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**Incentives, risks and strategies in cross-border
angel investing**

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Abstract:

Enkelisijoittajat ovat yksityishenkilöitä, jotka keskittyvät alkuvaiheessa olevien uusien yritysten rahoittamiseen. Tyypillisesti enkelisijoittajat keskittyvät kotimaisiin yrityksiin, sillä pieni etäisyys mahdollistaa operatiivisen puolen toiminnan tarkastelun helpommin verrattuna toisessa maassa toimivaan yritykseen. Enkelisijoittajat ovat sijoittajatyypeistä vähemmän tutkittuja kirjallisuudessa, joten kansainvälisen sijoittamisen insentiivit eivät ole vielä täysin selviä. Kirjallisuuskatsauksen mukaan enkelisijoittajilla on useimmiten yrittäjätaustaa ja muihin sijoittajatyyppeihin verrattuna he keskimääräisesti tekevät vähemmän taustatutkimusta sijoittamastaan startup yrityksestä ja seuraavat vaistiaan lupaavan yritysideoita arvioinnissa. Viimeisten vuosikymmenien aikana enkelisijoittajat ovat alkaneet toimimaan organisatorisesti yhdistääkseen voimansa ja vähentääkseen ennen sijoitusta tapahtuvaan tiedonhakuun kuluva henkilökohtaista työmäärää. Tämä tutkielma keskittyy kansainvälisesti sijoittavien enkelisijoittajien insentiveihin sekä toimintastrategioiden tutkimiseen.

KEYWORDS: angel investors, cross-border, risks, incentives, strategy

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1 Introduction

Angel investing is a potentially lucrative business practice that mainly focuses on financing startup-companies with a sub focus on other business ventures. Early-stage finances are important for longevity and growth. While angel investing focuses mainly on the financing of startups, it is not limited to it and can explore other business ventures as well. Business angels operate commonly at a domestic level despite the benefits of exploring cross-border investing, which begs the question of why cross-border investment are foreign investment seldom explored? Literature regarding angel investors and seed fund investors in general is still less researched but studies increasing gradually (Uzuegbunam, Ofem, Fox & Nambisan, 2023).

1.1 Background of the study

Investing internationally may offer greater financial and growth opportunities for business angels compared to domestic angel investing, so why is it less explored? Many business angels hesitate to expand their business portfolios across borders. This is due to the multiple factors affecting the lucrativeness of cross-border angel investing which will be explored in this study. As examples Aernoudt and Erikson (2002) suggest lack of information flow between investors and entrepreneurs and Harrison (2005) mentions the business angels' uncertainty of the loss of control.

Traditionally, business angels have preferred to invest in domestic startup businesses for various reasons, such as the availability of information and the ability to be physically present and to oversee the business's progress. However, as the world becomes more interconnected and global networks continue to expand, the landscape of angel investing is evolving and presenting increasing opportunities for cross-border angel investing.

Cross-border investing may bring greater opportunities and benefits for individuals with capital in countries that have smaller markets, however it may bring large risks if there is subpar amount of research conducted beforehand of the target country and its economic state.

There are multiple variables to consider before investing in enterprises internationally such as rate of return, legislation, all of which bring complexity into the decision. The additional work required for cross-border investing may discourage business angels from participating in international investing and instead enforce the desire for domestic business financing instead. Roach (2008) however challenges the notion that business angels only invest locally in his study of Keiretsu Forum that comprises of a private angel investor group of international members.

The desire to focus on domestic investing over cross-border investing may vary by country, for example Mason, Botelho and Duggett (2022) suggest that from the perspective of business angels in the island of Ireland there are three constraints. The lack of information, attractive local tax incentives to invest domestically and the preference to invest locally. These constraints may apply to business angels in other countries as well. Mason et al. (2022) also suggest that the increase of cross-border investing in the European union requires the increased networking between angel investors in different countries. Roach (2008) further enforces the idea that the networking of business angels continues to develop and encourages cross-border angel investing.

1.2 The research questions and objective of the study

The objective of this study is to determine what attracts cross-border angel investors and how they strategize the investment plan with the support of the following research questions:

1. What incentives drive cross-border angel investors to invest in foreign enterprises and what risks are commonly affiliated with the process?
2. What strategies can cross-border angel investors use for cross-border investing?

1.3 Theoretical framework and structure of the thesis

The theoretical framework from which cross-border investing business angels will be examined from is the social capital theory by Coleman (1988). This model explores the benefits from belonging in a social network which can aid in examining the relatively new concept of angel investor groups and the benefits of intangible resource allocation. This theory will be used in the business context and the research questions of this paper will be guided by it.

