levels of trust and control are present.

The findings presented here can provide insights and serve as guidelines for BAs and founders alike. For BAs, the results indicate that open communication and the flexibility to switch between roles and functions as needed are essential. In particular, a flexible investment behavior, which adapts to each investment and founding team, is crucial. As for the founders, the gathered data suggests that being transparent, incorporating the BA into important processes and decisions and addressing problems openly are vital traits. Importantly, however, the founders need to provide the BA with options to excerpt control. Allowing the BA to monitor the firm’s progress will foster the post-investment relationship, could unveil problematic developments much earlier and will promote a trust-based relation.

In Austria, two main agencies (aws and FFG) shape the business angel scene and offer funding, support innovation and provide a network to investors and e.g. between science and industry partners (Gassler et al., 2018). Gassler et al. remark, that in a 2016 start-up package, legislators dedicated € 185 million to related measures and programs. Nevertheless, the authors note that the Austrian risk capital market is in its infancy, particularly compared to strong European performers (e.g. UK, France and Scandinavia). The results presented in this thesis might aid policymakers at shaping the future of Austrian start-ups. Knowing that allowing a BA to control regularly is vital could be leveraged to attract future investors. As Austrian firms frequently struggle to attract further investments after the initial round. The heightened awareness of how to gain and maintain an investor’s trust could be translated into recommendations, action plans and directories.
Conclusion

The results presented in this study are limited in their representativeness and quality by the selection of participants and the research format. As the interviewees were drawn from a pool of fairly homogenous BAs, the results lack variety. The pool of BAs was limited in terms of gender, age, nationality or their fields of investment. The small sample size with only seven participants also diminishes the representativeness of the data.

The choice of personal interviews as the set up for data gathering may be challenged. While personal interviews grant certain opportunities and insights, they might discourage participants to disclose sensitive information due to the lack of anonymity. The interviewers might also have steered the BAs in certain directions and tainted answers with their way of conducting the questioning. Moreover, the interviewers’ approach slightly changed over time and the focus of the interviews was influenced by experienced gathered in previous sessions. Looking back, the first and last interview differed in style, structure and focus to a certain degree.

As with any qualitative research, data analysis was also highly subjective and left room for interpretation. Even though the researchers attempted to balance, discuss and challenge each other’s viewpoints, a certain bias cannot be denied.

Apart from the need to generally diving deeper into the trust and control aspect of the post-investment relationship, we identified a number of areas that require further research. We encourage future research in the field to be more inclusive and extended to a larger sample size. An international comparison could bring out specifics of the German speaking BA-market and examine cultural differences in the perception of control, trust and mistrust. We strongly suggest incorporating the founders views on the post-investment relationship. Examining the approach of both parties involved will allow for a deeper understanding of a mutually vulnerable relationship and for the creation of recommendations for both sides. In addition, long-term observations of the post-investment relation could provide insights on the origin and consequences of mistrust. With a long-term observation, the intricate processes within the relationship could be mapped against the performance of the firm.
11. Appendix

11.1. Email – First Contact

Betreff: Anfrage Interview – Forschungsprojekt JKU

Sehr geehrter Herr Max Mustermann,


Es geht um Ihre Expertise und Erfahrungen bezüglich des Umgangs mit UnternehmerInnen bei Risikoinvestitionen. Die Inhalte unseres Gesprächs werden selbstverständlich vertraulich behandelt und ausschließlich zu Forschungszwecken verwendet. Der Zeitaufwand beträgt in etwa eine Stunde.

Genauere Informationen zu dem Projekt finden Sie im Anhang. Für weitere Informationen bzw. Rückfragen stehen wir Ihnen gerne zur Verfügung und hoffen auf eine positive Rückmeldung.

Mit freundlichen Grüßen,
Julia Goldberger, BSc
Alexandra Grininger, BSc

English Version

Subject: Interview Request – Research Project JKU

Dear Mr. Max Mustermann,

In the course of our search for Business Angels in Austria you have been recommended to us as a successful investor. We would therefore like to ask you to provide your expertise and insights in an expert interview. Our research project, which is a collaboration between JKU Linz and WU Vienna, was launched in 2005 and focuses on “Trust and the Relationship between Business Angels and Entrepreneurs”.

