
Investor Club Member Decision-making

Why and how do investor club members choose specific investments from a set of validated and pre-approved options?

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Summary

This study aimed to analyze the decision-making process and criteria of angel group members. These factors form the basis of the final decision of a member when they decide whether or not to invest in a start-up. To investigate this topic, the factors that affect member decision-making are investigated when these members receive a pre-validated set of investment options from an investor club. To collect data, eight interviews with members of one investor club in the digital health sector have been conducted. These members are of diverse member type and nationality to analyze differences between members. During these interviews, different factors that influence the investors, like regulatory approval or a strategic fit, have been indicated by members. Throughout these findings, differences of focus between different types of members were observed. In some cases, the service provided by the investor club does not line up with the strategy of members, posing a question for their future collaboration. This dissimilarity in strategy shows as well in the factors of importance for members. Where business angel members have many commonalities with traditional business angels and usually fit well with the opportunities provided by the club, especially corporate members focus on other factors. Because of these differences in focus between members, providing a satisfying service to all their members is complicated for the investor club. Creating a more synonymous member portfolio will lower the variance in member demands, allowing them to provide a better service. Although the results show many similarities between the decision-making of business angel members and individual business angels, this will need to be researched further to definitively come to this conclusion.

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1 Introduction

1.1 Background

Within the field of technological innovation, start-ups play a large role. Many groundbreaking innovations stem from start-ups. Start-ups face many challenges whilst establishing themselves. For a start-up to be able to grow, they will need capital.

This capital can come from multiple avenues. Where investments from the entrepreneurs themselves combined with money from friends and family usually forms the first source of capital, this is not an endless well ([bdc.ca, 2022](#)). Afterwards, more established methods of capital investment need to be approached to receive funding. The most common way for start-ups to get the necessary early stage investment is through business angels, see Figure 1. Venture capital firms are a strong second place for early stage investment, but tend to focus on slightly more established business plans than business angels, who are commonly seen as the first major established path to investment ([Baldridge, 2022](#)).

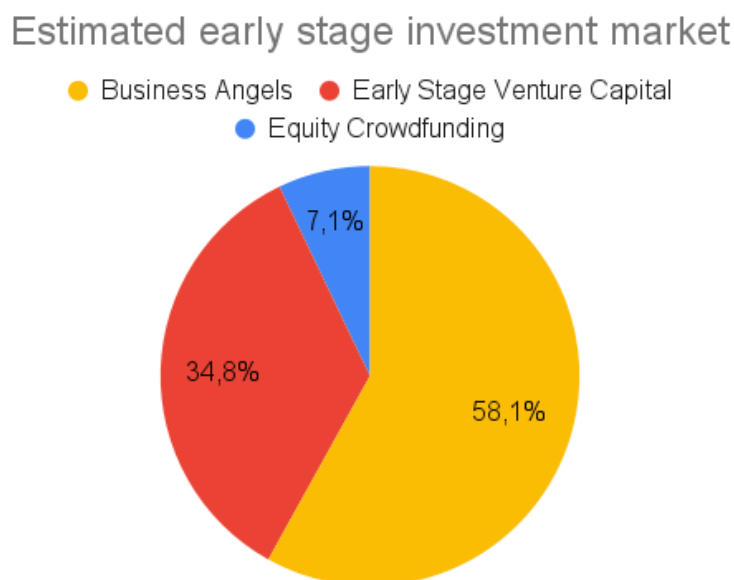


Figure 1: Distribution of early stage start-up investment in 2020 across 37 European countries. Adapted from ([EBAN, 2021](#), p. 8)

According to [O'Connell \(2022\)](#), "Angel investors are individuals who offer promising startup companies funding in exchange for a piece of the business, usually in the form of equity or royalties." whilst [Field \(2022\)](#) described angel investors as "generally high-net-worth individuals who provide funding to startups in exchange for convertible debt (bonds) or equity (shares) in the company." In recent years, angels have been starting to work together, forming organizations categorized amongst others as Angel Networks, Investor Clubs and Angel Groups ([EBAN, 2021](#)). These groups have opened up the investment market to more people, but not much is known about the decision-making process of their members.

1.2 Angel group investment

In an angel group, a number of investors choose to work together. They do this in a number of ways, depending on both the type and the size of the group. This can span from a group of friends deciding to share their research and sometimes invest together, to a professional organization where a team of employees does research and provides investment opportunities to their members, who then choose whether or not to invest. These groups commonly operate somewhere between the classic business angel and a venture capitalist. Through the bundling of capital, investments are larger than those of individual angels, but groups usually still invest in early stage ventures (C. Mason, Botelho, & Harrison, 2013; Sohl, 2012).

From 2003 to 2012, the number of business angel networks in Europe grew at an average rate of 17% (EBAN, 2021), but since has started to level off, as can be seen in Figure 2. Between 2013 and 2016, the number has continued to grow moderately, but has stabilized at around 410 angel networks in Europe since then, partially because of smaller groups merging. According to EBAN (2021), these mergers allow the networks to play a more effective role in their ecosystems because the networks increase their community, allowing them to invest more consistently.

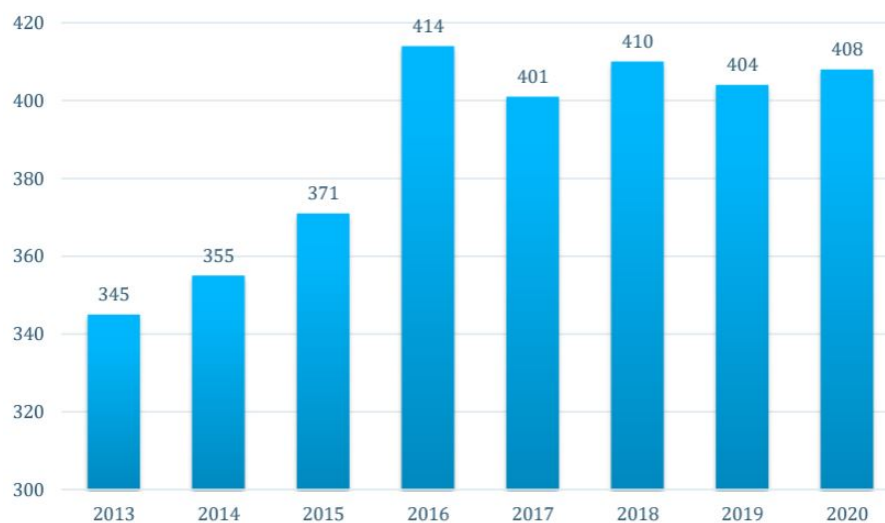


Figure 2: Number of known angel groups in 37 European countries. Reprinted from (EBAN, 2021, p. 10)

1.3 Problem description

The formation of these angel groups is a growing pattern in the European market (EBAN, 2021). This is a large change to the previously sectioned early stage investment market. Whilst the decision-making of business angels is very well known and can be used in selection and negotiations, it is unknown how much of this prior research can be translated to investor clubs directly.

Research into business angels has shown that the importance of specific factors can change during different stages in the investment process. According to Mitteness, Baucus, and

Sudek (2012), the impact of the entrepreneur is highest during the screening stage and lowers during due diligence. Brush, Edelman, and Manolova (2012) also note that during initial screening investors focus mostly on quantifiable criteria, while later in the process their focus shifts to intangibles like the trustworthiness, passion and commitment of the entrepreneur.

In angel networks where members do not engage in the screening stage of the selection process, it is plausible that the factors they look for change accordingly. It might also affect what factors are deemed most important and because of this, potentially their final decision. This is a problem for investor, angel group and entrepreneur, as incorrect assumptions about the focus of other parties might negatively affect negotiations. Knowing what information the other party is interested in will help streamline conversations and could save all three parties time. Where these parties will currently use the established knowledge base around business angels, specific research into angel group members could improve this.

1.4 Scope of this thesis

The grouping of angel investors is a clear pattern the last decades (EBAN, 2021). This is expected to have an effect on the entire investment sector and on the capital acquisition of start-ups. Prior research does note the formation of groups, but does not go into the effect of this on investment decision-making amongst these members. Whilst this is a common research objective when investigating individual angel investors, it has not yet been researched thoroughly regarding angel group members. Identifying differences in approach between angel investors and angel group members, as well as differences in important factors should help close the knowledge gap around angel group member decision-making. In a first step towards closing this gap, a case study will be done investigating one investor club. This club consists of multiple types of angel club members, who are expected to have different approaches to investment and will also assess potential investment differently. This specific investor club focuses on the healthcare sector, providing a more homogeneous group of members than a more general investor club would. The club is dually based in Turkey and Germany and most members are from either country. From this group of members, a selection will be interviewed to gather data regarding their investment decision-making and the factors they use to make this decision.

1.5 Research objectives and question

The overall aim of this research is to advance an understanding of the decision-making process and factors of investor club members when they are presented with a set of options they can choose to invest in.

To achieve this research aim, the objectives of this research are:

- Understanding the investment process of angel group members and the ways this could influence decision-making
- Identify factors for start-up investment decision-making used by different types of investors
- Explore the decision-making factors used by angel group members

To find an answer to the objectives of this research, the following research question has been defined: *When given a pre-validated set of options from an investor club, which factors affect the members' decision-making?*

1.6 Relevance of this study

1.6.1 Scientific Relevance

This research explores the decision-making of angel group members when being presented with a pre-validated set of options. Whilst much is known about the decision-making of business angels outside of such a network (Ferrati & Muffatto, 2021b; Landstrom, 1998; Sudek, 2006), it is possible that the input of such a group has an effect on the decision-making of these members. C. Mason, Botelho, and Harrison (2019) names the need to understand the different nature of the investment decision-making process and the effect it has on the market. Sohl (2012) suggests the trend towards angel groups may significantly uproot the foundations of the angel market, while Carpentier and Suret (2015) criticises the institutionalization of the angel market as a result of the formation of angel groups. This research focuses on one aspect of angel groups, which is member decision-making. By gaining an increased insight into the decision-making process and factors of angel group members, it could be determined whether or not the prior knowledge base on angel investors is applicable to angel group members.

1.6.2 Societal Relevance

Start-ups form one of the main forms of innovation throughout out society. Helping start-ups understand the decision-making of potential investors will allow them to improve their capital acquisition, allowing them to focus more on developing their innovation. These innovations will in turn also benefit society as a whole, providing a sense of social relevance to the research. Improving this match between different stakeholders in the investment process will also lead to more sustainable relationships for the people working in this sector.

1.6.3 Relevance to the study program

Within the master Management of Technology and especially the specialization Emerging Technology-Based Innovation & Entrepreneurship, the start-up atmosphere is a very common theme. This research fits well with the overarching theme throughout the study focusing on different stakeholders and the role they play in the investment process. Whilst the main focus of the specialization is on the innovation side of start-ups, the financial side is also important to their survival odds. In this thesis, the second specialization Economics and Finance is combined with this focus on start-ups to come to the research question. By finding a common ground between these specializations, the research is relevant to the majority of the study program followed.

1.7 Thesis outline

This thesis is divided into seven chapters. In chapter 2, a partial review on the literature on the research topic and the investment sector as a whole is given. Chapter 3 consists of the conceptual framework used to analyze this topic. In chapter 4, the methodology used

in the thesis is set out, after which chapter 5 shows the results of the data collected. These results are then discussed in chapter 6, followed by the conclusion and recommendations given in chapter 7.

2 Literature review

This chapter will strive to paint a picture of the total atmosphere for start-up investment. It will also serve as an introduction into the literature regarding the case, going from the wider fields of general start-up investment into the narrower research field of angel networks. Throughout the chapter, the problem statement of this case will also become more apparent, as the gap in the total research base around angel networks will become clearer.

2.1 Start-up investment

The focus of this research lies on start-up investment. A start-up is a company in the first stages of operations and usually has high costs and limited revenue ([Grant, 2021](#)). This forces them to look for capital to get through these initial stages of development.

Before formulating the research aim and working on the research methodology, it is important to learn about the available knowledge base throughout the industry. For this project, we will be focusing on early stage start-up investment decision-making. To assess this decision-making, it is important to know who invests in the earlier stages and why they do so. In this chapter, several types of investors and their decision-making are discussed, after which current market trends are shown to highlight the research gap and the need for this research.

To receive capital, companies have to provide something in return. For start-ups, this will commonly be equity-based, but other options include interest payments and products or services ([Reiff, 2022](#)). There are different avenues for start-up investment, the main ones being love money from friends and family, grants from government or non-profits, business angels, venture capital and lastly, bank loans ([bdc.ca, 2022](#)). Some sources also account incubators to this list, but since this is mostly a form of funding through service, not capital, it is excluded here. All these options have different advantages and disadvantages for the start-up, but together they form a backbone of the available investment opportunities that allow start-ups to grow and become self-supporting companies.

Although there are differences between venture capital and business angels, those two are usually seen as the main options for early stage investment to start-ups. As the principal loan is usually not repaid for grants, those are not seen as investments. Love money usually comprises of small-scale loans and banks are not commonly seen to invest in start-ups, as they choose to invest in more stable companies. In Europe, although exact percentages differ from source to source, it is estimated that around 58% of early stage investment comes from Business Angels, whilst around 35% is invested through Venture Capitalists (See Figure 1) ([EBAN, 2021](#)).

2.2 The main streams of start-up investment

A business angel can be defined as an individual who is using their own capital to invest in businesses they have faith in. In comparison, venture capitalists manage the money that others pool together through a professionally managed fund ([de Vries, 2015](#)). Most of the big differences between these two branches of investment stem from this basic difference. Angels often invest at earlier stages of the development process than a VC firm and

are really the first step when own investment and love money run out. In these earlier stages, sometimes even pre-revenue, start-ups are also usually asking for lower amounts of investment, which fits with the investment budget of these angels and the risk they are willing to take (CFI, 2022). VCs usually invest larger ticket sizes (Baldridge, 2022). This is for a large part because they have to satisfy a large amount of clients, which is easier to do with larger investments. However, as named before, the majority of startup investment actually comes from business angels, largely because they fill the period where the company is in the most dire need of cash and because many companies do not make it to the stage where they might be considered by VC firms.