This thesis is comprised of four chapters. The first chapter introduces the background of the study alongside of the theoretical framework used to navigate the lens the phenomena will be studied from. Next, the relevant key terms will be defined to assist the understanding of the topic. The second and third chapter will answer the research questions. The second chapter will investigate the financial incentives that drive business angels to invest in cross-border enterprises with the help of four important incentives according to literature research. The third chapter studies the effective business strategies used by business angels commonly in domestic investment and consider the limitations of them in the context of investing internationally. The fourth chapter will gather the findings of the research and discuss the limitations of the study as well as suggest topics for future research.

1.4 Delimitations

Due to the lower number of studies, this thesis focuses on high net-worth angel investors who have entrepreneurial history and leaves out individual angel investors with atypical

characteristics such as low net-worth or no entrepreneurial background. The countries cross-border investments will refer to are investments between any western countries on a general level and it will leave developing countries outside of the examination. The strategies will be influenced by recent trends on developments regarding angel investor behaviour such as the forming of angel syndicates as opposed to the typical angel investment activities meaning individual investment decision making.

1.5 Defining key terms

Angel investors

They are also referred to as business angels or BA's. They are defined by Mason as individuals with expendable capital (Falcão, Carneiro & Moreira 2023; Song & Jain, 2021) who aid startup companies financially and consult them professionally as well as assist in professional networking (Falcão et al. 2023). Despite the informal consensus on individuals with high net-worth, the definition still varies (Song & Jain, 2021) in literature. The term Angel investor is often associated with the term venture investor, however there is a distinct difference between the two as Benjamin and Margulis (Boulton, Shohfi & Zhu 2019) explain that angel investors invest their own funds whereas venture investors often invest from pooled capital funds.

Cross-border investing

This type of investing means investments done over the borders of one country to another (Buchner, Espenlaub, Khurshed & Mohamed, 2018).

Startups

A type of an enterprise that has a high risk of failing (Bethlendi, Hegedűs & Szócs, 2024) or a small company that has no profits yet and was founded less than five years ago (Berre & Le Pendeven, 2022).

Due diligence

The process of analysing risks and benefits and researching the startup in general (Morrison, Kinley & Ficery, 2008).

Entrepreneurs

The owner of a business, often specified as a business entrepreneur, however the exact definition varies (Pasanen, 2003).

2 Angel investors and cross-border investing parallels

Expanding an investment portfolio across borders may become attractive to angel investors if the location of the startup is in an economically lucrative country with more opportunities in comparison to the business angel's home country as well as other factors such as an uncertain political climate or larger markets may also contribute. The size of the markets in the target country may also signal to angel investors that the risk of losing capital is appropriately low (Nguyen, Schinckus, Nguyen & Tran, 2022) despite factors such as widespread economic uncertainty across the globe, although the risk increasing factors grow when the target country has a small economy (Carrière-Swallow & Céspedes, 2013). This implies that investing across borders is more lucrative for the angel investor when targeting certain countries, which brings in additional factors affecting the return on investment. The conclusion after due diligence may include that investing in countries that are geographically distant may bring more costs than financial benefits to the angel investor. The literature regarding this topic varies however, as Cumming and Zhang (2019) conclude that angel investors tend to be drawn to legally less safe countries with cultures where risk-taking is not necessarily a negative thing.

As angel investors are traditionally high-networth individuals, it could be concluded that the main motivation to invest in startups is not completely financial. The highest incentive for business angels is the opportunity to get involved in with how the business operates (White & Dumay, 2020). This implies that business angels have the luxury of having time to focus on their investments, which further implies that they might be open to take more risks in comparison to other types of investors such as venture capitalists who have obligations to fulfil and liabilities to the organisation. Large financial resources make monitoring across borders easier and overcomes the obstacle of time constraints and financial limits to explore startup ideas.

Despite the concept of joining an angel investor group to pool resources, there is a distinction between angel investors and venture capitalists as parallels might be drawn. On

a surface level the two have key similarities however the depth of the parallels end at the difference between the officiality of the operations in these entities. Angel investors focus on opportunities that draw their personal interest and venture capitalists work towards the interest of the fund owners.