We would like to gain an understanding of your experience with the investor-investee-relationship in risk capital investments. Naturally, the content of this interview will be treated with strict confidentiality and will only be used for research purposes. The interview will take approximately one hour.

Please see the attached fact sheet for a more detailed description of the project. Please do not hesitate to contact us for further information or if you have any questions. We look forward to your reply and hope for your participation.

Yours sincerely,
Julia Goldberger, BSc
Alexandra Grininger, BSc
11.2. Project Description

Trust and the Relationship between Business Angels and Entrepreneurs

Why is the project relevant?
Business Angels (BA) and Venture Capitalists (VC) form a crucial part of the financing chain and play a vital role in bridging the funding gap for start-ups. As investors, they provide capital, know-how, experience and their skills. Since BAs frequently do not possess the resources to examine a potential investment within a formal due-diligence process, they have to rely on their expertise and intuition when assessing an investment. Consequently, they heavily depend on the management team to provide accurate information over the course of the investment. Thus, mutual trust and relationship-management gain importance. In case of information asymmetries and a lack of trust, the investment decision becomes increasingly difficult for BAs and VCs. This is why successful relationship-management and the development of a trust-based partnership are of particular importance. Only when the role of trust and relationship-management in the post-investment stage are fully understood will we be able to provide sound recommendations for action. This project aims at closing this research gap.

What is the research focus?
For the investment decision as well as the post-investment stage we examine the importance of
(1) hard facts (financial indicators),
(2) soft facts (quality of the investor-investee-relationship),
(3) trust (How much does the BA/VC trust the entrepreneur?).
A pilot study conducted in 2012 showed the significance of formalized decision-making processes.

Who is involved?
The research team includes
• Univ.-Prof. Dr. Matthias Fink (JKU Linz)
• Prof. Andrea Moro (Cranfield University, UK)
• Prof. Hans Landström (Lund University, Sweden)
• Mag. Vinzenz Treytl (WU Vienna)
• Julia Goldberger, BSc. & Alexandra Grininger, BSc. (Masters students at JKU Linz).

How can you contribute?
During an expert interview, we kindly ask you to provide your experience with the role of hard/soft facts and trust in the investment process. The interview will approximately take one hour.

How can you benefit?
The results of this research will unveil the positive and negative effects of trust on the performance of the firm and the decision-making processes after the investment. According to these findings, recommendations for action for investors will be derived.

Contacts:
• Univ.Prof. Dr. Matthias Fink, Head of the Institute of Innovation Management
  phone: 0043 (0) 732-2468-4420 | matthias.fink@jku.at | web: ifi.jku.at
• Julia Goldberger | phone: 0043 680 5544 233 | julia.goldberger.1@gmail.com
• Alexandra Grininger | phone: 0043 676 814 283 402 | alexandra.grininger@liwest.at
Appendix

11.3. Interview Guide - Short

Interviewleitfaden

1. Angaben zum Interview:
   Datum:
   Ort:

2. Einleitung
   ➢ Bedanken für Interview-Termin
   ➢ Kurze Beschreibung Projekt und eigene Rolle

3. Lebenslauf

4. Übergang zu Rolle als Business Angel:
   ➢ Was ist Ihre Motivation in andere Unternehmen zu investieren?
   ➢ In wie viele Firmen bzw. Start-Ups haben Sie bis jetzt ungetäuscht investiert?

5. Investitionsprozess
   ➢ Wie ein Investmentvorschlag verursacht werden?
   ➢ Wie aktiv sind Sie nach dem Investment? (Post-investment)
   ➢ Welche Rolle übernehmen Sie nach der Investition?
   ➢ Was halten Sie von besonders aktiven/passiven BAs?

