

Bachelor Thesis: Personal Traits Characterizing Business Angels

Motivation

We will start a research project together with two scientists in Perth/ Australia, who specialize in “curiosity”-research. Currently, they focus on “curiosity and expat-integration”, and we discussed the opportunity to investigate the personal trait “curiosity” on Business Angel motivation and behavior.

There is currently no conceptual or empirical research on this topic.

Therefore, we need an up-to-date description of the status of personal traits of Business Angel’s research.

Topics of the thesis:

1. Outline a history of personal traits research focusing on Business Angels.
2. Are there newer studies than the later mentioned? If not, why?
3. Are there new trends in research like Grit?
4. How can these studies be classified – develop a set of characteristics describing the studies (methodology, sample descriptions, outcome, ...).
5. Are the results comparable? Is there a ranking of the importance of traits?
6. Outlook: research gaps

A quick intro into the field of traits research

Several highly cited studies focus on the personal traits, motivations, and behaviors of Business Angels. These studies provide valuable insights into the psychology, decision-making processes, and characteristics that drive angel investors. Here are some of the most cited and influential works in this area:

1. Mason, C.M. & Harrison, R.T. (2003)

- **Title:** *Auditioning for money: What do technology investors look for at the initial screening stage?*

- **Citation Overview:** This study is widely cited for its investigation into the decision-making process of Business Angels, particularly the personal characteristics they prioritize in entrepreneurs when making investment decisions. The work underscores the role of intuition, judgment, and the angel's personal connection to the entrepreneur.
- **Key Insight:** The paper reveals that beyond financial criteria, Business Angels place significant emphasis on the entrepreneur's traits such as passion, trustworthiness, and commitment.

2. Landström, H. (1993)

- **Title:** *Informal risk capital in Sweden and some international comparisons.*
- **Citation Overview:** Landström's research is foundational in exploring the personal motivations and behavioral traits of Business Angels. The study looks at how these investors make decisions and their willingness to accept high risks in exchange for personal fulfillment and a sense of involvement in new ventures.
- **Key Insight:** The study highlights that Business Angels often invest due to intrinsic motivations such as curiosity, intellectual challenge, and the desire to help entrepreneurs succeed.

3. Paul, S., Whittam, G., & Johnston, J. (2003)

- **Title:** *The operation of the informal venture capital market in Scotland.*
- **Citation Overview:** This study is heavily cited for its insights into the characteristics of Business Angels in the UK, specifically Scotland. It examines the personal and social factors that motivate these investors, with a focus on non-financial drivers.
- **Key Insight:** Paul and colleagues show that emotional and intellectual rewards, such as excitement, satisfaction from mentoring, and the personal enjoyment of being involved in startups, are key traits that differentiate Business Angels from other types of investors.

4. Politis, D. (2008)

- **Title:** *Business angels and value-added: What do we know and where do we go?*
- **Citation Overview:** Politis's work is influential in examining the value Business Angels bring to startups beyond financial investment. It focuses on the personal traits that lead angels to take an active role in mentoring and coaching entrepreneurs.

- **Key Insight:** The study finds that Business Angels are often driven by a desire to be hands-on in helping companies grow, reflecting traits such as a passion for learning, curiosity, and the need to contribute their expertise.

5. Sørheim, R. (2003)

- **Title:** *The pre-investment behavior of business angels: a social capital approach.*
- **Citation Overview:** Sørheim's study looks at the importance of social capital and networks in the pre-investment phase. The personal traits of Business Angels, such as their ability to build trust and leverage relationships, are highlighted as key drivers of successful investments.
- **Key Insight:** Business Angels rely heavily on interpersonal relationships and their ability to connect with entrepreneurs, which is closely linked to traits like empathy, trust-building, and interpersonal curiosity.

6. Morrissette, S.G. (2007)

- **Title:** *A profile of angel investors.*
- **Citation Overview:** This study provides a comprehensive profile of Business Angels, delving into their backgrounds, experiences, and the personal traits that make them successful. It is widely cited for its empirical insights into the personality and behavioral traits that influence angel investing.
- **Key Insight:** Morrissette emphasizes that Business Angels often exhibit high levels of self-confidence, risk tolerance, and entrepreneurial experience, which enable them to make bold investment decisions in high-risk environments.

7. Amatucci, F.M. & Sohl, J.E. (2004)

- **Title:** *Women entrepreneurs securing business angel financing: Tales from the field.*
- **Citation Overview:** This study focuses on the personal traits and behaviors of both female Business Angels and female entrepreneurs seeking angel funding. It is often cited for its gender-specific insights and its discussion of how personal traits such as confidence, persistence, and relationship-building influence the funding process.
- **Key Insight:** The study suggests that personal alignment between the entrepreneur and the Business Angel is critical, and traits like

empathy, trust, and effective communication play a large role in funding decisions.