3 Investment incentives and risks

Cross-border investing may be riskier than domestic investing as there are often more variables and risks to consider. There may also be more opportunities to explore as investing in enterprises located in an economically stronger country the performance of the startup may increase in comparison to domestic opportunities if the latter economy is smaller. Incentives are rooted both in external factors as well as personal investor characteristics which will further be explored in this chapter. Coleman's (1988) model of social capital relates to factors that include interpersonal relationships such as trust from the business angel in the startup investor which will further be explored in the chapter 3.2 and the practical side of how social capital theory can be seen will be discussed in the chapter 3.4.

3.1 Experience and personal characteristics

Factors such as the amount of experience and market dynamism may play a role as well (Sohl, 2022). Negative experiences and the emotional consequences of them and risk aversion may intensify the effect of each other in the unpredictable marketplace environment. On the other hand, if an unpredictable investment gives a high return to a business angel that did not go through due diligence, it may compensate for the discouragement of a badly performed investment and encourage an angel investor to ignore due diligence required done for future investment criteria. In comparison to venture capitalists, the importance of due diligence for business angels is placed lower and thus may cause more riskier investments (Sudek, 2007).

In comparison to venture capitalists however, business angels are more involved in the operational side of their investments (Sudek, 2007) which may explain why due diligence is not as thorough for business angels, assumed that the gathering of information happens more during post-investment since angel investors prefer to learn through context

as Barros (2023) mentions. However, angel investors can be divided into subcategories of new angel investors and experienced angel investors, which also affects the approach to screening of an investment opportunity (Mason, Smith & Harrison, 2010).

Past experiences and personal characteristics affect one another as cross-border investing is encouraged by positive prior deals although it is suggested in literature that this factor affects angel investors differently depending on their background (Croce, Schwienbacher & Ughetto, 2023). European angel investors are more likely influenced by these prior successful deals in comparison to business angels from the United States (Croce et al., 2023) for example. Another influential factor is risk aversion as empirical studies suggest that business angels with higher likelihood of avoiding risk are less likely to make the investment in startups (Honjo, Ikeuchi & Nakamura, 2024). Risk is defined as fluctuation in results in standard financial theories (Croce, Ughetto & Cowling, 2020) and since startups have a high risk of failing (Shahid, Liouka & Deligianni, 2024) it is logical to be hesitant about investing especially as angel investors with a history of negative investment experiences from missed successful investments in the past may also become increasingly averse to investing in similar opportunities in the future (Sohl, 2022).

As uncertainty increases with cross-border investing, the effect on already risk-averse individuals heightens. Business angels have restricted access to observe business performance in comparison to business angels investing domestically. Past experiences encompassing experiences on both domestic and international markets is another predictor of likelihood to invest across borders (Croce et al., 2023). Broader markets attract investors by creating more opportunities alongside the growing risks (Croce et al., 2024), however risk-averse business angels can balance the potential volatility for the returns on investments by broadening and diversifying their portfolios.

3.2 Trust from investor to entrepreneur

The implications in studies regarding the importance of investor trust in the entrepreneur vary. Some studies show that the perception of trust placed on the entrepreneur causes better evaluations of venture performance by the investor due to improved quality of working together (Kaiser & Berger, 2021) which is enforced by Bammens and Collewaert (2014) as well, as they suggest that communication is the foundation of a good relationship between the two. They continue that angel investors' impact on an enterprise is valuable due to beneficial advice angel investors can contribute by which is supported by angel investors operational involvement. As angel investors will become vulnerable of exclusion and being taken advantage of (Thiele & Hellman, 2015), the risk of information asymmetry increases after venture capitalists commonly join as shareholders to the enterprise (Botelho & Mason, 2024) during the later rounds of funding. There is a risk of hold-up which refers to the entrepreneur seeking to operate with venture capitalists against the knowledge of the business angel, which might bring negative legal repercussions to the angel investor (Thiele & Hellman, 2015). Venture capitalists are in competition of power with the angel investors after joining the enterprise that a business angel has a legal stake in, and thus venture capitalists can act against the best interest of the angel investor with the entrepreneur (Thiele & Hellman, 2015). However, the eradication of angel investors is not beneficial for venture capitalists as the deal flows come for them through angel markets (Thiele & Hellman, 2015), so a level of connection cannot be completely erased on a larger scale.