2.2.1 Business Angels

Business angels are individual investors with large capital who commonly use this capital to finance small business ventures, usually start-ups, in exchange for equity (O'Connell, 2022). Next to their capital, they commonly offer their experience as well, helping the start-up grow, which in turn makes their investment grow as well. The market for angel investment has been growing consistently prior to the pandemic, with a growth of 80% from 2011 to 2019 (EBAN, 2021). From 2019 to 2020, the total angel market size decreased with 4.5%, but EBAN (2021) expects this to be a temporary decrease directly related to the pandemic.

Research shows that angel investors have remarkably similar characteristics (C. M. Mason, 2007). Over 95% of angel investors are male (Harrison & Mason, 2007), most of which are between the ages of 45 and 65 (Landstrom, 1998). This age group represents a segment of society where investors are still willing to take risks, but have had time to build up the net worth required to start investing in outside ventures. C. M. Mason (2007) also shows that the majority of angel investors themselves have a background in entrepreneurship and/or management and have built successful businesses themselves. Because of their personal affinity to the subject and their knowledge of the hardships, the investors want to use their prior knowledge even after they have cashed out their own venture. It is also clear that most angels are well-educated, which is underpinned by research that relates economic success to the level of education of the entrepreneur (Reynolds, 1997).

2.2.2 Venture Capitalists

According to Baldridge (2022), "Venture capital (VC) is a form of private equity that funds startups and early-stage emerging companies with little to no operating history but significant potential for growth." VC investors typically participate in management, helping the start-up board make decisions. A secondary benefit of investment from a VC is their network of partners and experts. The goal of a VC is to grow the initial investment and to exit at a later stage. Like business angels, the focus is on unestablished companies with high risk, but large potential.

Different than for angel investment, the venture capital market is typically only open to institutional investors like Pensions funds, financial institutions, wealth managers and high-net-work investors (Baldridge, 2022). A VC invests large amounts into seed or early stage start-ups, but will also commonly invest in late stage funding.

This form of investment is also utilized by major companies. It is then called Corporate Venture Capital (CVC). According to CB Insights (2022), CVC activity hit a record high

in 2021, with funding activity increasing 142% over the previous year. The main goal of CVC is to gain or retain a competitive advantage over competitors by internalizing innovations that could in the future become competitors ([Corporate Finance Institute, 2022](#)). Unlike regular VCs, CVC usually focuses on goals of both a financial and strategic nature. By investing in a start-up the CVC also gains access to this new technology. A common strategy in CVC is to create an adjusted version of the product of the acquired company and add this version to their own product line.

2.2.3 Crowdfunding

A third, much smaller stream of investment is crowdfunding. Crowdfunding is not a large part of the historic organized investment atmosphere, but has been growing in recent years. Crowdfunding is a more direct form of investment, usually with smaller ticket sizes. In a way, this stream is very similar to angel investment, where individual investors can choose whether or not to invest in specific opportunities by doing their own research. However, two major differences are the ticket sizes and the form of return.

The ticket sizes in crowdfunding are significantly lower than in angel investment. Where an angel investor invests a large amount themselves, crowdfunding is usually comprised of a large amount of investments of relatively small size; In line with the name, it is funded by a crowd. This also lowers the impact of one individual investment for the investor. It is easier to invest this lower amount of money, as a total failure is not life-changing.

A second difference is the return given when investing. Usually in investment, there are two types of rewards, those being equity (a percentage of shares in the company) and interest (through debt-based investment). Crowdfunding has a very common third form of returns, which is a direct reward system ([Shneor, 2020](#)). An investor preorders a specific product, which when utilized in scale provides the cash-flow for the start-up to actually produce the product offered. Other forms of crowd-funding are donations and patronage, but since these give no return at all (also not in the form of a direct reward), they do not fall under the umbrella of investment.

2.2.4 The differences between types of investors

To focus on the assessment criteria of angel investors, it is important to first note why there is a difference and in doing so, why separating research from the established VC decision-making process is needed. According to [Taylor \(2019\)](#), this difference stems from the core goals of the investor, as well as their available assets.

Angel investors invest their own capital and typically do so in the earliest funding rounds. Angels expect high returns on their investment in a short period and do not have outside investors or stockholders to which they have to justify their decisions ([Taylor, 2019](#)). Venture capitalists on the other hand, have a professional set-up, in which everything needs to be justified [Baldridge \(2022\)](#). The capital being invested stems from wealthy families or partners and is invested for them by the VC firm. Since this money needs to be invested to receive payment, the VC partners are likely to invest larger amount and typically do so in the later funding rounds, where firms start to scale up and actually need and can efficiently use large sums of money ([Sapienza, Manigart, & Vermeir, 1996](#)). Because of this, individual angels are much more relevant to start-ups in the initial stages. Some VCs

actually use prior investment from BAs as a prerequisite in their decision-making process, which means that by acquiring angel investment, the potential for future investment also grows (Madill, Haines, & Riding, 2005).

It is expected that angel networks operate in between these two groups, but more similar to a venture capitalist. This expectation largely has to do with ticket size and research power. An individual angel can go into an investment opportunity for a relatively low investment amount, where an Angel Network or VC will need larger ticket sizes for the time spent on procuring the investment to be worth it. Through the formation of clubs, individual investors get access to later-stage investments. Because angel networks operate at a higher level within the investment atmosphere than individual angel investors and the market is trending towards group formation, the entire early-stage investment market could be affected (Carpentier & Suret, 2015; Sohl, 2012).

2.3 Investment decision-making

Although start-up investment has the opportunity for great profits, 11 out of 12 start-ups fail (Startup Genome, 2019). However, the risk involved with early-stage investing in startup is countered by the potential returns eventually successful start-ups can lead to. Because of the inherent risk of start-up investment, the decision-making of these investors is a highly researched area. The earlier in the development process an investor is positioned, the higher the risk involved with their investment. Because of this, most research on the decision-making is based around seed or angel investment.

Through this research, it is clear that a direct result of angel investors working individually is the lack of a professional approach (Maxwell, Jeffrey, & Levesque, 2011). Every angel investor has their own methods, where they regularly use shortcuts in the decision-making process that would be avoided when using complete models of available investment opportunities. A common move is the instant rejection of opportunities diagnosed with a perceived fatal flaw (Maxwell et al., 2011). The angel decides not to waste more time on this venture. A non-compensatory method using elimination-by-aspects can save the investor time, but is more likely to provide false negatives, making the investor miss possibly great investment opportunities. However, Maxwell et al. (2011) claim that although investors do use these tools in early decision-making, they are not widely used in the final decision, where investors assess the factors themselves, using their intuition as their main tool.

A common problem in investment decision-making is information asymmetry because of the mismatch in goals of actors (Taylor, 2019). To evaluate a proposal, the entrepreneur has a plethora of information to their disposal, while the possible investor has to do with the scraps they can find or are given by the entrepreneur (Ferrati & Muffatto, 2021b). This also means the entrepreneur can upsell their offer, if the investor is not careful. Ferrati and Muffatto (2021b) says that to maximize the probability of achieving the expected and wanted return, an investor should focus on improving the outcome of all six stages of the funding process. These stages are: Deal origination, screening, evaluation, deal closing, post-investment activities and exit, see Figure 3. By improving the decision-making within these steps, an investor can improve their chance of success. The most important steps for a prospective investor are the screening and evaluation, whilst joining an investor

club is a method to improve deal origination.

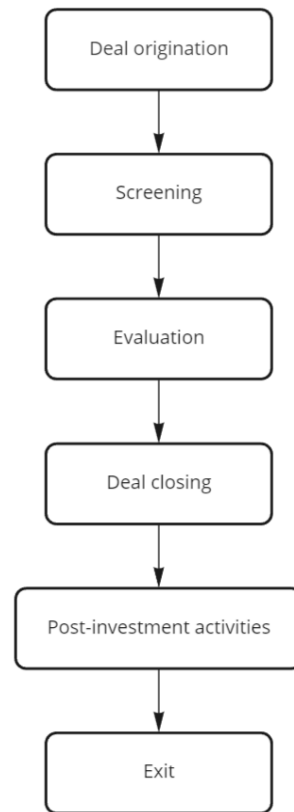


Figure 3: Six stages of the funding process

The impact of a high quality evaluation becomes evident when looking at figure 1 in [Graves and Ringuest \(2018\)](#). In all 50 ventures assessed, the VC predicted a higher-than-realised return. This structural overconfidence is problematic, as the actual realised value of the provided service by the VC firm is lower than a customer's expected return. This overconfidence is a likely byproduct of the natural confidence needed to invest other's money in large sums in risky investments. However, this overconfidence will lead to disappointment, as expectations were set at a higher than realised level. In [Graves and Ringuest \(2018\)](#), they also compare the actual result of a VC investor with a market timer. The overall level of disappointment of a VC investor is much higher (up to 25% yearly) than that of a market timer (around 4.58% yearly), but an average VC investor will still receive higher returns than a market timer, as long as they can deal with the disappointment.

A new tool to assess possible opportunities is the use of artificial intelligence in opportunity analysis ([Ferrati & Muffatto, 2021a](#)). This tool is starting to be used widely across investment organizations, but is hardly used by individual investors, who usually do not have the knowledge nor time to set up such an evaluation system. The main reason to utilize machine learning is to reduce the reliance on investor experience and intuition. In doing so, it is possible to reduce the investor bias, increasing the focus on facts.

2.3.1 Decision-making criteria for crowdfunding

Organized crowdfunding is ever-increasing in size and has mostly only been a thing since around 2010, when internet banking started to rise (Hoegen, Steininger, & Veit, 2018). It started as a way to give small loans to companies in developing countries, but soon was also used in developed countries. Because of the smaller investments, the investors have less power and get less information before they make their decision. Much of the data given to probable investors is not validated, giving room for shady founders to overestimate their worth. This information asymmetry can be problematic and is part of the decision-making process (Taylor, 2019).

There are different types of incentives for crowdfunding assessed in Hoegen et al. (2018). These different incentives are also related to different motivations from investors. Donation-based crowdfunding comes from altruism, reward-based from hedonism and equity-based comes from a profit-related orientation. As this is the investment type most often used in angel investor start-up funding, equity crowdfunding is the main target of this research.

Hoegen et al. (2018) provides a crowdfunding decision-making framework consisting of six main categories, namely: "Benefits and quality", "Financial risk and campaign statistics", "Founder perception and attributes", "social, relationships and endorsements", "context" and "investor characteristics". The first five of these categories are constant for any type of investment avenue, although they hold different weights, but the sixth is especially prevalent for individual investor decision-making. In many of the larger, more formal investment methods, the investor does not invest their own money, meaning their personal characteristics are of low importance.

A big difference between angel investors and crowdfunding investors is in how they assess their investments. The impact of the general benefits and quality of a product or service are equally important to all investors, as this is usually what draws the investors attention to a project. However, the level of meticulousness of crowdfunders for other factors is much lower, especially regarding aspects like intellectual protection, specific attributes or company financials. This can be attributed partially to a lack of business understanding, but also to the lower investments associated with crowdfunding.

Shafi (2021) provides a different framework, only separated into "Management", "Business" and "Financial". Although these do get split up into more specific criteria, the effect of higher ratings for both Management and Business is also visible in the start-ups success rate. On the other hand, there is no significant difference in rating for the Financial criterium. This is further evidence to the propensity of crowdfunding investors to not care too much about the numbers. Both the management (founders) and the business (product) have a much higher importance to perceived success. This insignificance does not follow as directly from Hoegen et al. (2018).

2.3.2 Decision-making criteria for angel investment

Although every angel investor has their own methodology to assess investment opportunities, there are clear similarities in the focus factors in their approach. For individual investors, the forementioned investor bias plays a role in decision-making, forming 15% of found factors (Ferrati & Muffatto, 2021b; Landstrom, 1998). Another 10% of factors are

environmental and political factors on which neither party has influence. However, these factors are used to evaluate the future perspective of the market.

The vast majority of around 75% of factors are venture-specific, of which 34% is reliant on the characteristics of the entrepreneur and/or the management team (Ferrati & Muffatto, 2021b). The remaining 42% of factors are about the actual product or service and the market it will operate in. Sudek (2006) names no product-related factors in their list of most important factors, Landstrom (1998) gives 7 out of their top 10 factors as entrepreneur and team-related factors, whilst Ran (2017) sees team capability and speaking skills as two of the major three aspects to get investor favor. Overall, the entrepreneur-focused decision-making process of business angels is quite clear. As angel research is in an earlier stage, entrepreneur bravado can help mask potential flaws in their business model, where later stage investment makes it easier to focus more on the product and its potential, as the product is more clearly defined at that stage. A common phrase among business angels is that you invest in a person, not just a company. This is shown in the relevance of trust in the entrepreneur as a high-ranking factor (Ferrati & Muffatto, 2021b).

The 34% focused on the characteristics of the team comes from what is both the main strength and a possible pitfall of angel investment. A common belief is that a driven and motivated entrepreneur will come out on top any time and that with their backing, it is just a matter of time. However, this is by no means a certainty.

The remaining 9.2% can be accounted to environmental factors and risk assessment factors. Both of these are factors neither the investor nor the entrepreneurial team have influence on. All that either party can do is estimate the effect on it on future business and factor in their expectancy for future change.

Sudek (2006) also did a literature review on the topic of angel investment, but came up with a different set of results. According to Sudek, investors focus on four main themes, those being "passion of the lead entrepreneur", "Trustworthiness of the lead entrepreneur", "Quality of the management team" and "the existence of an exit strategy". Among these, none are actually related to the product or the market and the focus lies even more on the entrepreneurial team than in the results of Ferrati and Muffatto (2021b).