6. Vertrauen
   ➢ Also bei: Ihnen spielt Vertrauen beim investieren eine wesentliche Rolle?
   ➢ Inwieweit ist ein Investor durch Vertrauen geprägt?
   ➢ Wie gewinnt ein Entrepreneur Ihr Vertrauen?

7. Strukturiertes Tei
   ➢ Cartoon & Word Rap

8. Entscheidungsfragen:
   Wir werden Ihnen nun zwei Optionen nennen und bitten Sie spontan zu antworten.
   Beispiel: Business Angel oder Venture Capitalist
   a. Entrepreneurs fördern oder fördern?
   b. Coaching oder Bootstrapping?
   c. Hands-on oder Hands-off?
   d. Beziehung oder Bezahlung?
   e. Rational oder Emotional?
   f. Konflikte: Problem oder Potenzial?
   g. Vertrauen oder Kontrolle?
   h. Gezcharte Beziehung oder Freundschaft?

Master Thesis Julia Goldberger & Alexandra Gringeri November 2017
11.4. Interview Guide – Base

Interviewsituationen

1. Angebot zum Interview:
   Die von CFI

2. Einleitung
   ▶ Bedürfnis für Interview-Template
   ▶ Kennzeichnung Projekt- und eigene Rolle.
   ▶ Entwicklungsprozess I: Int. mit IFA aus Ostdeutschland
   ▶ Vertrauensverhältnis zwischen IAS und Unternehmer
   ▶ auf Basis von Statistik aus 2012 zu IFA & Netzwerke
   ▶ Vorspann
   ▶ Kurzansicht
   ▶ Autobiographie des Gesprächers
   ▶ Zwischen der Eingeweihten

3. Lebenslauf, warum? 
   ▶ Wie lange die Kanzlerin war, über ihre Beruflichen Verpflichtungen
   ▶ Werden einige Meldungen, in welche gehen sie sehen?
   ▶ Wie und was sie sagen zum Business Angel-Programm?

4. Interview zu Ende, das Business-Angel-
   ▶ Was sind die Hauptgründe, in anderen Unternehmen zu investieren?
   ▶ In wie vielen Firmen bzw. Start-ups haben Sie bisher gekommen?
   ▶ In wie vielen Fällen sind Sie aktiv aktiv?
   ▶ Was unterstützt Sie bei Ihrer Entscheidung?
   ▶ Was sind die Investitionshürden, welche liegen?
   ▶ Was müssen kommen in die reine Auswahl (jeweils Jahr)?

5. Investitionsprozess
   ▶ Rechte Investitionsstrategie verfolgen Sie?
   ▶ Was sind ihre Investitionskriterien?
   ▶ Sowohl die hier festgelegeten Branchen, wie die eine Investition lädt, so
   ▶ Entscheiden Sie anhand, wie es geplante geographischen Zonen?
   ▶ Was difference in the Investment typischerweise ab?

6. Investitionssituationen
   ▶ Reiche Investitionsstrategie verfolgen Sie?
   ▶ Was sind Ihre Investitionskriterien?
   ▶ Sowohl die hier festgelegeten Branchen, wie die eine Investition lädt, so
   ▶ Entscheiden Sie anhand, wie es geplante geographischen Zonen?
   ▶ Was difference in the Investment typischerweise ab?

7. Beratung der Teilnehmer
   ▶ Einleitung: "Wir haben zum Abschluss noch etwas vorzubereiten...
   ▶ Vorlage: "Business Angel – Hilfreiche Themen" (Zusammenheft)
   ▶ Vorlage: "Bitte bitte, zu bewerten, um weiter zu analysieren"
   ▶ Vorlage: "Dokumente bitte zu bewerten, um weiter zu analysieren"

8. Beratung der Teilnehmer
   ▶ Wie würden Sie Ihren Bedarf zu den Unternehmen die Sie unterstützt beschreiben?

9. Interview-Template
   ▶ Wie würden Sie Ihre Bedarf zu den Unternehmen die Sie unterstützt beschreiben?

10.Intermediate Interviews
    ▶ Welche Themen nutzen Sie während der Interviews und bitte die Gespräche zu erzählen?