8. Harrison, R.T. & Mason, C.M. (1992)

- **Title:** *International perspectives on the supply of informal venture capital.*
- **Citation Overview:** This early foundational research explores the motivations and traits of informal investors (Business Angels). The work is frequently cited for its comparative analysis of Business Angels across different regions and its identification of key personality traits such as a strong desire for autonomy, risk tolerance, and passion for innovation.
- **Key Insight:** Business Angels are often driven by the personal satisfaction of being involved in the early stages of business creation, with a strong interest in new technologies and ideas.

9. Feeney, L., Haines, G.H. Jr., & Riding, A.L. (1999)

- **Title:** *Private investors' investment criteria: Insights from qualitative data.*
- **Citation Overview:** This study investigates the qualitative factors influencing Business Angels' investment decisions, highlighting the importance of personal traits like intuition, interpersonal skills, and the ability to evaluate the entrepreneurial team.
- **Key Insight:** Business Angels often rely on "gut feeling" and personal judgment when evaluating potential investments, indicating that personal traits such as curiosity and emotional intelligence play a significant role in their decisions.

Conclusion:

These studies have been highly influential in the field of entrepreneurial finance and angel investing, providing a rich understanding of the personal traits that drive Business Angels. Common themes include curiosity, passion for innovation, empathy, trust-building, risk tolerance, and a desire for personal fulfillment through active involvement in startups. These traits often set Business Angels apart from more traditional or institutional investors.

But the youngest study is from 2008; there must be newer research.

Based on the most cited studies mentioned earlier, the **most important personal traits of Business Angels** can be summarized as follows:

1. Risk Tolerance

- **Description:** Business Angels often invest in early-stage, high-risk ventures where the probability of failure is high. Their willingness to take on these risks, coupled with a belief in the potential of the startups they support, is a defining trait.
- **Supporting Studies:**
 - **Landström (1993)** and **Harrison & Mason (1992)** both emphasize the importance of risk tolerance as a core characteristic of Business Angels. These investors have a high threshold for uncertainty and volatility compared to traditional investors.
 - **Morrisette (2007)** also highlights that Business Angels are more inclined to tolerate the inherent risks in early-stage investments.

2. Curiosity and Intellectual Challenge

- **Description:** Curiosity, or the desire to explore new ideas and innovations, is frequently mentioned as a key driver for Business Angels. They are often motivated by the intellectual challenge of learning about new industries, technologies, and business models.
- **Supporting Studies:**
 - **Politis (2008)** and **Paul, Whittam, & Johnston (2003)** note that Business Angels are drawn to innovative startups not just for financial returns but for the opportunity to engage with cutting-edge ideas.
 - **Landström (1993)** and **Mason & Harrison (2003)** discuss how curiosity drives Business Angels to explore unknown territories, especially in emerging sectors.

3. Passion for Entrepreneurship and Innovation

- **Description:** Business Angels often have a strong passion for entrepreneurship and innovation, as many of them have been successful entrepreneurs themselves. This passion fuels their desire to help startups grow and succeed.
- **Supporting Studies:**
 - **Mason & Harrison (2003)** and **Feeney, Haines & Riding (1999)** found that angels are motivated by their enthusiasm for helping new businesses and their belief in the potential of the entrepreneur's vision.
 - **Paul, Whittam, & Johnston (2003)** and **Harrison & Mason (1992)** underscore that many angels see themselves as

partners in the entrepreneurial journey and are deeply invested in seeing new ideas come to life.

4. Mentorship and Desire to Add Value

- **Description:** Many Business Angels seek personal satisfaction from being involved in startups and acting as mentors. They value being hands-on in helping entrepreneurs, offering advice, and actively contributing to the startup's growth.
- **Supporting Studies:**
 - **Politis (2008)** and **Amatucci & Sohl (2004)** emphasize the mentorship role of Business Angels, where personal traits like empathy, patience, and a desire to share knowledge are critical.
 - **Sørheim (2003)** highlights the importance of Business Angels building trust with entrepreneurs and using their experience to guide the startups toward success.
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5. Intuition and "Gut Feeling"

- **Description:** Business Angels often rely on intuition when making investment decisions, particularly in assessing the potential of the entrepreneur and the viability of the business idea. This intuitive approach is linked to their personal judgment, previous experience, and interpersonal skills.
- **Supporting Studies:**
 - **Feeney, Haines & Riding (1999)** and **Mason & Harrison (2003)** found that Business Angels frequently make decisions based on a "gut feeling" about the entrepreneur's qualities, rather than solely on financial or market data.
 - **Sørheim (2003)** suggests that intuition plays a critical role in the pre-investment phase, particularly in building trust and forming relationships with entrepreneurs.