Whereas the three team- or entrepreneur-related themes are evident in all literature, the existence of an exit strategy as a main theme shows the forward-thinking behavior needed for a good investor. Average holding time for any investment of an angel is only 3.5 years (Taylor, 2019), which means they should have their exit in mind from the start. Up until the liquidation of an investment, an investor holds paper, proof of future cash, but has less capital than before. Only through liquidation can an investor actually receive a return on their investment (Sudek, 2006). If an entrepreneur or their team includes possible exit strategies in their investment proposal, this will significantly increase their odds to receive investment.

One thing all papers agree on, is the inherent value of the entrepreneur and their reputation to possible investors. Therefore, it is of interest to an entrepreneur to build up the reputation of both themselves and their brand. Zerwas and Von Korflesch (2016) extends a model for corporate reputation to entrepreneur reputation and shows that similar fac-

tors as given in [Ferrati and Muffatto \(2021b\)](#) and [Landstrom \(1998\)](#) also contribute to building up a reputation. This reputation can be seen as both the result of and a basis for investment.

2.4 Angel networks

A more recent change in the angel investment atmosphere is the formation of angel groups ([C. Mason et al., 2013](#); [Sohl, 2012](#)). In these angel groups, a number of investors choose to work together. This is done in two main ways: member-managed or manager-led ([C. Mason et al., 2019](#)). In member-managed groups ([Carpentier & Suret, 2015](#)), investors do just what an individual business angel would do, but together with other angels. They do the research, interviews and everything else themselves. The collaboration provides the group more options. Individual investors can diversify their portfolio better because they combine their budget with others. On the upper side of the spectrum, this also opens up a larger subset of start-ups, because the group can choose to invest more money per investment than they would by themselves.

Under manager-led groups, investors join a professional group for the service they provide, which usually includes validation, due diligence and selection of potential opportunities ([Carpentier & Suret, 2015](#)). Most of these groups have regular presentation days, where the investment opportunities they have selected will present themselves, after which members can choose whether or not they wish to invest. The collaboration of business angels across the board opens up the start-up investment market to a larger group of investors. People that do not have faith in their own assessment abilities can join either of these formats to benefit from the knowledge of others.

However, critics also point out that the bundling of angel investor capital is institutionalising angel investment ([Carpentier & Suret, 2015](#)). Through the collaborations, these groups are approximating the organization of a venture capitalist. In doing so, the core value of angel investors, who are willing to take higher risk at an earlier stage of development, might be reducing when joining together as a group. [Sohl \(2012\)](#) suggests this changing trend may significantly uproot the foundations of the angel market. Another effect of the increase of the minimal investment amount is that start-ups need to look for other methods to receive initial funding. ([C. Mason, Botelho, & Harrison, 2016](#)) saw this happening in Scotland, where less investments of below £50,000- were made in recent years as those were deemed too small for the investor groups.

The market trend towards the grouping of business angels is the main reason for this research. [C. Mason et al. \(2019, p. 188\)](#) gives options for further research among which "there is a need to understand the different nature of the investment decision-making process and criteria of angel groups". This need, in combination with a general expansion of the knowledge base around angel groups, is the research gap this project will strive to fulfill. This research should give a basis on which the decision-making of angel group members can be evaluated, which should eventually allow further research aimed at extending individual business angel decision-making to angel group member decision-making. In doing so, previous research on factors for decision-making can be used more efficiently.

2.5 Angel network decision-making

One major difference between the decision-making process of individual angels and that of angel networks is in the selection process. Individual angels take between one and twenty minutes to establish if a proposal is a good fit ([Harrison, Mason, & Smith, 2015](#)), rejecting 90% of start-ups at this stage. The process of angel groups is much more extensive. During their research on two Scottish angel groups, ([C. Mason et al., 2016](#)) found that one major addition is the gatekeeper. This person is the initial point of contact for business, screening potential investments and filtering them against the investment criteria of the group. After this gatekeeper accepts the start-up, both clubs have different approaches. One club has an inner core to which the entrepreneurs must present first, which has to unanimously decide to invest. If this happens, the opportunity is opened to the outer core of group members, who can individually decide whether or not to invest ([Gregson, Mann, & Harrison, 2013](#)). The other group allows businesses that get past screening to pitch directly to the entire group. Members make their decision individually and if there is enough interest, the group does due diligence on the start-up and starts negotiations about the terms and conditions of the investment. When this is complete, members can make their final decision whether or not to invest.

This gatekeeper is the most important actor in the investor club and exists of two types consistent in name, but not function with the two types of clubs, those being member gatekeepers and manager gatekeepers ([Paul & Whittam, 2010](#)). The different types of members are highly associated with the size of the investor club. Within newer investor clubs, usually one or more members step forward to take this role upon them. However, when the group grows, this labour is more commonly recruited, as the workload managing both incoming dealflow as well as portfolio management becomes too much. This can initially be part-time, but is more likely to become a full-time function as the club continues to grow. According to [Paul and Whittam \(2010\)](#), this person will play a triple role, which they spread into an external role, an internal liaison and a linking role.

In their external role, the gatekeeper is a point of contact to start-ups seeking funding. These opportunities do not necessarily go straight to the gatekeeper, but can also come from their network. One of the key roles of the gatekeeper in this function is networking, to keep up dealflow through their connections. In the internal role, the gatekeeper is responsible for managing their members, as most of these are confident and strong personalities. A key factor in this role is bilateral trust between the gatekeeper and the key members. Low trust has a major impact on the decision-making of both the gatekeeper and the members. In the third role, the gatekeeper is a link between company resources and the demands from start-ups and members. They are responsible for facilitating deals, both with potential investments and within their club with the members. To do so, they are required to be active in every stage of the investment process: sourcing, screening, negotiating and managing. How intensively the gatekeeper is involved in each stage differs between firms.

3 Conceptual Framework

Decision-making by investor club members, further named 'members', is expected to be different than that of an individual business angel. These members have reasoning behind their decision to become a member, which could influence their decisions. Where there is ample research on individual angel decision-making factors showing that they are primarily concerned with team, market and product (Ferrati & Muffatto, 2021b; Landstrom, 1998; Sudek, 2006; Taylor, 2019), the decision-making factors of members are not as well researched.

Figure 4 is a visualization of the conceptual framework summarized from this chapter. In this research, the effect of a number of factors on the decision-making of angel group members is investigated. Here, these factors are categorized into three groups: Member background, club-related factors and start-up-related factors. Combined, these factors form a basic framework for the decision-making of angel group members.

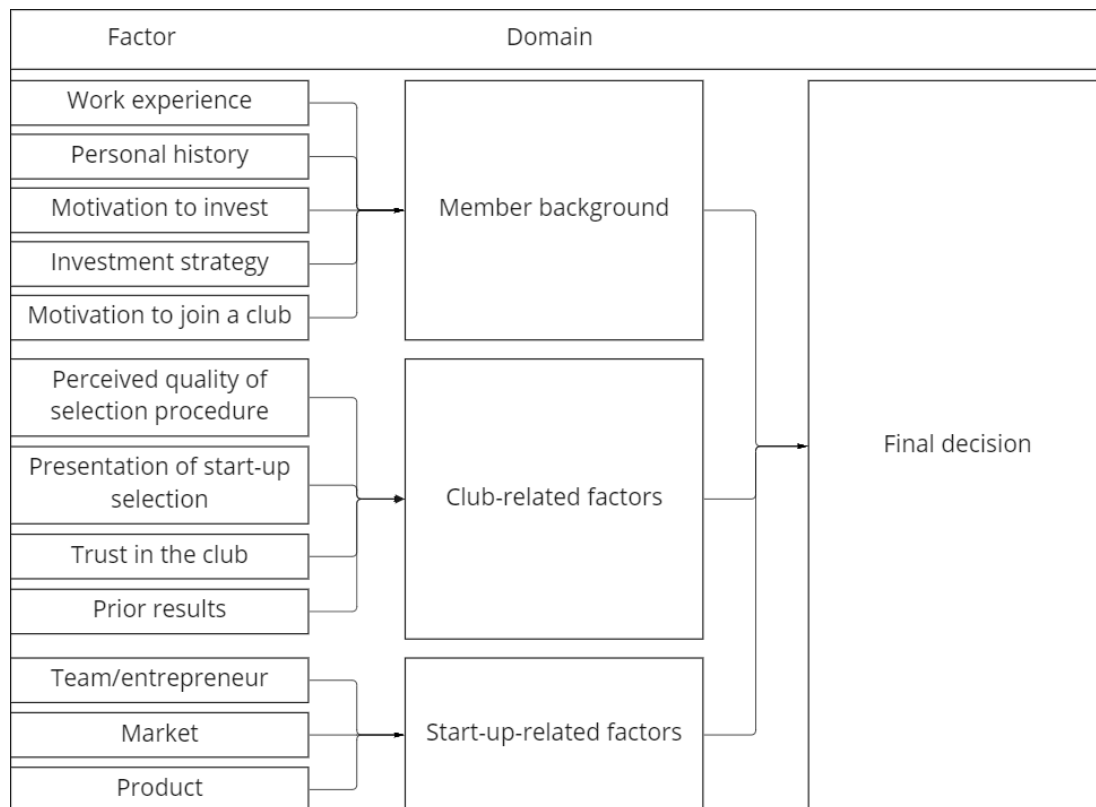


Figure 4: Conceptual framework of the influence of different factors on the final decision made by angel group members

3.1 Member background

One of the main recent streams of thought in decision-making theory is the dichotomy of thought, specifically well-known through "Thinking, Fast and Slow" by Daniel Kahneman (2011). In this book, two different streams of decision-making are established. System one is fast, instinctive and emotional. This system is used for making split-second decisions, where an instinctive reaction is usually the right one. System two is slower and more logical. When using system two, decisions made are more thought-out, more

deliberative. According to [Kahneman \(2011\)](#), a decision is made through either system. Although individual angels might use system one for the first round of selection, the final decision-making process for large-sum investment will always be done through system two. Because of this, it is expected that members have good reasoning for choosing to invest in a start-up. Rejection however might be different. Like an individual angel's first round decision-making, a choice not to like an investment can be made quickly, possibly by acknowledging a perceived fatal flaw. This method, called elimination-by-aspects by [Maxwell et al. \(2011\)](#), is a common human methodology in decision-making moments. The fatal flaw, although it may sound like a strong criteria, might also be a mismatch between investor and investment.

In life, there are some decisions you have to make and others that are easy to ignore. Some decisions, like what to make for dinner, are necessary. There is no way around them. Becoming a member of a (specific) investor club is not a necessary decision. The easier choice is to ignore the decision-making moment and not become a member. Through this phenomenon, the members of the investor club can be expected to have good reason to join the club. They will have certain expectations, and demands and their focus within the club will stem from their initial reason to join. This will likely also affect their decision-making when being presented with a set of start-ups. If, for example, a member joined a club because they have no experience in the field, nor in investment in general, they can be expected to take more of a following role in the group setting and will be more likely to trust the judgement of other, more experienced investor.

As members of the investor club make their decisions, they will act upon their experience and their goals for the future. These goals tend to be flexible, but may, in some cases, be (part of) the reason the member joined the club. If this is the case, this initial motivation to join the club may trump any specific factors about the start-ups pitched that quarter. The opportunity presented might be a good one, but if it does not fit with the investment strategy of the firm, the match will not be right. Knowing this may be the case opens up a different avenue into member decision-making, where directed opportunities to fit with members may become a viable strategy for the club.

Another important part of the member background is their personal history. What they know about the sector, where they worked within the sector, what personal struggles they have had to overcome and much more may all affect their decision-making. Specifically in the health sector, if a close family member suffered from a specific disease, an investor might be more likely to invest in a company working to ease this suffering or cure the disease. A decision is based on experience and the experiences of members are therefore very important to try to map. This will of course not be feasible, as every experience over the span of a lifetime can affect decision-making, but categorizing some minor points could be valuable.

Like their personal experiences, the capacity in which a member invests could be expected to affect their decision-making. Initially, investor club members were largely business angels combining their efforts, but these clubs are not exclusive to just business angels. Clubs cooperate with VCs to reach the required ticket size and in many clubs, there are multiple types of members. This will once again go back to the investment strategy of a member. It is obvious that a corporate members wanting to expand their company and

an individual business angel looking to invest their wealth will have different demands for an investment opportunity. Although they might end up investing in the same company, discussions about why they should invest, as well as the secondary aspects of the deal, might be very different.

3.2 Selection procedure

Every angel investor has their own demands of a start-up. Some will care more about specific factors like exit strategies, entrepreneurial characteristics or market specifics than others. Within an investor club, members who would usually have different demands are thrown together and will get pitched start-ups all selected through the procedure of the club. The effect of this difference on investment will be highly dependent on the selection procedure of the club in question. For a club that presents what they call "investment-ready" opportunities, where they have even done due diligence, it is possible members do not care about these different demands, because the process of the club is thorough enough to warrant their investment. The effect of this selection procedure might be difficult to quantify, but an effect on member decision-making is to be expected. The club chooses to follow certain selection procedures to ensure they pitch quality start-ups, but also to be able to show their members the quality of their selection work. Would this not affect their members, this service would not be viable long-term.

A secondary, but even more important element is the presentation of the results of the investor club's selection. A member can be expected to trust the club to some extent, but part of the reason to join an investor club is to be involved in the investment of one's money. To do so, the presentation of an opportunity is very important. The classic method, in which a start-up pitches themselves to would-be investors, is a great introduction, but does not showcase much of the selection work done by the investor club. This secondary perspective, given by an entity which is not trying to sell this specific investment to you, like the founders themselves will, is immensely valuable as a relatively unbiased view of the start-up and its prospects. By sharing the reasoning behind the selection of this start-up, the investor club can help increase trust in their process, help lower barriers to investment and in doing so, increase the total ticket size due to these effects. This all balances however, on how they share the information. Simply doing the research is not enough to show your members the opportunity is good. Whether this is done through a secondary pitch by part of the selection committee, a detailed investment report after the pitch, through an introduction before the pitch or through another method, will have an influence on the perceived value of the investor club research and therefore on the decision-making of the investor club members.