Beispiele: Business Angel oder Verbrauch

a. Unternehmens- oder Verbrauch
b. Coaching oder Feedback

Maier Therese, Julia Drößer, Alexander Grabinger November 2017

90
11.5. Cartoon

Original Version:
Frage 1: Welche Geschichte könnte sich hinter dieser Abbildung abspielen?
Frage 2: Bezogen auf das Verhältnis zwischen Business Angels und Entrepreneurs, könnte diese Situation realistisch sein? Warum/Warum nicht? In welchem Aspekt?
Frage 3: Haben Sie etwas Ähnliches bereits erlebt? Wie kam es dazu? Was waren die Auswirkungen?
Frage 4: Wie würden Sie Ihre Beziehung zu den Entrepreneurs die Sie unterstützen beschreiben?

English Version:
Question 1: What’s the story behind this image?
Question 2: With regard to the relationship between BAs and founders, could this cartoon be considered realistic?
Question 3: Have you ever experienced something similar to this? How did it come about? What were the consequences?
Question 4: How would you describe the relationship between you and the founders that you support?
11.6. Word Rap

**Original Version:**

Bitte beenden Sie folgende Aussagen:

Aussage 1: Meiner Meinung nach ist es absolut wichtig dem Entrepreneur von Beginn an zu vertrauen, selbst wenn man ein ungerechtfertigtes Risiko in Kauf nimmt, weil …

Aussage 2: Ich bin überzeugt, dass ich in der Lage bin alle Rückschläge in den Beziehungen zu dem Entrepreneur zu bewältigen, weil …

Aussage 3: Ich möchte durch meine Investition(en) so schnell wie möglich spürbaren Erfolg erreichen, weil …

Aussage 4: Ich vermeide riskante Geschäftsentscheidungen, auch wenn sie Potential für große Gewinne haben, weil …

Aussage 5: Ich stimme mein Verhalten auf die Bedürfnisse des Entrepreneurs ab, weil …

**English Version:**

Please complete the following statements:

Statement 1: In my opinion, it is vital to trust the founders straight away, even if I have to take unjustified risks, because…

Statement 2: I am convinced, that I am able to address and overcome any setbacks in the relationship with the founders, because…

Statement 3: I seek to generate financial returns as fast as possible, because…

Statement 4: I avoid risky business decisions, even if they have the potential to generate significant revenues, because…

Statement 5: I adjust my behavior to the needs of the founders, because…
## 11.7. Coding Table - Detailed

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<th>Sub-Dimension</th>
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<td>Specific Interview Part</td>
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<td>work-related experience where the investor did not have a founding/managing role</td>
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<td>Main work related activities</td>
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<td>if owns &amp; manages own company: industry in which company operates</td>
</tr>
<tr>
<td>Personality</td>
<td>Motivation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial</td>
<td></td>
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<tr>
<td></td>
<td>Hedonistic</td>
<td></td>
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<tr>
<td></td>
<td>Altruistic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial Drive</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk Propensity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk averse</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk neutral</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk affine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Investment activity</td>
<td>Deal flow</td>
<td></td>
<td>statements about investment opportunities received</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portfolio statistics</td>
<td></td>
<td>statements about number of current and total career investments</td>
</tr>
<tr>
<td></td>
<td>Investment activity - Other</td>
<td></td>
<td>statements about investment activity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Time Horizon for Investments</td>
<td></td>
<td>general time horizon for investment activities (all phases)</td>
</tr>
<tr>
<td></td>
<td>General Investment Approach</td>
<td></td>
<td>General Approach with regards to investment activity</td>
</tr>
<tr>
<td></td>
<td>Resource Constraint</td>
<td></td>
<td>statements about resource constraint (financial or time-wise) with regards to BA investments</td>
</tr>
<tr>
<td></td>
<td>Own Company more important</td>
<td></td>
<td>statement that own company has priority over BA-investments</td>
</tr>
<tr>
<td></td>
<td>Companies’ names mentioned</td>
<td></td>
<td>names of portfolio companies mentioned</td>
</tr>
</tbody>
</table>
### Phase of the Investment process