On a larger scale Maung (2024) explains that while trust matters, it largely pertains to countries where there exist institutional gaps. In countries with high legal protection for investors, trust is either an irrelevant factor or even negative (Maung, 2024). The importance of trust is increased regarding cross-border investment ventures as the risk of failing is higher due to additional factors. The ability to attract investors may depend on the country and cultures overall. Trust in competence will be perceived in pitch meetings and entrepreneurs will need to show their valuable qualities well from the lens of the

culture in United States such as the drive for success, as it influences investors' perceived skill of the entrepreneur (Singh, Kang & Ramani, 2023). Literature suggests that in India additional factors include the success of past business endeavours of the entrepreneur, already established network and the transparency of the entrepreneur (Majumdar & Mittal, 2021). It is unclear, however, whether current studies present enough evidence to differentiate angel investor values depending on how different countries and market contexts influence investment decision making on the first round of funding (Urban & Moreno, 2022) that angel investors specialise in.

3.3 Exit opportunities

Angel investors' subpar knowledge on macroeconomic conditions (Zinecker, Skalicka, Balcerzak & Pietrzak, 2022) is supported by the idea of general lack of due diligence (Sudek, 2007). Environmental impact on investment decisions may vary by culture, as Zinecker et al. (2022) explore the impact on Central and Eastern European countries. Cumming and Zhang (2023) however suggest that a more prevalent factor on a global scale for angel investing is guided by target countries' reform of corporate bankruptcy laws for increased liquidation efficiency, which is supported by other research as one of the highest ranked investment criteria for angel investors is exit opportunities (Bammens & Collewaert 2014).

The motivation behind liquidation lies in the higher risk nature of angel investing in comparison to other types of investing (Cumming & Zhang, 2023) however the risks are partially balanced by other factors such as opportunities to influence business operations through oversight (Collewaert, Filatochev & Khoury, 2021). Exit strategies are determined usually in contracts and as it is typical for angel investors to have more involvement with the enterprise, the official agreements on contracts are less specific in comparison to venture capitalists for example (Collewaert et al., 2021).

In a general level for different types of investors exit strategies include acquisition, distressed acquisition, liquidation, and IPO (Kacer, Wilson & Zouari, 2024). From these methods angel investors use liquidation (Teague, Gorton & Liu, 2020) which further narrows down the options of potential startup investments as exit strategies are influenced by the long-term business plans. However, additional unofficial services provided by angel investors to the startup entrepreneurs such as mentoring may partially balance out the risk according to studies in the United Kingdom, as they suggest that this factor increases the success of exiting (Kacer et al., 2024). This implies that the unique skill sets acquired through previous entrepreneurial experience is significant and beneficial for both the entrepreneur and the business angel as the latter may control chances of succeeding to some extent in seed funding.

3.4 Investor networks

Angel investors may occasionally form or join a group of business angels. Networking or gatherings may occur over dining out, and entrepreneurs seeking for investors may join the occasion to pitch business ideas (Teague et al., 2020). Roach's (2008) findings suggest that making decisions of investment targets as a group indicates more successful rate of returns for business angels. Additionally, Roach (2008) mentions that in his case study about Keiretsu Forum, the angel investor network can predict failures and successful targets more efficiently in comparison to a business angel outside of a network.

D'Ascenzo (2008) explains that according to data a high incentive to join a group of business angels stems from the opportunity to benefit from organisational resources, as supported by Roach's (2008) findings of increased efficiency due to access to information capital. D'Ascenzo's (2008) findings imply that angel groups will also accept members with low experience as business angels and that they will be moderated during high deal flows.

According to Hoang and Antoncic, the organisational nature of business angel groups increases deal flow because of a more diligent screening process (D'Ascenzo, 2008), which has been implied to be a challenge for individual angel investors (Sudek, 2007) as previously discussed. However, the quality of the investments that business angels decide to close is not improved despite the number of deals flowing in (D'Ascenzo, 2008) but further research is needed to fully understand the benefits of the utilization of pooled investment capital.

Outside of pooled funds however, joining an angel syndicate has other attracting factors such as opportunities to gain secondary international investment experiences through networking (Croce et al., 2023) by providing access to previously inaccessible spaces due to lack of opportunities as explained by Sørheim (D'Ascenzo, 2008). Sørheim (2005) tells that factors such as insufficient previous experience as an angel investor can inhibit access to professional partners. In the future entrepreneurs may gain access to networking with venture capitalists (Lodefalk & Andersson, 2023), who can then provide bigger financing from larger resources from fund pools in comparison to making from from personal funds.