3.3 Decision-making process

Like with angel groups, it is expected that every member will have their own specific decision-making process. More interesting is if there are parallels between the decision-making processes of different members, especially when comparing these processes to their process when investing outside of the investor club. The processes of different types of members are expected to be divergent. Where a business angel has no-one to report to and can be more flexible, a representative of a corporate venture capitalist not only has to make the decision together with others, but will also have to report and defend their

decision-making. By comparing the processes not between member types, but within these subcategories, parallels between the processes can be drawn. By showing the level of scrutiny upon the decision-making of different types of members, the level of informed reasoning behind their decisions becomes explainable.

3.4 Factors of importance

As described in section 2.3.2, the factors of importance for angel investors are very well-known. Many of these, like the market potential, barrier to entry and the existing product, can be expected to remain similar when comparing investor club members to individual angels. However, the formation of angel groups compared to individual angels is expected to influence these factors (Carpentier & Suret, 2015). Where individual angels have to do all of the selection work by themselves, this labour is shared or externalised by using investor clubs. Although the common factors will likely still be named by members of these clubs, their priority will likely change. The level of change will be dependent on multiple factors. Some factors of influence that can be expected are the level of input of the investor club, the level of trust between the member and the club and the fit within the company.

3.4.1 Investor club specific factors

Although investor clubs are bundled under this name, not every club has the same methods or delivers the same service. An initial separation is between member-managed or manager-led investor clubs (Carpentier & Suret, 2015; C. Mason et al., 2019), but even within these categories, there is a multitude of minor steps or services that can be provided. It can be expected that the more work this club does for their members, the larger the differences are between the decision-making of their members and that of individual business angels. As the investor club takes more of the initial screening, market research, due diligence, etc. upon themselves, the members have to do less of this work themselves, which could reduce their focus on these areas, opening up a larger space for other factors, as well as more emotion-based decision-making, where a member may choose to invest because they feel like the start-up will be a good investment. If an investor club has a high level of scrutiny before the start-up gets pitched to their members, a member might be less thorough in their own decision-making.

For a member to let go of their own standard of research and follow the club process, they will have to trust the club they invest in. This level of trust in the investor club will be a major factor in the decision-making of the members. The way this affects decision-making will depend on the experience of the investor. A new investor, with no set method or criteria for their decision-making, will likely trust the investor club to make good decisions. This could be one of the leading reasons for them to join an investor club in the first place. An experienced investor, who has been investing in start-ups for some years, will have a more rigor method to their decision-making. Though initially they might hold on to their own system, it can be expected of them to eventually lower their research standards, as they will be doing the same work they already paid the club to do for them. When their level of trust goes up, a new equilibrium will be established, in which they do less of the research themselves. Another level of trust is the ticket-size with which they invest. In most manager-led investor club, a deal is preconceived and the members can invest at set terms. This leaves individual members free to decide how much they want to invest.

When a club has a proven track record, members will be more likely to invest more in the opportunities presented by it, as their historical record speaks for them. A parallel to this in the stock market is the "Warren Buffett effect" ([Manuel, 2022](#)). As one of most, if not the most well-known investors in the world with a proven track record of high returns, when Warren Buffet (or his firm, Berkshire Hathaway) announces to invest in a stock, others will follow.

As discussed in section [3.1](#), different members can be expected to have different motivations to be a member. This will also show itself in the investment strategy of specific members. Where individual angels who become members could see the investor club as a part of their selection procedure, a corporate partner might have different demands. Although all members are assessing the start-up by itself, they will also look at their own portfolio and the role this start-up can have in this portfolio. Where an angel investor could be focused on diversifying their portfolio by adding specific market or market segments, corporate investors might be especially interested in partnerships. As one of the main distinguishers of Corporate VCs when compared to regular VCs, corporate VCs are interested in more than just financial investment. They usually look for a collaboration with a start-up, looking to incorporate their product or service into their own business to grow both parties simultaneously ([Corporate Finance Institute, 2022](#)). Because of this, the fit between start-up and the investor might be an important factor, especially for the corporate members.

3.4.2 Common factors of importance

As described in section [2.3.2](#), the factors of importance for angel investors are well-researched. Although the process for investors gathering dealflow is very different for investor club members, many fundamental aspects of start-up assessment will remain the same. When it comes down to basics, in either scenario it is just about a start-up receiving cash to grow their business. Although investment can be about influence or experience as well as money, without money, the start-up cannot grow. An investor wants to ensure their money goes to a solid investment opportunity, which is why they assess the start-up in the first place. Although the main focus might be different, the main factors an angel investor looks at when assessing a start-up will still be of importance for investor club members. The main focus groups, those being Team, Market and Product ([Ferrati & Muffatto, 2021b](#); [Landstrom, 1998](#)), are distinguishing factors when comparing start-ups. These factors directly relate to the unique selling point of a start-up. Therefore, they can be expected to be consistently important to investors of any type.

In the decision-making process of an individual angel investor, they would use these factors to decide whether the start-up is a good investment. However, as the club has decided to pitch the start-up to its members, they can trust their choice. This might shift the importance of certain factors. Examples of non-conventional factors not directly related to start-up performance are their fit with the investors strategy or portfolio, societal impact and a personal connection with the problem. All these factors play a role in decision-making both of individual angels and angel group members, but due to the differences in workload and perceived quality, the weight these factors hold in decision-making might change.

Any differences found in the decision-making process are expected to stem from either of

two origins; member and organization. Organization-based differences usually originate in the value proposition of the investor club. A big difference between angel networks and the process of individual angels is their pre-selection process ([C. Mason et al., 2016](#)). Where business angels usually take within one to twenty minutes for their first selection round, at which stage 90% of proposals get rejected, the process of angel networks is much more extensive, showing their members only what they perceive as good investments ([Sohl, 2012](#)). Although there are differences between networks, one of the key selling points of manager-led investor clubs is their selection process, where members do not have to spend time doing this themselves. This process differs per investor club, where some clubs go as far as to do due diligence analysis before allowing a start-up to present to the members. This further influences the trust-based decision-making.

In a review of literature [Harrison et al. \(2015\)](#) shows an analysis of the rejection criteria of an Italian member-driven angel group. Throughout three stages, start-ups are commonly rejected based on a lack of innovativeness, low growth potential, weak management teams and poor financials. Every start-up that is rejected in this screening stage will not reach the pitch day, leaving only the best investment opportunities for the members. The factor of trust is expected to be an important underlying factor in the decision-making process of members. New members, especially those that also invest as individual angels, can be expected to do a lot of their own research on the investment opportunity, where a veteran member of a club or someone with a long-standing relationship with its managers, might be more inclined to trust their track record. A higher level of trust could potentially lead to a larger difference in factors named between members and individual angels, as the investor lets go of their own process. This inclination to trust the club process also stems from the motivation of an individual or group to become a member of the investor club. Members without much or any experience in the sector will be more inclined to trust in the decision-making of the club and/or follow more experienced members, as they themselves do not possess the necessary experience to distinguish good opportunities from great opportunities.

Something every investor should take into account when choosing which opportunity to invest in is their existing portfolio and their strategy to expand this portfolio. There are many different strategies one could apply, but a common strategy is to diversify investments. This can be done within one sector, but also between sector and methods of investment. An overarching goal of an investor is to pick good investments, but when this is already done through an investor club, it is possible to focus on picking the right start-up within the strategy. What this entails will differ per member, per member type and per situation, but will commonly affect decision-making.

A common interest between investors is making money. Although this is usually the primary reason to invest, secondary reasons can play a role in decision-making as well. Secondary reasons can include helping starting companies, provide cashflow to a good cause or otherwise trying to make a societal impact. Especially in the healthcare sector, societal impact can be expected as an additional motivation for investment. This perceived impact could potentially play a role in decision-making, although this could also be more of an overarching theme, based around sector selection and strategy formation.

Personal values or experiences can be expected to play a role in decision-making. [Bennett \(2003\)](#) found that when donating money, people were highly influenced by their expe-

riences and values. Where most investors will try to focus on business first and then secondary factors, prevalidated start-ups might open up more emotional decision-making. This should also be highly dependent on member type. An individual angel has their own personal beliefs which they could act upon, but this could be frowned upon for the selection committee of a corporate venture capitalist. First of all, this committee is comprised of a number of members, which might not share the same beliefs or experiences. Second of all, their primary objective is investing in the spirit of the strategy of the company. The only way they should be investing along their personal values is if these values are in line with the company strategy.

4 Methodology

4.1 General strategy

To analyze the subjective field of decision-making a qualitative research methodology was the most applicable and would give the largest insight into the decision-making of the members of these investor clubs. As not much is known yet about the decision-making of specifically investor club members, qualitative research would grant much more insight into the decision-making process and the factors behind it.

To gather data on the problem area, it was chosen to do a case study, where members of one specific club would be interviewed, gathering data from this subset of members. This data can be used to sketch a broad scope of the decision-making process and factors of the case club members, which can later be used in further research to validate against other investor clubs. This strategy will not grant a generalizable result to all investor clubs, however, it will shed a light on the decision-making of members of this case in comparison to angel investors.

Within this case study, ethnography will also be used as a research method ([Sekaran & Bougie, 2009](#)). In decision-making, the culture of the group surrounding investment can influence the decision-making process and the final decision of specific group members. To be able to assess the decision-making of members, knowing the atmosphere in which they make the decision is just as important as the proposed query for which the member must decide.

4.1.1 Case selection

To assess the factors of importance for investor club members, a professional organization with set selection procedures was necessary to reduce variance. For the same reason, a single investor club is used as the frame. This way, all members have seen the same start-ups and receive the same communication from the club. To create the largest separation from regular angel investors, a club with a far-going selection method was chosen, who even does due diligence. Through their promises, any start-up pitched through an investor club with such a rigorous selection process should be a good investment. This leaves space for investors to think about what matters when everything has been validated, which is exactly what we want to learn. Through the network of the thesis supervisor, one such club was reached who were willing to open up their network and actively promote this research within the organization. This is partially because of the connection with my supervisor, but also because they are equally interested in the decision-making of their members. By better understanding their members, they will be able to provide a better service.

The investor club which was the focus of this research is a German-Turkish investor club stemming from a collaboration between three existing companies from different subsectors of the investment market. Members of the investor club come from the networks of its founders and board. The selection committee which chooses start-ups does as well. Joining the club can only come from a network basis, not by applying. To get to know the club, prospective members are invited to the pitch days, where they can experience what a member would gain from being in this club. Currently, most of the members come from

the network of a founding partner of both one of the existing companies and the investor club who, like many other players in this field and the club, worked at Siemens for 20 years.

At the start of the thesis, the investor club has 25 members. Most of these members come from Turkey and Germany, but there are also some members that live in other countries. The members are separated by the investor club management into three subcategories of members, those being Angel investors, Family offices and Corporate partners. As can be seen in Figure 5, the most common of these member types are corporate partners and then business angels, with only two family offices. When choosing members, the methodology of which I elaborate on in section 4.3.2, these same groups are kept in mind. This way, all types of members of the investor club are represented and it is possible to analyse them both separately and together.

4.1.2 Case setting

The investor club used as the case study for this research is relatively new, having only started in 2020. During this time, they had built up their network to 29 members. In this club, the group of members is comprised of corporate members, business angels and family offices. In Figure 5, the distribution of the group members both by nationality and by type of member can be seen. It should be noted that the data used regarding nationality is the member's current country of operation. The club stems from a cooperation of Turkish and German companies and networks, which is also represented in the member list.

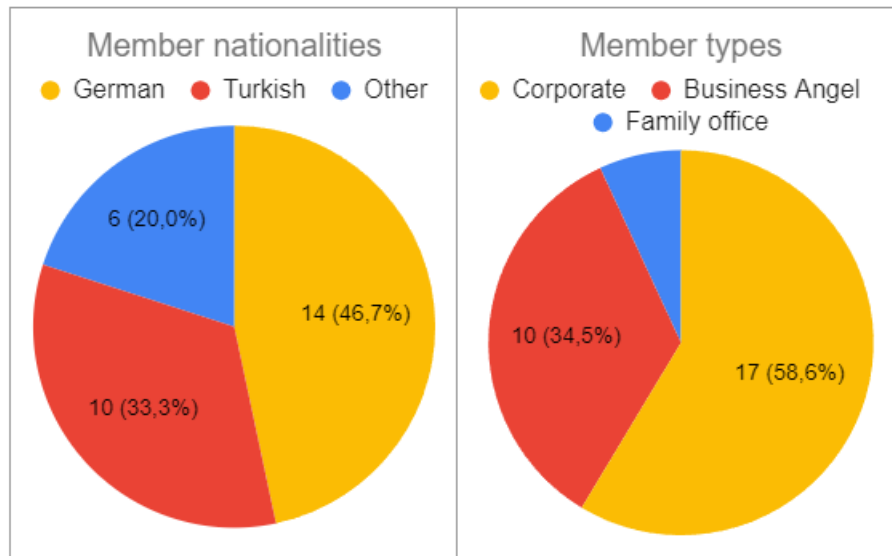


Figure 5: Distribution of members in the researched investor club based on country of operation and member type

In this club, a manager team, combined with an investment committee of experts, provides deal selection as a service to their members. Each quarter the club presents two or three start-ups to their members of which they say, those are good investments. Due to the young age of the club, they do not yet have a proven track record within the club, but the cooperation of experienced companies to form this club by experienced people can be seen as an alternative. The club also uses the track record of one of these mother companies as a form of track record in their presentation.

To learn more of the club, ethnography as a form of data collection will be utilized in this research. More on the methodology of this data collection method can be found in section 4.2, while the results of ethnography can be found in section 5.1.