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Investment</td>
<td>ends with the investment / signing of the investment contract</td>
</tr>
<tr>
<td>Post-Investment</td>
<td>post-Investment / ends with decision to start exit</td>
</tr>
<tr>
<td>Post-Exit</td>
<td>activities after an exit</td>
</tr>
</tbody>
</table>

### Investment Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage Preference</td>
<td>statements about the preferred stage of company for investment</td>
</tr>
<tr>
<td>Geographic Preference</td>
<td>statements about geographic closeness to invested companies</td>
</tr>
<tr>
<td>Portfolio Considerations</td>
<td>statements about time and financial capacities</td>
</tr>
<tr>
<td>Industry Focus</td>
<td>describes preferences to industries of invested companies</td>
</tr>
<tr>
<td>General Expectations</td>
<td>describes any requirements that the investor has, before he will invest</td>
</tr>
<tr>
<td>Management Team</td>
<td>statements concerning management team as investment critieria</td>
</tr>
<tr>
<td>Communication</td>
<td>does the management team converse openly and directly</td>
</tr>
<tr>
<td>Skills</td>
<td>technical and/or economic skills of the management team</td>
</tr>
<tr>
<td>Personality</td>
<td>coachability, prior experience, etc.</td>
</tr>
<tr>
<td>Addable Value</td>
<td>statements whether post-investment help is criteria</td>
</tr>
<tr>
<td>Business Idea/Business Model</td>
<td>statements about the attractiveness of the business idea &amp; model</td>
</tr>
<tr>
<td>Business Plan</td>
<td>describes relevance of business plan for evaluation of the business idea</td>
</tr>
<tr>
<td>Contractual Consideration</td>
<td>contractual terms as criteria for investment (e.g. company valuation)</td>
</tr>
<tr>
<td>Knock Out</td>
<td>Criterion mentioned is a KO-criterion</td>
</tr>
</tbody>
</table>

### Investor-Investee Relationship

<table>
<thead>
<tr>
<th>Nature of relationship</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Relationship</td>
<td>the BA considers the relationship as mostly professional</td>
</tr>
<tr>
<td>Friendship</td>
<td>the BA considers the relationship as a friendship</td>
</tr>
</tbody>
</table>

| Role of the Investor     | official roles e.g. advisory board, operational roles                       |
| Financial Support        | the business angel provides funding/capital                                 |
| Non-financial Support    | mentoring, coaching, advisor, etc.                                          |
| Types of Control         | authoritarian, participative where a basic trust is given,                  |
| Methods of Control       | e.g. milestones, balance sheets, meetings, reports                         |
| Frequency of Control     | daily, weekly, monthly, when needed                                         |

### Trust

<table>
<thead>
<tr>
<th>Trust vs. Control</th>
<th>Preferences regarding trust and control, which is more important, when are trust or control needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic trust</td>
<td>investor generally trust and individual</td>
</tr>
<tr>
<td>Trust establishment</td>
<td>trust has to be established and earned</td>
</tr>
</tbody>
</table>

**Gaining trust**

<table>
<thead>
<tr>
<th>Investor activities</th>
<th>measures taken by the investor to gain the investee’s trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investee activities</td>
<td>measures taken by the investee to gain the investor’s trust</td>
</tr>
</tbody>
</table>

### Mistrust

<table>
<thead>
<tr>
<th>Definition</th>
<th>What does the investor consider as an act that would harm a trustworthy relationship?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust reduction</td>
<td>How is trust lost?</td>
</tr>
<tr>
<td>Consequences</td>
<td>exit, warning, discussion, retreat of the BA from operative tasks</td>
</tr>
<tr>
<td>Personal experience</td>
<td>cases of trust abuse, deceiving actions</td>
</tr>
<tr>
<td>Risk vs. Trust</td>
<td>How does mistrust influence the risk appetite of investors? How does mistrust influence the trade-off between trust and risk?</td>
</tr>
</tbody>
</table>
12. Bibliography


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