3.5 Governmental characteristics and risks

Legal systems (Marjanovič, Domazet & Vukmirović, 2024), financial incentives (Katitas & Pandya, 2024) such as tax relief (Denes, Wang & Xu, 2019), innovativeness, labour market laws, capital markets, the overall growth of the economy (Zinecker et al., 2022) and general governmental support (Harrison, Rock & Gregson, 2020), can create an attractive environment for angel investing. The United States attempt to promote an investor friendly environment through governmental subsidies and angel tax credits, latter of which is becoming an increasingly more globalised (Denes et al., 2019) governmental change. Although the extent to how much these variables effect angel investors is not yet confirmed by studies (Denes et al., 2019), Sorcaru, Nuta, Topliceanu and Ambrozie (2023) suggest it can be determined that quality of governance is more important to

investors in comparison to regulation policies. The weight of which factor overrides other factors to stimulate cross-border investments varies by country, as in Georgia political instability is a decreasing characteristic for foreign investments but in Moldova laws regarding rights override the importance of governance quality and political climate (Sorcaru et al., 2023).

Literature also suggests that the country of the investor is a factor for how attractive certain attributes of the target country are, as Brada, Drabek and Iwasaki suggest that investors from developed countries may be more sensitive to the target country's government policies in place to protect investors (2021). The effectiveness of offering governmental financial tax benefits to privately operating firms is debated in the United States as Katitas and Pandya state that other type of stimulus might be better in order to attract investors into the markets (2024). This gap in governmental incentives may add on to the lack of angel investor studies as it is another discouraging factor for business angels to take a risk and invest.

4 Research and analysis

This chapter presents common research methods used by investors with a focus on exploring how the international factor influences these research strategies. Literature suggests there exists varying models that angel investors use for their investment process depending on the individual circumstances such as investor needs, long-time plans and business strategy. Pre- and post-investment process can vary between angel investors according to literature, although in a larger scale the process is quite similar as presented in Figure 1 as explained by Feeney, Haines and Riding (1999), Haines, Madill and Riding, (2003) and Riding, Madill and Haines (2007). It will focus less on Coleman's (1988) social capital theory as the implementation of it will be discussed in more detail in Chapter 5 instead.

Angel investment process variations by source and year

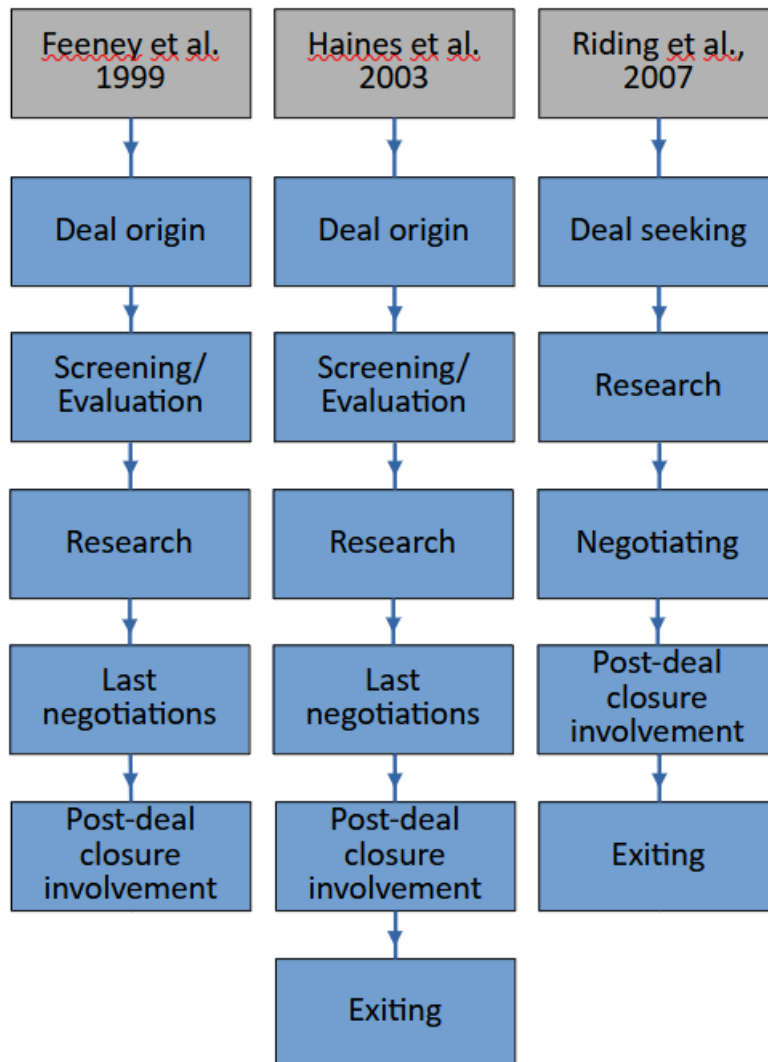


Figure 1. Three simplified angel investor investing process models varying by source and year (adapted from White and Dumay, 2020).