4.2 Ethnography

To assess the culture of the investor club, I joined every public meeting in which the start-up and the investors meet with one-another. There are also other meetings between multiple members, members and the club or members and the start-ups, but because those meetings are private, I was not able to join them. They are also less important for assessing the culture and the decision-making atmosphere, although they may influence decision-making. Through this strategy, in which the aim was to generate an insider's point of view of the culture and dynamics within the groups, the quality of the data collected at a later stage will be higher. Building familiarity with the atmosphere, the way start-ups are presented, the specific recent start-ups, important figures in the organisation, the form of collaboration and many more minor aspects, will in turn help understand the answers of club members.

The first and largest of the group meetings is the pitch day. On this day, the investor club organized a conference which all the members, multiple start-ups which will pitch, prospective members, friends and other interested parties could attend. Every pitch day, which is usually alternately in German or in Turkey, two to three start-ups will pitch themselves, hoping to get the investment they discussed with the investor club board. After the presentations, there is time for questions and afterwards, drinks, snacks and open conversation and discussion. This event also doubles as a networking event, striving to make the club into a cohesive unit, where members get to know each other and want to invest together. If for any reason a member cannot or will not join the meeting physically, it is also possible to join online or watch back the meeting recording at a later moment. This way the investor club also accommodates the group members without leniency in their schedules.

At the end of the pitch day, the schedule for upcoming meetings and deadline is given to all investor club members. The timeline of both start-ups can be seen in 6. After the pitch day, all members are sent a detailed investment report on both of the start-ups that pitched. Two weeks later, after all interested members had time to read through the files, a follow-up meeting is organized. In this meeting, the start-up gives a short reminder pitch, after which members can ask some more questions. If all questions have been answered, the start-up leaves the call, giving room for a group discussion on the start-up, their opinions, doubts and if they will invest. This is the final group-wide meeting, but the club also helps plan private meetings for their members if they have more to discuss with the start-up. As can be seen in the timeline, the next step for members is to give soft commitment, which means they will invest and the investor club should start preparing the paperwork.

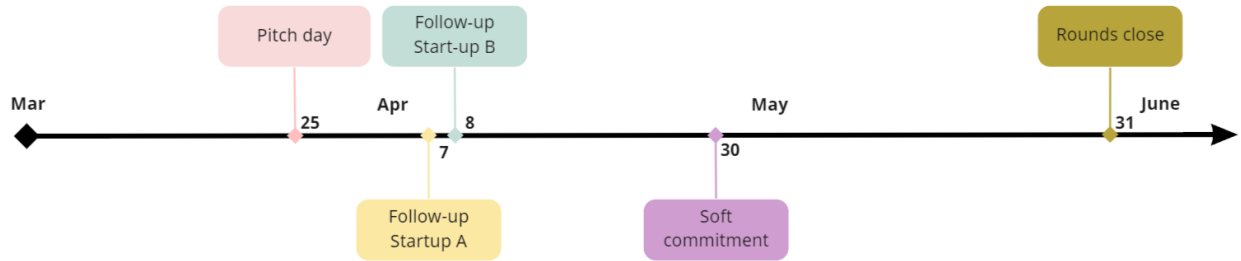


Figure 6: Timeline of the investment process

4.3 Interviews

The main form of data collection in this research will be through interviews of the members of the investor club. The main goal of these interviews is to learn about the investment processes of experienced investors and get to know their opinions on important factors surrounding their decision whether or not to invest. The data gathered from these interviews will form the basis to answering the research question posed in this thesis. These interviews will be held in a semi-structured manner, where we start off with a pre-established set of questions, but try to gain as much information as possible during the interview by using follow-up questions or having the members elaborate on something they have brought up.

4.3.1 Question design

To assess the decision-making of members of the investor club, a set of questions for the interviews were drawn up. This set of questions aims to do two things: Categorize the members interviewed and find their decision-making. The total list of questions can be found in Appendix A.

To analyze the members, a few short questions are asked in combination with pre-received information from the investor club about their categorization of the members into subgroups. As the investor club consists of different subsets of investors, it is vital to interview members from all of these subsets. By having the interviewees speak of their experience and background, it is possible to keep track of them, whilst also providing an easy to answer opening question, whilst simultaneously establishing rapport with the interviewees and making them feel at ease. Showing interest in the member can provoke them to give more enticing answers. This is also why each interview will be started off by giving a short introduction into the research, as well as explaining briefly what their contribution will bring both the research and the investor club.

The main part of the interview is aimed at answering the research question, which is *When given a pre-validated set of options from an investor club, which factors affect the members' decision-making process?*. To answer this question, multiple approaches are used. First, we talk generally about the member's decision-making process. After this, specific factors to accept an opportunity are discussed. We then go into the role of specific subsets of factors to their decision-making and lastly, the reasons to reject a start-up are discussed. After this general discussion of the member's decision-making process and factors of importance, the last pitch round is addressed. In this pitch round, which I

attended as well, two start-ups were allowed to pitch to the members. This section of the interview is aimed at unraveling the member's choices about attending this meeting, the follow-up meeting and the choice whether to invest. A final question is aimed at uncovering the member's preference regarding communication about the investment and possible improvements to the process of the investor club. Both of these questions are primarily aimed at improving the service by the investor club, but especially the latter could also expand on the demands and current failures of the decision-making process of the member. There are some back-up questions in the list to address the member and their decision-making in a different way, which will be asked only if there is time remaining in the interview.

4.3.2 Sampling

For this case study, one specific investor club is the total sampling frame, through which the aim is to shed light on the entire population, which are members of manager-led investor club. To do so, a sampling design was chosen which would allow the deliberate choice of subjects to conduct interviews with. Within the sampling frame, utilizing any type of probability sampling was not expected to give adequate results. As the club is not even two years old, members can have a low amount of experience executing their decision-making process when investing through this investor club. Probability sampling is also more useful when doing quantitative research, as this allows the researchers to generalize across the population. As qualitative research is more focused on the why and how, getting the most experienced input is more important than equal chance. To decide on this element of the research design, Figure 13.4 from [Sekaran and Bougie \(2009\)](#) was used, which further evidenced the decision to utilize a form of judgement sampling.

"Judgement sampling involves the choice of subjects who are most advantageously placed or in the best position to provide the information required." ([Sekaran & Bougie, 2009](#), p. 248) This methodology is a form of convenience sampling, where by using experts in the field without probability sampling, it is relatively easy to use connections to find subjects to interview. Within the investor club, there are 25 members, with different histories, member types and who have been a member for a different time period. Judgement sampling helps make sure the members that are interviewed have adequate input on the subject. To assess member expertise, this was done jointly with a business development manager within the investor club. They work closely with the members and knows who are active within the club, who invest often and who will be willing to do interviews for this research.

On top of judgement sampling, a form of stratified sampling was used. Generally, stratified sampling is seen as a probability-based form of sampling, where subjects get chosen randomly from either a proportionate or disproportionate set of strata. In this case, the separation into strata was done as well, but from these strata, members were selected through judgement sampling. This was done to ensure members from all different types were selected to get a representative view into all groups present within the investor club.

To separate members into strata, an anonymized list of members was provided by the investor club with on it the member type, country and sector of each member. The amount of members in specific subsets of member type and country can be seen in Table 1. The

sector of each member was not used to form strata for two reasons. Firstly, the data was not consistent. For some members, this sector was the sector they work in and have experience in, whilst for others it was the sector they want to invest in. Second, there are too many different sectors in this list, which would leave most strata with one member. Combining different strata could then be an option, but as all members are already choosing to invest in a specific sector (the digital healthtech sector) by investing through this investor club, it was chosen not to do so.

Table 1: Members of the investor club from different subgroups

		Corporate	Business Angel	Family office
	Total	17*	10	2
Germany	14	7	6	1
Turkey	10	9	1	0
Other	6	2	3	1

**One of the corporate members does their work both in Germany and Turkey, because of which the numbers do not add up to 17. For all other multinational corporate members with a German or Turkish part, these were counted as such.*

As can be seen in Table 1, members have been separated into different strata according to nationality and member type. Within these strata, a disproportionate form of judgement sampling was used. Both family offices were interviewed, whilst the rest of the interviews were filled up equally with corporate members and business angels. The nationality of members was not used for planning the initial set of interviews, but was used to round out the selected list of members after doing the first interviews.

The initial step in member selection was experience-based. To follow up the ethnography part of the research methodology and to invite the most enthusiastic members, the choice was made to invite all members that were present both at the pitch day and at the follow-up meetings. Only three members met these initial criteria. The two remaining members who attended the pitch day in person were invited as well. From this point onward, all subjects were selected in cooperation with the investor club. The list was concluded with three more members shared between Angel investors and Corporate members. It should be noted that whilst doing interviews, the CRM used for sampling turned out to have some inaccuracies when combined with member statements, meaning some members have been recategorized for research purposes. This is further discussed in section 4.3.2.

The final sample showing member origin and type can be seen in Table 2. Through this sample, two family offices, three angel investors and three corporate members were interviewed, four of which were Turkish and four were German. Due to collaboration with the investor club when selecting the latter part of the list, this might include members that are biased. Many of the interviewed members have a double role, also consulting the club in their selection committee or in one case, being one of the co-founders of the club. This means they can be inherently biased when asked about club processes or potential club improvements, but their responses regarding decision-making and factors when investing should not be affected significantly.

Table 2: Final sample of member interviews

	Country	Member type	Discrepancies with CRM
1	Turkish	Corporate	-
2	Turkish	Family office	Corporate
3	German	Angel investor	Family office
4	German	Angel investor	-
5	German	Corporate	-
6	Turkish	Family office	Angel investor
7	German	Corporate	-
8	Turkish	Angel investor	-

Discrepancies in sampling

As can be seen in Table 2, the final sampling contains two family offices from Turkey, whilst in the dataset used for sampling (see Table 1) contains no family offices from Turkey. This shows that the dataset provided by the investor club is not always synonymous with the way the members see themselves. As the members will only be categorized after the interviews and these discrepancies were noticed whilst conducting the interviews, this does not pose a large issue and was taken into account when choosing the final members to interview, as this was an iterative process.

Categorisation of members could have led to wrong conclusions regarding the decision-making process and factors of specific groups, which is why this final check was included in the research. However, this does evidence that the anonymized list of members provided by the investor club, of which the summation can be seen in Table 1 is incorrect in this regard and might give a wrong idea of member distribution within this club. As this is qualitative research not focused on generalization, this is not an immediate issue, but for future research aimed at generalization, a prior check to validate the member types of the sample should be included to ensure the secondary data used for sampling is correct.

Another discrepancy is the single German family office. This person, who manages only his own wealth and does this by himself without consistent outside help, was interviewed and did call himself a family office, but when prompted, admitted as well that he uses the terms synonymously. In the final categorization, he was categorized as a business angel, as he falls within the definition of that category used in this research.

After discussing these discrepancies with the investor club, the double purpose of some members was named as the main reason. Some members started or own a company through their family office, because of which the investor club categorises them as a corporate. The argument for both can be made and brings the argument whether family offices are actually a good third category or if these should not be separated at all. This will be further discussed in the discussion, specifically in section 6.6.

4.3.3 Interview set-up

The interview was held through MS Teams (and in one case through Zoom due to member preference) because of the distance between members and the interviewer. All members either live in Germany or in Turkey and going to their locations for these interviews is

simply not feasible. Because of the relatively small interview-base due to the research being of qualitative nature, personal interviews are feasible and also preferred. Because of this, the choice was made to go through virtual calls. During the different lock-downs in recent years, these video-calls turned into regular occurrences for almost everyone, allowing us to use this methodology for research.

By holding these meetings face-to-face, it is possible to pick up non-verbal cues, which is especially important when combined with the semi-structured interview approach used for the interviews. Knowing when the interviewee is struggling to understand the question, is (un)comfortable, needs encouragement, etc. is very valuable to increase the interview quality and the total data gained through the interview. It also makes it easier for respondents to speak about their personal experiences when speaking to a human face.

In the ideal scenario, video interviews are a great option. However, software or hardware failure on either end of the meeting can have a negative influence on the flow of the conversation. In one interview, the member interviewed could not hear the questions very well. Although all questions were eventually understood and answered, this could have influenced how comfortable the interviewee was during the interview and in doing so, the longevity of his answers. This concept has been under focus since teaching went remote due to the Covid lockdown. [Ezra, Cohen, Bronshtein, Gabbay, and Baruth \(2021\)](#) show that bad audio quality can have a negative affect on lectures and specifically discussions, as they hamper the flow of the discussion.

The interviews are between 30-45 minutes long. As these members are all very busy, taking too much of their time would lead to lower willingness to do the interviews. However, an adequate amount of data is necessary, which is why this timespan was chosen.

As the interviews are qualitative and the goal is to receive as much unbiased data as possible, the choice was made to do these interviews one on one. An expert panel would have been valuable as well, but this way, no opinions are snowed under by other speakers and people are more confident to speak out their personal opinions instead of giving socially desirable answers. This is also why no one of the investor club is present at the interviews and why they will not be given direct transcripts of these interviews. Even anonymized, the transcripts are very easy to link to a specific member and knowing the club will eventually see their answers might influence these, even though the club holds no actual power over their members.

4.3.4 Ethical considerations

When collecting primary data, several ethical issues should be addressed ([Sekaran & Bougie, 2009](#)). These potential issues are threefold, with all relevant parties: research sponsors, respondents and researchers. Ensuring ethical behaviour from all three parties is important for the quality of the research and to ensure good collaboration between all parties.

The sponsor, which is the investor club, asked for this research to be done to help them improve their organization. In conversation, it has been communicated they will not have a say in the research itself and will respect the confidentiality of the collected data. They

have agreed to receive the results in the form provided by the researcher.

Once a respondent has agreed to participate in the research and consented to the interview as well as its recording, they have an obligation to cooperate to the fullest of their ability and to answer all questions truthfully and honestly. They retain the right not to answer questions they do not feel comfortable with, but are expected to assist the researcher in data collection to the best of their ability.