6. Empathy and Interpersonal Skills

- **Description:** The ability to build strong, trusting relationships with entrepreneurs is another key trait of successful Business Angels. Empathy and strong interpersonal skills allow them to connect with founders and contribute to the growth of the business beyond just financial investment.
- **Supporting Studies:**

- **Sørheim (2003)** and **Amatucci & Sohl (2004)** stress that interpersonal relationships are central to Business Angels' decision-making and their ongoing involvement in startups. Angels who are able to develop trust and rapport with entrepreneurs are more effective in mentoring and supporting the business.
- **Politis (2008)** also highlights the role of empathy in understanding the needs and challenges faced by startups, which helps Business Angels provide more effective guidance.

7. Self-Confidence

- **Description:** Self-confidence is an important trait that enables Business Angels to make bold decisions and trust their own judgment, especially in high-risk situations. Their confidence in their ability to evaluate opportunities and help businesses succeed is key to their investment behavior.
- **Supporting Studies:**
 - **Morrisette (2007)** emphasizes the role of self-confidence, suggesting that Business Angels often exhibit a strong belief in their ability to identify and develop successful businesses.
 - **Landström (1993)** also links self-confidence to risk tolerance, where Business Angels trust their intuition and personal experience when investing in uncertain ventures.

8. Commitment and Patience

- **Description:** Business Angels often exhibit a high level of commitment to the ventures they invest in. They understand that building a successful company takes time and are willing to be patient, offering ongoing support over a long period.
- **Supporting Studies:**
 - **Politis (2008)** and **Paul, Whittam, & Johnston (2003)** discuss the long-term involvement of Business Angels, noting that they are often deeply committed to the companies they invest in, both financially and personally.
 - **Mason & Harrison (2003)** found that many Business Angels are prepared to invest time and effort into helping the startup grow, reflecting their patience and dedication to the entrepreneur's success.

Conclusion:

The most important personal traits of Business Angels, as identified by these studies, include a mix of **psychological, emotional, and interpersonal** qualities. These traits – like **risk tolerance, curiosity, passion for innovation, mentorship, intuition, empathy, self-confidence, and commitment** - set them apart from other investors and shape their active, hands-on role in nurturing startups. These qualities help Business Angels balance the high risks of early-stage investment with the rewards of contributing to the growth of innovative new ventures.

Full citations:

Mason, C. M., & Harrison, R. T. (2003). "**Auditioning for money: What do technology investors look for at the initial screening stage?**" *Journal of Private Equity*, 6(2), 29-42.

This study is frequently cited for its insights into the decision-making processes of investors, particularly Business Angels, during the early stages of evaluating potential investments.

Politis, D. (2008). "**Business angels and value-added: What do we know and where do we go?**" *Venture Capital*, 10(2), 127-147.

This paper is widely cited for exploring the value Business Angels bring beyond financial capital, particularly through mentorship and active involvement in startups.

Paul, S., Whittam, G., & Johnston, J. (2003). "**The operation of the informal venture capital market in Scotland.**" *Venture Capital*, 5(4), 313-335.

This study is frequently cited for its examination of the informal venture capital market in Scotland and the personal motivations and behaviors of Business Angels.

Landström, H. (1993). "**Informal risk capital in Sweden and some international comparisons.**" *Journal of Business Venturing*, 8(6), 525-540.

This study is well-known for exploring the role of informal risk capital in Sweden, including the characteristics and motivations of Business Angels, and providing international comparisons.

Tipp (ask ChatGPT for more insights):

A good literature review serves as the foundation for research by providing a thorough understanding of the current knowledge, debates, and gaps in a given field. Here's how a well-written literature review typically looks:

1. Clear Objective

- **Purpose:** The review begins with a clear explanation of its purpose. It frames the research questions and shows how the literature review aligns with the study's goals.
- **Context:** It defines the scope, explaining what is covered and what is excluded, and justifies these decisions based on the research focus.

2. Organized Structure

- **Logical Flow:** The literature is presented in a logical manner, usually organized by themes, methodologies, chronological order, or theories.
 - **Thematic:** If organized by theme, it groups studies with similar ideas or research topics together.
 - **Chronological:** It might trace the development of the research over time, noting how ideas and theories have evolved.
 - **Methodological:** It can also be structured by research methods used in the literature being reviewed.

3. Comprehensive Coverage

- **Relevant Literature:** It includes key studies, debates, and leading authors in the field, showing a deep engagement with a wide range of literature.
- **Balanced Perspective:** A good literature review does not cherry-pick studies to fit a predetermined conclusion. It highlights both supporting and contradictory evidence, offering a balanced view.
- **Up-to-date:** It references recent studies but also acknowledges foundational works to give a full perspective of the field.

4. Critical Analysis

- **Synthesis:** Rather than merely summarizing individual studies, a strong review synthesizes them, identifying patterns, relationships, and trends across the literature.
- **Critical Evaluation:** It evaluates the quality of the literature by discussing limitations, methodological flaws, and gaps in the research. This shows an awareness of the strengths and weaknesses of existing studies.

- Identification of Gaps: It highlights what is missing in the current literature and outlines areas where further research is needed, leading into the rationale for the current study.