4.1 Investment criteria and due diligence

The process of researching each criterion is done in due diligence. Due diligence is a varying defined term that typically refers to the process of analysing the lucrativeness of investment opportunities by the investor (Teague et al., 2020) in the angel investing context or a business that is looking to buy a business (Brown, 2018) on a larger scale, although the practice is not limited to these entities. The definition is unclear as there

seems to be no consensus on it and it is not limited to the financial industry. In economics due diligence is generally referred to as a systematic process of seeking information about the investment opportunity.

The importance placed on the process may vary depending on the investor type, as angel investors may not go through due diligence with as much precision as a venture capitalist for example (Sudek, 2007). The importance of due diligence becomes highlighted in cross-border investing compared to domestic environments as it brings additional aspects that should be researched such as international legislative restrictors which affect exit opportunities.

The imprecise nature of a business angel's due diligence may be explained through the learning theories commonly adopted by business angels such as situated learning (Barros, 2023). This theory emphasizes learning through context (Barros, 2023) in comparison to learning through singular channels such as studying theories through literature.

Without due diligence the rate of return may be more volatile than expected. As Brown (2018) suggests that significant financial incentives cause investors to ignore doing the work that goes into due diligence, however as stated before business angels specifically are less motivated by the financial benefits of investments (Sudek, 2007) as they are usually more involved in the operations of their investments than another type of an investor such as a venture capitalist. Lack of research may result in subpar investment performance.

4.2 Business model and financial analysis

In early-stage financing there are no past financial statements to study in order to analyse the financial health of a pre-existing enterprise. Financial forecast is rather based for example on the business plan presented by the entrepreneur to the angel investor. Skalicka, Zinecker, Balcerzak and Pietrzak (2023) explain that a large portion of angel

investors expect financial participation from entrepreneurs, as only 10% of investors are ready to fully cover the costs of funding and only in certain circumstances. In the context of cross-border investing the threshold grows along other risks which means that the expected returns from business angels grow.

Financial statements such as cash flow or balance sheets help in determining the financial health, however in seed funding, which is what angel investors typically do, there isn't past data or established markets yet to examine so business angels rather focus on the evaluation of market potential and the contents of the business proposal (Skalicka et al., 2023). Potential is therefore deduced from the available resources for the startup or the competitive advantages it has on the market (Skalicka et al., 2023). The business proposal may in addition forecast the financing the startup could be able to attain to begin growing business operating.

Cross-border investing may bring challenges such as financially risky decisions by the entrepreneurs which could be difficult to monitor as a cross-border investor, the lack of financial statement disclosure of the company as depending on the country disclosure laws may vary. In more severe cases of risks, there may be a danger of financial crimes. The case of the FTX -crypto organisation can be examined for this. The lack of transparency of the flaws in the operating systems financially damaged all parties involved, both funders and the fund seekers (Mackenzie, 2024). However, in this case, there is other factors linked to the plausibility of failure of the emerging startup. Due to the new nature of crypto markets, regulation laws are still evolving.

The findings of Buchner et al. (2018) conclude that the financial performance of cross-border business activities in comparison to domestic business practice in the metrics of IRR performs worse by 12-28%. In the case of an enterprise that is already initially risky for a foreign business investor, the attractiveness of the investment target decreases with the potentially lowered financial performance.

4.3 Market environment and factors by country

Roach (2008) mentions that business angels go through three stages of analysis before making an investment. Business angels consider the enterprises that engage in growing industries such as technology or healthcare. Choosing a suitable market segment is crucial in the criteria when seeking potentially successful startups or later stage enterprises. However, private investors such as business angels can be divided into three groups by their motivation to take part in seed funding (Sullivan & Miller, 1996). The types are the economic type which focuses on financial gains from an investment, the second is altruistic investor which seeks to fulfil personal moral obligations by aiding entrepreneurs or their enterprises, and the last type is hedonistic which overlaps slightly with the economic type as the hedonistic type can seek to maximize profits simultaneously while fulfilling other interests that might not be directly economic (Sullivan & Miller, 1996).

Based on these divisions, as the business angels do their due diligence for market research, the market segments may not be the most optimal for wealth maximization for the investors. Rather, altruistic investors may target the healthcare sector for example and the hedonistic investors might seek to invest in more niche markets that align with their personal interests. The economically motivated business angels will seek to do research on the most profitable market segment, which is a more typically known practice among investors in general.