All respondents have decided to participate in the research voluntarily. They chose freely to participate in the interviews and consented for these to be recorded and for the recording and its transcription to be utilized in data analysis. To ensure their consent, this is asked again at the start of the interview. The collected data will be anonymized for research purposes and will not be shared with the investor club, as even anonymized data is easily connected to the respondent due to a small sample and their assist in respondent selection. From this data, only the combined data of different interviews will be added to the final report. If requested, no personal data will be shared with the company, unless the respondent explicitly agrees to this. As there is only a small number of respondents within each category, even combined patterns will show the opinions of specific members. This risk cannot be minimized further, but because the organization holds no real power over its members, this minor risk is acceptable, as completion of the research would otherwise not be possible.

The main goal of the researcher in data collection is to provide the respondent with an open and safe environment to speak their mind. Through the drafted list of questions, the respondent is pushed in a specific direction, but they will not be forced to answer questions they are uncomfortable with. If the respondent chooses to, they are free to withdraw from the interview at any time, but by focusing on informed consent prior to the interview, this is ideally prevented.

4.4 Data analysis

After the interviews, the audio recordings were anonymized and transcribed to prepare the data for analysis. To analyse the data and aid in pattern recognition, the transcripts of the interviews were reduced using a combination of deductive and inductive coding. The coding process started off with a predetermined set of codes based on the same themes used to create the questions. However, due to the semi-structured nature of the interview, additional codes were added if a member addressed something unexpected. Through this method, using the interview questions as a thread through the transcriptions, the data of multiple members was combined. This data was compared with the conceptual framework in Chapter 3 and used to find patterns between the decision-making process and factors of members and across member strata.

4.5 Limitations of the research

The combination of the literature review and both forms of interviews will provide a rich set of data which we can use to shed light on the decision-making factors used by investor club members. However, this research will not provide a generalized overview of the opinions of all members of investor clubs, but rather a detailed review of all the factors of

importance to a number of investors from this one club. For future research, this could be extended to a quantitative analysis of a larger number of investors or a qualitative study of different investor clubs to assess the differences between clubs. Through this method, the findings can be generalized across this investor club and if done well, to other investor clubs as well.

The main limitation throughout the research is time. Time limitations have major consequences to the scope of the research. First, the research is limited to one investor club, which works in the health sector. This might entice a certain subset of investors, which will affect decision-making. The investor club is also relationship-driven, narrowing the member selection even more. For current members, the specific sector might have an effect on the short-term growth potential of the opportunities. To actually know the effects and the differences between clubs, the methodology used in this research could be utilized on a broader scale in future research, interviewing members from different investor clubs.

Within the current methodology, time was also a limiter of the interview sampling. To achieve the wanted data, the interview process will end when dataset is saturated. Because the club is made up of members of different backgrounds, this might not be after the planned amount of interviews. This is especially true for smaller member group types. As there were only two family offices in the club, this will not be enough to reach data saturation. Possible patterns might show up, but without more interviews, validating these patterns is not possible within the scope of this research.

Another limitation of the research was the total sample size. Initially, 10 interviews were planned. However, due the cancellations of the final two members that would be interviewed, it was necessary to settle for eight interviews due to time constraints. As patterns did arise between the members interviewed in different strata and answers to the questions were starting to become repetitive, it seems data saturation was achieved. However, two additional interviews would have helped to ensure no data was missed due to the selection.

4.5.1 Threats to validity

The methodology utilized has a number of problems when focusing on generalizability. Although generalizability is not a goal of this research specifically, where the goal is to collect rich data and form patterns, these threats could still influence the answers of members and the patterns that appear to arise. Two potential threats to validity due to the methodology used are instrumentation effects and history effects.

By using semi-structured interviews, it is possible to collect deeper data by asking follow-up questions, additional prompts and by allowing subjects to go off-topic. However, a downside of this methodology is that not every member focuses on the same aspect of the research. Due to this, whilst some members may have spoke on a specific topic, it is unsure how many members value this factor. This is an accepted risk with the methodology, but when future research aimed at a more generalizable result is conducted, the research methodology should be adjusted accordingly.

A second threat is due to history effects. Due to logistical and communication issues, the interviews were spread out over more than a month time. By itself, this should not be an

issue, but when combined with the timeframe in which the members have to concretize their interest, the timing of the interview might play a role. During the interviews, some members were still considering whether or not to invest in the presented opportunity, which will lead them to focus more on this specific investment, rather than their general approach. This will always be the case due to recency bias in the memory of members, but having a more consistent timing of the interviews could reduce variance between the different interviews.

5 Results

5.1 Ethnography

Through ethnography, in which the club introduction, pitch day and follow-up meetings were analyzed, an understanding of the investor club is established. This will help ground any statements, results and patterns, allowing for the creation of a deeper understanding of the results. Here, a short report of these different moments in the investment process is presented.

5.1.1 Investor club introduction

To get to know more about the company, as well as the selection of start-ups to pitch to members, the investor club gave the same presentation they give to prospective members. In this presentation, the club presents their mission, track record, selection procedure and their value proposition. To answer why members should join the investor club, they state that "Based on our deep expertise in healthcare and life sciences and our unique access to medical breakthrough ventures we provide our club members highly attractive, selected investment opportunities". As explained in section 4.1.1, the club is made up of a collaboration between three companies. For the track record of the newly form club, they present the data of one of these companies, the one under which the club is legally positioned and to whose selection process that of the investor club will be similar.

For their selection procedure, the club shows a roadmap, starting with case selection out of leading European start-up ecosystems. From the 500 applicants, only 15 are shortlisted after screening of the digital application from a commercial and product perspective. After this step, the remaining start-ups are subjected to "High level red flag due diligence" from a commercial, legal and tax perspective. This procedure is performed by the expert committee drafted from the network of both the investor club and its partners. From the initial 500 applicants, only 10 will eventually be funded after this selection procedure. This expert-assessed exclusive investment opportunity through their extensive network is what the club names as their main value to prospective members. Through this club, members get exclusive early access to investment opportunities. All opportunities first get opened to investor club members. After this, the extended network of the investor club is invited to invest and when these deals are done, the remaining portion of the investment opportunity is opened to the public. Although the goal is to eventually fill the total investment through the investor club, this system allows them to invest right now, whilst the club continues to grow.

5.1.2 Pitch day

To get a better understanding of the investment process through the investor club, the pitch day on the 25th of March 2022 was used to do ethnographic research. On this day pitch day, organized in Germany, a relatively large group of people attended the pitch day physically. Where the club only consists of 29 members (excluding staff), the event was visited by around 60 people, 15 to 20% of which were women. A group this large can be explained by the multiple purposes the investor club uses the even for. Whilst it is the presentation of this quarter's start-ups, it is also a networking event, which the club uses to attracts prospective members, garner interest and introduce the club to

potential start-ups for next quarter. This was further evidenced when asked about the attendance list after the meeting. Of the 60 people in attendance at the pitch day, only three were members of the club. Another four members joined the meeting online, all of these members being from Turkey. Because of this, the aim to involve myself in the club to get a feeling on the decision-making atmosphere was not as useful as hoped. However, following the presentations and talking to organization members of the investor club, as well as some prospective members and actual members, helped put some things about the organization in perspective, simultaneously providing insight into the two start-ups, what types of start-ups the investor club is interested in and the way these start-ups were presented. Although not many people present at the pitch day were members, networking with these people and especially with the people behind the investor club did allow a peek into the culture of the organization.

The pitch day, as the name might suggest, is primarily focused around the pitches. The timeline of the entire day can be seen in Figure 7. The day started off with a short introduction by the office managers of the company in which the pitch day took place. After this, the investor club gave a short presentation on their business, goals, model and their recent activities. Then, it was time for the pitches, in which two start-ups, here named start-up A and start-up B, got to pitch to their prospective investors. After the final pitch, some closing words by the investor club management opened up the floor, as well as the roof terrace, to drinks and some food.

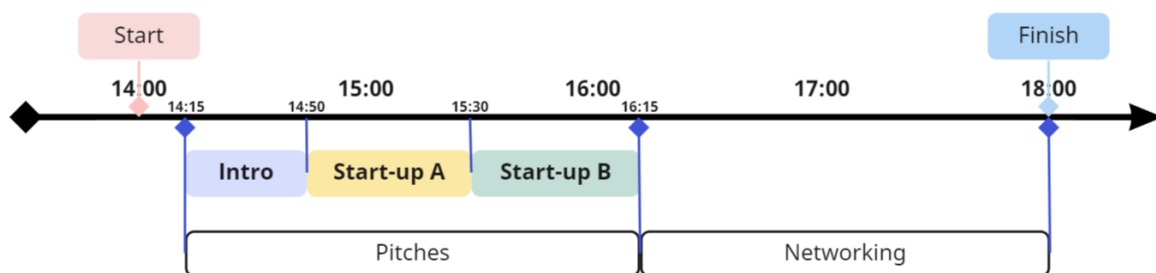


Figure 7: Pitch day schedule

Introduction In the introduction, the investor club gave a 20 minute presentation on their company goals as well as their portfolio and investment focus. The speaker presents their deal-by-deal approach, where the investor themselves chooses whether or not to invest in every single deal, in comparison to a VC, where this is done for you. Their organization is for self-empowered investors and their job is to guide them, not tell them what to do. The management of the club also invests in each and every start-up, which means they can be expected to do their work well, as it is also their money being invested. The goal for this year is 8 deals, although this might end of being less. The investment focus lies on companies with a 7-100m valuation and the club intends to invest 200k-2m per deal. This will be done in 70% pre-A or series A investments.

Start-up A Start-up A had designed a machine aimed at reducing the rate of repeat operation on cancer patients. This device is intended to be used during cancer surgery, where a common problem in these surgeries is that not all the pathogenic tissue is ex-

tracted, leading to a repeat surgery rate of 25%. With this device, this return rate can be reduced to only 5% of surgeries. The machine will be sold at close to cost-level, whilst they intend to use a subscription based model on the plates needed to scan the tissue to make money.

Of the total 28 minutes of presentation, the first 20 minutes were spent on the explanation of their product and the necessity of it. They made an incredible case for it, but during this period, you could see some investors lose interest because of the longevity of their explanation. Only in the last 8 minutes did the entrepreneurs go into details on patents and their intellectual protection. On top of that, the final slides, which were about future prospects and intended future investment rounds, were missing. The pitch ended with their ask for today, which was a total of 5.5m for a valuation of 50m. Then, the floor was opened for questions.

Four different questions were asked in what ended up being only an 8 minute Q&A. These four questions were aimed at the reduction rate, their projected cost savings for the total healthcare market were their machine to be used, the financials of the company, specifically how much money was invested, how much they need and how much they have and lastly, their get to market strategy.

Startup B Startup B sells a wireless remote monitoring device. This device will initially be sold to hospitals, but is intended to be expanded to first care homes but later also the consumer market. Currently, 2-3% of the total job of a nurse is attaching or detaching different monitoring wires to a patient. With this wireless device, the time spent on this can be saved. The company projects to become profitable around 2025 and intends to make 37m revenue in 2026, which will translate into an 8.5m profit in 2026. The pitch is finished with a demo of the nurse platform they built, in which the data of each patient and also the entire hospital wing can be seen.

For this pitch, only 3 questions were asked. The first focused on the exit strategy, which was not yet clear. This will either be through an IPO when the company is profitable or by continuing to lead the company until it becomes a multi-billion dollar company. The second question was about the current company financials and the third about potential interference when there are multiple people per room. After the final questions were answered, the investor club management gave a short final speech, as well as the calendar of upcoming dates in the investment process. After this, the floor was opened for drinks and food allowing for open discussion of, amongst others, both start-ups that had just pitched.

Networking Of course it is impossible to observe every conversation going on during a 60 man event. However, most conversations I was in, did not necessarily focus on the start-ups. Especially after around 15 minutes, the start-ups were not the focus of the conversation anymore, leaving more time for people to talk about their own businesses, investments and jobs. During these drinks, a lot of networking was done between members, prospective members and other attendants, but this was largely unfocused on the prior pitches. This was different however for one group. As the representatives of start-up A were present physically at the pitch day, as well as the drinks, this group was more commonly talking about their start-up. This also shows the cost of non-attendance of the

representatives of start-up B, who held their pitch through a video-call. Their start-up was discussed much less, as they themselves were not present to entice attendants to speak about it. However, as previously said, only 3 of the 60 attendants were members of the club, so the impact of missing the meeting might be limited.

During a conversation after the pitches, one of the investor club managers brought up trust as a factor for investment. Specifically, they explained that they could see the ticket size per investor increase over time as members got more confident investing through the investor club. Trust as a factor was added to the framework partially because of this statement, as it is already showing an influence on decision-making in the club. However, while the amount invested was said to increase, no data was given on any increase in the likelihood of investment over time.

5.1.3 Follow-up meetings

Approximately two weeks after the initial pitch day where both start-ups got to pitch consecutively, two separate meetings were held to allow members to follow up with the start-ups. These meetings, usually called "follow-up Q&A's", have the intent to provide a group moment for members to ask further questions and to elaborate on their interest in the start-up.

Meeting set-up These meetings are an hour long and were held on the 7th of April 2022 for start-up B and the 8th of April 2022 for start-up A. Both meetings started at 18:00. However, due to attendants being late, the meeting itself only started at 18:10 for start-up B and 18:05 for start-up A. The meeting is split into three separate parts: pitch, questions and discussion. In the pitch of around 10-15 minutes, the start-up catches everyone back up. Although interested members will likely have read through the provided material already, this short reminder pitch intends to get everyone on the same page. After the pitch, the floor is opened for members to ask questions to the representatives of the start-up. This goes on until there are no further questions, at which point the start-up representatives leave. The final part of the meeting is a group discussion about the start-up, the market, the product, their potential, potential issues or anything else members want to discuss.

Attendance The calls for both meetings were attended by around 10 people. However, most of these 10 people were part of the investor club management or one of their partners. Actually, in the meeting with start-up B, only 1 member of the investor club actually showed up. For start-up A, 3 members attended the follow-up meeting. From a total of 25 members, this is an incredibly low amount of attendants, speaking to either a low amount of interest in the start-ups or a low value placed upon these follow-up meetings, or something entirely different. A question about the motivation whether or not to join this follow-up meeting was added to the list of questions to potentially uncover the reasoning behind this.

Meeting report Although attendance was low, the meetings still were very useful and the discussions provided potential problems for the start-ups and helped answer queries members still had. A number of questions were asked, the summarized target of which can be seen in Table 3. These questions paint a picture on what was missing after the

pitch day and the provided information by the investor club and could point to potential dealmakers or -breakers for the attending members. The questions are split into two separate parts: before and after the start-up representatives leave. Initially, questions were directed at the start-up and were mostly about the product, market entry barriers, financial future potential and the finances. A more specific summarisation of each question can be seen in 3.

Table 3: Summarisations of questions posed in either follow-up meeting

Questions to the start-up	
Start-up B	Start-up A
Competitive advantage	Implementation
Patent protection	Added benefit
Basis of financial anticipations	Future markets
Next generation	Payment origin
FDA approval	
Specific additional use case	
Growth potential	

After the start-up left, the focus shifted towards the selection process of the investor club. The discussion, which is the final part of the meeting, wasn't as much of a discussion than a second round of questions, but this time to the selection committee. Many of these questions, the aim of which can be seen in Table 4, had already been answered by the start-up, but were still asked again. This points to a sense of distrust in the word of the entrepreneurs. This might stem from the fact the start-up is trying to sell the members something, whilst the investor club has a different focus and is trying to keep their members happy. These questions allow the members to get insight in the steps taken to assure the selection is made on solid grounds, whilst simultaneously being able to take away some of their doubt. All questions asked by members during this discussion part of the meeting were answered thoroughly and showed extensive knowledge of the start-up and its value to investors. This professional look helps instill a further level of trust in the members present at this meeting.

Table 4: Discussion topics during the follow-up meetings

Discussion topics after the start-up left	
Start-up B	Start-up A
What is the catch?	Competitors
Exit strategy	Short-term scale-up potential of manufacturing
	Who makes the product
	Market entry barriers
	FDA approval

At the end of the second follow-up meeting, which focused on Start-up A, club management gave a final conclusion on both start-ups: *"Both the companies are quite mature. The valuation seems quite high, but the companies are both well-funded and there is little to no risk of approval. The valuation is high, but there are very low risks and it is a good*

time to jump in to the market." With this statement, they are trying to instill trust in their members and try to get them to invest in the start-up which they strongly believe will be a good investment.

5.1.4 Result of ethnography

Whilst the immediate goal of joining the different meetings was to involve myself in the club, get to know the start-ups and see what the public points of contact were like, the main takeaway of these activities is the low attendance at all events. In total, 7 out of 29 members showed up at the pitch day, of which 3 attended at least one of the follow-up meetings. It should be noted that both the pitch day and the follow-up meetings are recorded and can be watched back at a later occasion, but how many members used this is unknown. However, all the members that joined the follow-up meeting were at the live meeting.

Both the start-ups presented themselves well and were also well defended by the investor club. From an outsider point of view, both investments seem solid and are ready for investment, as promised by the investor club in their mission statement. As mentioned, the return will not be extraordinary because of the already high valuation, but both opportunities seem like quite safe investments, which will make money in the long run. However, as both companies will take a while to be profitable, there is an opportunity cost involved. Both valuations are based on a future prognosis of company value, not on the current value of the company. This is accompanied by a level of risk, as the company needs to hit their projected growth to provide a good return on investment.

To reduce the perceived risk of the investment, both the start-ups and the investor club answered the questions asked by members to the best of their abilities. Specifically the investor club, from an outside perspective and as a trusted organization, plays a large role instilling trust in their members. By answering all questions posed to them, especially in the follow-up meetings, to a certain degree, they show a level of scrutiny in their selection process and in doing so, show the members that this opportunity is well-researched and a good investment because of it.

5.2 Member background

As presented in section 4.1.1, members of the investor club can be primarily split into three groups and most members come from either Turkey or Germany. For the interviews, a total of 8 members were selected. These subjects are equally spread between German and Turkish members and of these, three are corporate members, three are angel investors and two are family offices. The reason to split the subjects into these groups, besides these same groups being used in the member sheet of the investor club, is that the background of different members can affect their decision-making. To analyze if this effect appears within the members selected and to what extent, questions were asked during the interview to entice members to share their personal background, details about their organization and also their motivation to invest in general and to invest through the investor club.

5.2.1 Representative background

Of the representatives interviewed in the, six were male, while two were female. Only three representatives had a background in healthcare itself, while consulting, finance, product management and investment brokerage were the main careers of representatives before reaching their current position. Of the representatives interviewed, five had their own start-up at some point, which they had exited at the time of this interview. For one family office, their start-up laid the foundation of what would become the family office.

Table 5: Three background factors of the representatives interviewed

Gender		Healthcare background		Had their own start-up	
Male	Female	Yes	No	Yes	No
6	2	3	5	5	3

5.2.2 Organization background

Not every person interviewed was part of an organization. Through their definition, the angel investors interviewed were all one-person teams, but all other respondents had some responsibilities other than through investment. Both family offices interviewed started initially through a business. In one case, this was a medical device business which grew into a larger scale manufacturing business. After their exit from the company, the family decided to keep these earnings together and grow their wealth through both investment and as a large distribution partner in Turkey. The other family office followed a similar path, however without exiting their initial company. Through investment and the "high volatility in the healthcare market", they want to realise high returns on their investment to grow their wealth. One of the family offices had only one person outside the family under contract with many family members working (part-time) for the organization. The other family office had three people under contract with one family member in control of all final decisions within the organization.

The organizations around the corporate members are much larger and more organized. One member is the investment branch of a German healthcare company with around 1000 employees. The other two corporate members are both branches of a larger healthcare investment group, where this specific branch focuses on healthcare. Neither of these

organizations has much collaboration between the different branches, as their focus areas are different. However, they do share information about potential opportunities that might fit better with another branch. All three investment branches want to do more than just invest in a start-up, ranging from adding their product to the product line of their corporation [German Corporate, Turkish Corporate] or even acquiring entire start-ups [German Corporate].

5.2.3 Motivation to join the investor club

Although specifics differ, a commonality between the members is that they joined the investor club through their network. All six members who spoke about this origin mentioned meeting one of the managers and joining because of them. Two members did not speak on their origin, either because they did not know it due to joining the company later [German Corporate] or not mentioning it [German Angel]. Something that all members mentioned is the increase of dealflow of high quality start-ups, which have already been researched. Four members [German Corporate, Turkish Family Office, German Angel, German Angel] specifically mentioned that the due diligence has already been done, whilst others spoke of high returns [Turkish Family Office] or creating strategic partnerships [German Corporate]. For one member [Turkish Corporate], this investor club, as well as other clubs worldwide, are ways for them to easily get quality dealflow outside of Turkey, which is otherwise difficult for them.

5.2.4 Invested through the investor club

An unexpected outcome of the interview is that a large number of the members interviewed have not yet invested through the investor club. As can be seen in Table 6, one angel member and two corporate members have not yet made their first investment with the club. The third corporate member did not answer this question definitively. However, they did note they have not acquired an entire start-up yet through the investor club, which they sometimes do if they are enthusiastic about the product. Also, they did say they were still in talks with one start-up pitched through the investor club, but nothing definitive had been decided yet. The angel investor that had not yet invested through the club noted that this was primarily due to the valuations of recent start-ups pitched. During the last 12 months, they have invested into multiple start-ups outside of the investor club. They also mentioned to be debating cancelling their membership because of this.

Table 6: Amount of members per category that have invested through the investor club

	Angel		Family		Corporate	
	Y	N	Y	N	Y	N
Invested through the club	2	1	2	0	0	2

5.2.5 Role of the investor club in the investment strategy

In Table 7, data on the role the investor club plays in the investment strategy of all members interviewed is shown. Of the eight members of this investor club interviewed, five said clubs like this one, providing preselected start-ups, are their main source of investment dealflow and their main source of investment. For four of these, this was

actually the investor club researched. The other member does invest solely through these clubs, but has not done so through this club yet. They, as well as one more member, admitted being a member of multiple investor clubs worldwide. Through these clubs, they receive high quality dealflow where they can do not get it autonomously. The other three members primarily receive their dealflow through their network and also have not invested through the investor club yet.

Table 7: Data on the role of investor clubs in the investment strategy of all members interviewed

Nationality	Member type	Has invested through this investor club	Member of other investor clubs	Invest primarily through investor club(s)
Turkish	Corporate		O	O
Turkish	Family office	O	O	O
German	Business Angel	O		O
German	Business Angel			
German	Corporate			
Turkish	Family office	O		O
German	Corporate	-		
Turkish	Business Angel	O		O

5.3 Decision-making process

The decision-making process of members interviewed differed highly both organizationally and detail-wise. All three corporate members as well as one family office had consistent systems in place through which all investments are evaluated. For the corporate partners, this was consistently done at different levels, although the number of levels differed. This way, they create a funnel approach, where opportunities get rejected when one of these levels is not confident in the investment. For one member [German Corporate], this consisted of four levels. First the agent, to whom the opportunity was initially pitched. Then, the CEO, the entire executive team and in case of an acquisition, the mother company. The other corporate members had a similar system, where a positive evaluation by one person or group led to presentation of the opportunity to a higher level. For one family office, a similar set-up was mentioned, where the representative and two other colleagues first research opportunities themselves, only pitching these to the chairman when they are confident in the investment.

The other family office did not utilize such an organized approach, although their final decision was made with the entire team. As the representative mentioned, they do not have too many procedures, as they are not such a big company. This declaration was consistent with statements of two Angel Investors, who both mentioned they do not have anyone to report to as justification for not having specific rejection reasons. As they mentioned, this differs tremendously from these more established organizations in which members need to justify their decision-making to higher management. These same angels also mentioned they do not discuss their investments with anyone on a consistent basis, making the decisions entirely by themselves. The other Angel investor interviewed

had a different approach, commonly discussing these opportunities with two other Angel Investors, with whom he often co-invests.

5.3.1 Decision-making in- and outside the investor club

When prompted on differences in their decision-making process when investing through the club or separately, most members initially denied having differences. Something members did mention was that investing through the club was easier due to the previous study done on the start-up. Using the material provided by the investor club as a starting base allows the members to save time. This was specifically mentioned by all three angel investors, who mention doing all the evaluation themselves costs too much time. For two Angels [German Angel, Turkish Angel], this is the main reason to invest almost exclusively through the investor club, whilst the other has not invested through the club yet, but saves time by bundling the evaluation effort with two other angel investors in his network. Were this angel and their companions officially bundle their efforts, this could be seen as a member-driven angel network.

5.4 Start-up related factors of importance

Many of the factors used to assess start-ups that were named during interviews were those directly related to the specific start-up. These factors, many of which are commonly named amongst decision-making research, focus on different hurdles amongst the path to success for a start-up. The most named factors were different aspects of the team and the market, regulatory approval, exit strategy and specifically by corporate members, the strategic fit.

5.4.1 Team

Whilst every single member named the team and/or the entrepreneur when discussing what factors they found important, the focus of their answers differed a lot. As an interview about factors surrounding team and entrepreneur by itself could span the total interview time, this was not discussed in depth. However, the factors members named do show their primary impact on decision-making. One non-specific aspect two members [German Angel, Turkish Corporate] mentioned is their focus on the team changes dependent on the stage of investment. The earlier the stage, the more important the team is. As this German Angel put it, there can be deficiencies in other factors, but that doesn't mean these can not be overcome by competent management, founders or the team.

A factor explicitly named by five members [German Corporate, Turkish Angel, Turkish Family Office, Turkish Corporate, German Corporate] is the expertise and experience present in the team. Aspects named were successful previous start-ups, education, past work experience, knowledge of the product and expertise in the field. Two other members [German Angel, German Corporate] focused on having a diverse team. By having a diverse group within the start-up team, with different backgrounds and skill sets, future problems can be overcome and necessary skills are already internalized. The final member acknowledged experience as important, noting a competent team is needed for investment. However, when prompted on what a competent team means for them, they mentioned "how they present, pitch, but especially how they listen", as for them, being

open to learning is the only way to become successful.

Something two angel investors [German Angel, Turkish Angel] specifically mentioned was the drive of the founders. As one [German Angel] put it, "they have to burn for it", whilst the other [Turkish Angel] noted "being excited, enthusiastic is needed for them to invest all their time and efforts into the project". This is common in start-up culture, where to be successful, it is expected to work long hours, all to get to the holy grail. A final team-related factor mentioned by one member [Turkish Family Office] is the country where the start-up is situated. To them, this needs to be a well-regulated country for geo-political reasons. They see a risk in regulations, as they do not want to be affected by any crisis between different nations. The risk this member is trying to manage was evident in the interview of a German Corporate member, whose company left their operations in Russia due to the ongoing war in Ukraine.

5.4.2 Market

Another factor every member touched upon during the interviews is the market the start-up is trying to infiltrate. A positive for investment would be if the product is already on the market [Turkish Angel, German Angel, German Angel]. Another way this was addressed is through market entry barriers [German Corporate, German Angel, Turkish Corporate, German Angel, German Corporate], where investors focus on what needs to happen before market entry is possible. Market entry barriers commonly named were regulatory approval and patent protection, which will be discussed in respectively sections [5.4.3](#) and [5.4.4](#). As financial returns are a large part of investment, it is unsurprising the current market size, market growth potential, the competitors and the addressable market were all named in the interviews. These factors were usually named together, as they all also influence each other. Together, these four factors paint a picture of the financial potential of the start-up assuming the product is good. Another factor specifically named by two corporate members [German Corporate, German Corporate] is the potential for cooperation. For one of these members, a common cooperation is to add a consumer-based model to the start-up's current business model. However, this only works when the start-up itself is not focused on the consumer market, but rather selling to businesses, "because otherwise we would cannibalize each other".