As the economic investors are more likely to have lower risk tolerance for profit restrictive factors such as cross-border legal matters and policies (Stirnkorb, 2024) or potential profit losses due to a factor such as cultural differences and social factors in general (Levashova, 2020), there is reason to assume they will be more motivated to do financial risk analysis regarding markets. However, the following steps are relevant to research for all the three types of investors.

Due to the increased factors a foreign angel investor needs to consider such as

they will need to consider the geographic location (Allman, 2015) that has good markets for an emerging business to enter and grow in, market volatility and liquidity (W. Yang, B. Yang & C. Yang, 2022), the economic state of the chosen industry (Skalicka et al., 2023), transactional costs (Stirnkorb, 2024) that might be affected by target country inflation or currency market price in comparison to home country currency.

A cross-border investor should research potential risk factors such as legislations regarding economic crimes as well. Smoljic and Konjic (2024) mention countries such as Denmark, Finland, New Zealand, Germany and Singapore as attractive target countries to investors due to the high level of legal security. In low level legal security countries such as Syria, Somalia or Venezuela (Smoljic & Konjic, 2024), the risk of asset loss to criminal activity becomes increased and investor attraction decreases. For foreign angel investors the need for trust between the entrepreneur and the business angel becomes pronounced as there is a risk of corruption. Depending on the criminal law environment of the country of the enterprise the risk of financial crimes such as fraud or embezzlement (Smoljic & Konjic, 2024).

5 Investment strategy

Angel investing is difficult to study because of the limited amount of research literature on the topic (Wong, Batia & Freeman 2009). Angel investing has traditionally been considered an individual practice (Mason, Botelho & Harrison, 2019), however the prevalence of joining an angel investor group is increasing as organized angel groups are becoming more common in the 2000's (Botelho & Mason, 2024). This chapter will explore the application of social capital theory by Coleman (1988) in more detail when referring to angel investor group benefits. As cross-border investing creates greater risks in comparison to domestic investing, the risk mitigation from the protection of group investing becomes attractive. There are both advantages and disadvantages to practicing angel investing individually and practicing it in a group setting.

Investing as an individual can bring freedom of choice and more control. It can also bring limitations such as smaller fund resources in comparison to withdrawing capital from angel investor group fund pools. Individual investing, however, will expose the business angel to agency problems (D'Ascenzo, 2008) such as expropriation (Wong et al., 2009). As startups commonly go through multiple rounds of fund seeking, venture capitalists with larger funds come in at later rounds to provide the supporting funding (Thiele & Hellman, 2015) after the business operates on such a level that it obtains the interest of venture capitalists. The agency problem comes in when this is a setting where there is a risk of information asymmetry that benefits the other parties involved in the business on the expense of the angel investor. Joining an angel group reduces the risk of takeover as it reduces the amount of effort it takes for an individual business angel to examine how well the enterprise is performing and how beneficially it is operating from the lens of the business angel as the funder (Bonini, Capizzi, Valletta & Zocchi, 2018).

However, if the trust from angel investor to the entrepreneur is high, there might not be reason to fear foul play. Acting as an individual angel investor brings the freedom of investing in personally appealing startups whereas angel group members will need to

report or even negotiate if the investment opportunity is appealing enough according to the criteria the angel group uses (Lerner, Schoar, Sokolinski & Wilson, 2018).

The benefit of investing in a group is comparable to venture capitalism, as in the funds are larger and furthermore this creates the opportunity of mitigating risks by diversifying the investment portfolio (Botelho & Mason, 2024; Wong et al., 2009). In addition, other types of resources such as information and networks become larger, which enables diversified workload regarding due diligence for example (Botelho & Mason, 2024). Angel group setting is beneficial for an angel investor who has less time and energy on their hands to perform the traditional duties for angel investing such as creating deal flow. To increase the amount of startup ideas angel groups use varying strategies such as having dinner with entrepreneurs to hear pitches, having a leading group inside of the whole angel syndicate to make decisions for the whole group, which is a method called core-periphery (Mason et al., 2019). The centralisation of control relieves the less active participants belonging in the angel group. Lack of involvement does not necessarily suggest the lack of interest in investing but may instead be an indicator that these less active members may not have appropriate skillsets to achieve their goals as a business angel. Angel groups create beneficial opportunities for angel investors in the group to increase skill levels in seminars or training events (Mason et al., 2019).

Circling back to the concept of practicing angel investing internationally, angel groups are often formed to practice on geographical grounds or on industry (Bonini et al., 2018) depending on which field the business angels wish to work in, the former of which is especially relevant to cross-border angel investors. As the likelihood of succeeding may diminish in cross-border investing in comparison to local investing, joining an internationally operating angel group may be more beneficial for a business angel than investing individually. In addition, depending on the location of the angel investor, the demand for business angels varies as in the United States the selection of startup finance routes is so saturated (Lerner et al., 2018) that investors outside of the U.S. have an additional advantage to join an angel investor group. All in all, business angels may have operated

individually in the traditional sense, but it does not imply that it has been a better alternative to operating as a member of an angel syndicate, which is becoming increasingly common.

6 Conclusions of the study

This thesis compiled literature findings about angel investors who invest into enterprises on an international level in comparison to domestic level, which is a more classic approach business angels take. In addition, this thesis included information about what factors motivate angel investors to invest in general and how those factors tie into the international context of cross-border investing. This thesis also touched on two comparable strategies business angels can take in the light of literature which focused on joining an angel syndicate or operating alone.

6.1 Summary of the findings

The literary consensus on the incentives for angel investors emphasizes the individual factors regarding angel investor characteristics such as personality and experience as well as external variables such as the trustworthiness of the seed fund seeking entrepreneur. Literature suggests that angel investors tend to place interest on investment targets based on instinct and that due diligence is sometimes neglected in comparison to other types of investors such as venture capitalists. Literature presents the most important criteria for investment opportunities as temperamental characteristics of business angels such as risk aversion (Honjo et al. 2024), the amount of experience in investment environments (Sohl, 2022), interpersonal trust between investors and entrepreneurs with heavy emphasis on the trust from the investor to the entrepreneur (Bammens & Collewaert, 2014; Roach, 2008), the quality of a management team and the exit opportunities in the future from the investment (Bammens & Collewaert, 2014). Financial incentives are important for investors in general (Brown, 2018), however regarding angel investors specifically the financial aspect has less importance placed on it compared to other criteria (Sudek, 2007).

Due diligence includes research about the business model, relevant industry markets as well as cross-border legislations and restrictions between the country a business angel resides in and the country where the invested enterprise is located. Angel investors are typically individuals with entrepreneurial experience and tend to be more involved in the operational side of their startup investments in comparison to other types of investors.

In the recent decades angel investors have begun forming syndicates to access and share resources collectively to ease due diligence and to add deal flow. Angel investor groups may have management models such as centralising control in order to simplify the process of due diligence. Angel investor groups reflect the operating model of venture capitalism, but the difference is that angel syndicates do not operate as officially as venture capitalists. Joining an angel group may also bring benefits to angel investors such as education, connections and the possibility to not have to invest time and energy as much as being an angel investor individually would take.

6.2 Practical implications

As angel syndicates become more common and organisations grow, management should evolve to respond to the growing needs of the organisation's members. Operating internationally demands refined protocols for optimally efficient screening, deal flow obtaining, risk assessment and communication. International operating and fostering relationships demand sensitivity training as cultures encounter both between angels and entrepreneurs as well as foreign investors. Entrepreneurs should practice presentation skills and social skills to build rapport with potential investors during startup idea pitchings.

Different individuals and entities may take away varying benefits from this study. Governments should focus on creating and upkeeping general investor attracting traits such as tax relief or stimulus. On an individual level they should research and compare governmental characteristics of countries that have a good deal flow and attract investors

and consider the key characteristics that may be missing from their own government. Such attributes may be good quality governance or growing economy for example. Angel investors may take away the beneficial aspects about joining an angel syndicate or the importance of proper due diligence or entrepreneurial experience.

6.3 Suggestions for future research

The literature on angel investors has increased during the past decade but there are still gaps in literature, especially in the area of internationally operating business angels. Future studies could focus on filling this gap by examining the incentives on a global scale and characteristics of angel investors who are motivated to broaden their scopes across borders. Additionally, the concept of angel groups could still be more researched as there is more knowledge to add on top of the current modest amount of research. As angel investors are often described as individuals with a high net-worth, it could be speculated that these individuals are a beneficial network to add to the economy of smaller countries that are seeking to expand their markets and grow both their governmental as well as privately operating enterprises' assets.

Literature about angel investors seem to reference older studies that might have outdated information, which is why further research is needed. Current research should be examined critically as even more recent studies may draw information to literature that has been done in the previous decade. The cross-border aspect in literature discussing angel investing in general is even less researched than angel investing in itself, which is why the need for future studies is amplified.

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