When prompted about any preference for a specific market, most members said the market is not an excluding factor for them. For one member [German Corporate], although they invest worldwide, the focus was on Europe and they also just dropped their investments in Russia. Another member [Turkish Family Office] did not care about the target market, only that this is a well-regulated market. A third mentioned that, specifically in the healthcare market, he only invests when start-ups initially focus on the US market, saying "if you can make it there, you can make it anywhere".

5.4.3 Regulatory approval

One category that many members named which in some way affects their judgement is regulatory approval. As this was often combined with phrases like "market entry barrier", this could be seen as a subcategory of the market. However, this specific subcategory was named so frequently, it is deserving of its own category.

Under regulatory approval fall multiple kinds of approval. A commonly mentioned facet in the healthcare market is FDA or EMA approval, which is needed for many of the products pitched by these start-ups. Five different members mentioned regulatory approval specifically as their biggest hurdle. Especially when start-ups are still quite early-stage, the risk of failure to get approved and the time and effort associated with this, were seen as potential red flags. However, this was also named as a distinguishing factor of the team, specifically in the presentation. As this is a common problem, tackling this head-on in the presentation and presenting a clear and detailed path to approval was named as a distinguishing factor for an entrepreneur. When asked about approval, being able to "answer those questions straight" and having a "detailed execution plan" complete with "certain milestones and knowing how to reach these milestones" were key factors in receiving investment.

Another form, specifically mentioned by four out of the respondents, is reimbursement. This system is used to prescribe how much healthcare providers get paid for offering services to patients. As most countries have some sort of social healthcare system, this reimbursement code establishes whether or not you get picked up by any healthcare provider. If such a code does not yet exist, this is usually "a multiyear journey". The market entry barrier this forms, combined with the risk of not receiving reimbursement, were named as reasons not to invest.

5.4.4 Patent protection

On a similar note, patent protection was also often seen as a prerequisite to invest. This was not named as consistently as the team, market or product, but instead, often named jointly with forms of regulatory approval. This was especially apparent when speaking of the unique selling points (USP) of the company. One member [German Angel] specifically spoke of this in regards to a sustainable competitive advantage, where the product needs to not only be unique now, but also still have their USP 3 to 5 years in the future. Patent protection is one of the main ways to try to do so and protect the company against new market entries. For this member [German Angel], patent protection was a tool to protect the USP. However, two other members explicitly stated their unwillingness to invest when nothing is patented [Turkish Family Office] [Turkish Corporate].

5.4.5 Exit strategy

One of the few factors discussed with all members interviewed was the exit strategy of the start-ups pitching. This shows all members consider this when investing, however, the level of importance highly differs. As can be seen in Table 8, four out of eight investors do not see an exit strategy as a prerequisite of investment. However, this was usually accompanied with statements like "but if they tell us this big multinational has them in their radar, it would be nice" or "No, but I wish there was more of that". A common theme amongst the members that did focus on the exit strategy is that it needs to be detailed. An entrepreneur needs to know their target segment, as well as the main companies they can sell to. When prompted about a focus on a specific preferential exit strategy, only one member reacted positively. For the others, the strategy itself was not as important as the fact there was a thought-out strategy.

Table 8: The importance of an exit strategy to all members

	Angel		Family		Corporate	
	Y	N	Y	N	Y	N
Exit strategy is a must	2	1	1	1	1	2
Specific exit strategy	0	3	1	1	0	3

5.4.6 Strategic fit

One factor in which the difference of motivation to invest shines through is the strategic fit. Some of the angel investors did mention portfolio diversification, which is part of their investment strategy. For corporate members however, the strategic fit is the main goal. All three corporate members mentioned they never do purely financial investment. To them, there should always be a strategic element, either in the form of a cooperation or even a full acquisition of the start-up to enlist their product into the product range of the corporate member. The difference between corporate members and other investors was also specifically mentioned by one of the subjects [Turkish Corporate], who used to work at a VC before his current job at a corporate VC. In his decision-making process, the focus on a strategic fit was the biggest difference.

5.5 External factors of importance

Assuming the human behavioral model of the Homo Economicus by John Stuart Mill (Chen, 2021), these investment decisions would all be made strictly on start-up based factors. However, this theory was thoroughly debunked in the years after it was published, as humans are imperfect decision-makers and care about more than simply maximizing utility and profit. Although the sample consists of investors, the conclusion that the Homo Economicus model is flawed was reverberated in this research. Factors not specific to the start-up named by members either explicitly or implicitly include trust, societal impact, group influence, feeling and personal experience.

5.5.1 Trust in the club

Trust in the investor club plays a big role in member decision-making. The model of the club depends on their members trusting their selection process and investing in start-ups they have picked for their members. This was evidenced by the growing ticket sizes of members that did invest through the investor club. Due to the growth of their track record and because of this, the perceived quality of the selected start-ups, members were more likely to invest. This was validated in some of the interviews. One member [German Angel] mentioned the growing quality of the pitch decks (a short summary on the selected start-up and their pros and cons), which makes them more likely to invest.

Three members mentioned the premade study and/or selection as a large reason for them investing mostly through the network. One [German Angel] mentioned feeling "better protected, looked after from making wrong decisions". When speaking about the selection process, another member [Turkish Angel] noted they themselves "might make a wrong decision, but ten investors cannot make a wrong decision". The third [Turkish family office] laid focus on them "trusting the brand and starting to invest through the investor club". This was further explained by this German Angel mentioning the selection

process, saying "They have been going through 500 companies, so there must be something behind it". One member [German Angel], when asked about their reasons behind rejecting the last start-up they got presented, mentioned their funding as the only reason, saying "Because they're doing such a great job, I'd like to invest in all of them mostly, but I have to pick and choose".

5.5.2 Trust in other investors

Another form of trust mentioned repeatedly is trust in other investors. For three representatives [German Angel, Turkish Angel, Turkish Family Office], This was even a reason to invest in a start-up. As one member [Turkish Family Office] explained, for them, it is necessary that other proven investors also invest in a start-up. To explain this, they used the "tomato investment style", where they invest in the last days of a round, first checking how much of the requested investment pool has already been filled and by whom. As they explained it, when shopping for tomatoes at the market at the end of the day, there will be no more good tomatoes. If the pool is not yet close to being filled, "something must be wrong". Here this member uses the experience and judgement of others to guide them when investing. In different words, the other two members named the same factor, mentioning the swarm effect [German Angel] or the "suggestions of friends ABCD" [Turkish Angel] as reasons both to invest and to reject start-ups.

Two different members [Turkish Family Office, Turkish Corporate] named this trust as others as a reason to join the investor club in the first place. Learning from other investors, the questions they asked or how they make the decision whether or not to invest were named. For these members, this was the main reason to want to join the follow-up meetings and also join the pitch day in person, compared to joining the online meeting. This way, they could learn through the experience of others.

5.5.3 Societal impact

Something multiple members mentioned as a reason to invest is the impact on society. The extent of this differed between members. Something consistent throughout members is their initial reason to invest in healthcare. As one member [German Angel] put it, "I only invest in Medtech or healthcare, which by definition is helping or improving society". Something most members said did not influence their decisions are personal experiences. Especially corporate members, but also family offices mentioned a focus on finance first, impact second. One member [German Angel] mentioned their personal experience with a disease in the family does skew their judgement, but emphasized just being related to this disease would not be enough. Another [Turkish Angel] expressed they "feel much nearer to the project" if it is a solution to something similar to their experiences.

5.5.4 Feeling

When making decisions, the gut feeling of a decision-maker can play a role. This is no different for investor club members, specifically angel investors. Two out of three angel investors specifically named their "stomach feeling" [German Angel] and "Emotional approach" [Turkish Angel] as important factors to their decision-making. They both still assess the company financials, market and all other information provided to them, but the feeling they have after the pitches will impact their final decision. Feeling was specifically

mentioned often when discussing start-up rejection. Members mentioned not liking the start-up [German Angel, Turkish Angel], not trusting their story [Turkish Angel] or not getting excited about the deal [Turkish Corporate]. This is in line with expectations, as not investing is much less impactful to investor than actually making a deal. Both of the forementioned Angels also mentioned having no one to report to, meaning they did not have to justify every aspect of their decision.

One family office, where the final decision is made by one actor, mentioned their method to work around specifically bad moods. To do so, they present the start-up multiple times across multiple days, not directly finalizing their decision, whether it is positive or negative. Through multiple pitches of the same opportunity, they strive to take these bad moods out of the equation.

6 Discussion

In this chapter, some of the results presented in chapter 5 are discussed. Emerging patterns are presented using a combination of the data collected in this research and the existing theory as presented in the background literature and the conceptual framework. Factors discussed include member background, the decision-making process of members, start-up related factors of importance, strategy related factors, trust as a decision-making factor and the different type of members.

As a general note, it should be clear that the different factors for investment named in the interviews were all brought up by members themselves. Only when they already named something, were they asked to elaborate on this. Of course, listing a long set of factors to focus on, it is expected that not everything important to their decision-making will be named. This means that members that did not name certain factors do not necessarily not find them important and they could still play a role in the decision-making. However, creating a fool-proof list of factors important to all members was never the intent of this research. By analyzing patterns of factors named amongst members, this can provide a set-up for future research aimed at generalizability across the entire population of this investor clubs or preferably even all investor clubs.

6.1 Member background

Within the sample selected from the investor club, there are members of many different backgrounds. As presented in section 5.2.1, the members interviewed had diverse backgrounds, most of them not having a background in healthcare. This fit with the assumption that members make an educated decision to become a member and members with or without a healthcare background can rely on the experience in the field of the investor club team. Common investor attributes like gender and having exited their own start-up were also evident in the investor club, even among non-angel members. As the sample taken from this club is small, no conclusions can be drawn from this observation, but it does pose an interesting question for future research.

Another difference that is clear within the sample is the approach to investment of different members, which is largely consistent with the type of organization they are a part of. When investing outside of an investor club, a corporate venture capitalist commonly has an organized procedure for assessing start-ups and making investments. On the other hand, angel investors are likely to rely more on their instincts, whilst family offices live somewhere in-between the two. The reasoning behind this difference was explained by two of the angel investors interviewed, who both mentioned they have no-one to report to, so they do not need a reason for every single decision. For a corporate representative, this is very different, as they do need to report on their decisions. Another factor is the focus on a strategy fit when investing. Whilst angel investors name this factor to address diversification of their portfolio, corporate members discuss a broader cooperation with the start-up, not being content with just financial investment.

This follows differences in member type expected beforehand, but because of this different strategy, the club might not be a great fit for them. As the club focuses on ready-to-invest start-up contracts, finding a cooperation and negotiating a personal deal does not fit

within the intended investment promise to the start-up. This might be part of the reason why both the corporate members that mention never doing financial-only investments, have not yet invested. Although several explanations are possible, it appears right now that one of the three parties that play a role in this investment, those being the start-up, the investor club and the investor, needs to change their strategy to come to an agreement.

The strategy of the investor club and its members have been discussed in respectively sections 5.1.1 and 5.2.5, but a third player in this deal is the start-up. For the regular dealflow with the start-up, all negotiations have already been done by the investor club management. However, for members looking for a cooperation or acquisition, a new round of negotiations will open with the start-up. As the member wants to add something to the business and spend time and resources on improving the business through a cooperation, they will likely want a better deal than what the investor club received. This is where the strategy of the start-up comes into play. Just as members have a reason to join the investor club, so do start-ups have a reason for applying to receive money through this specific investor club. When looking for investment, there is a difference between financial-only investment or investment with a strategic or influential element. These are also called dumb money and smart money respectively. Due to the method of investment of an investor club, where a group of investors invest consecutively, strategic input from all of these investors might not be appreciated by the start-up. A start-up applying to receive investment from the investor club will have done so with a certain growth strategy in mind, because of which they are asking exactly what they need at this moment from the investor club. Because of this, they might not be open to additional input, especially not at a higher price point.

This will leave the three actors at an impasse. The investor club has their own mission and strategy, where they provide ready-to-invest start-ups to their members. Some of these members want more than financial-only investment, focusing more on a cooperation with the start-up, while a cooperation might not be in line with the current growth strategy of the start-up. Only time will tell what will break this impasse. It could be that some of the start-ups pitched through the investor club are open to additional collaboration and this will satisfy the demands of these members. It could also be that some of these members will cancel their membership due to this poor strategy fit. This is even expected, as the investor club researched started in 2020, meaning most members have not seen many start-ups through the club yet. One member [German Angel] who has not yet invested through the club mentioned this specifically, noting that if they will not invest in the next two rounds either, they might have to reassess their membership. Although losing a member is never positive, creating a member-base that fits with the investor club strategy will be beneficial in the long run by allowing an even more specific focus when selecting start-ups. The evolution of the occurrence of member types or the changing strategy of the different actors could be an interesting topic for future research and will be discussed in section 7.2.

A decent assumption of members that end up not investing through the investor club is that they might cancel their membership. If none of the deals presented are good investments for them, then maybe this club is not right for their strategy, while they are paying the club continuously. Due to the young age of the club, members have at most two years of experience within the club, through which time the quality of the work done by the club has also grown. Because of members not investing, their decision-making

presented during the interviews might be different than the actual decision-making shown when investing through the club. Trust in the club, discussed in section 5.5.1, also needs time to grow before it can affect member decision-making. Because of this, repeating this research either at a different, more established investor club or again at this same investor club in a couple of years, might show an increase in these factors.

6.2 Decision-making process

Amongst the members interviewed, the level of organization behind the decision-making process of members of interviewed showed clear patterns of difference. The larger the organization behind the representative, the more defined the process was. As multiple members mentioned, this makes sense from a viewpoint of vindication. A representative of a corporate venture capitalist has two main differences with an angel investor on this regard: they do not invest their own money and they do not have final say in the decision. Because of this, they are not able to make a decision based on intuition, or if they do, they need to frame their decision in such a way that this is not evident.

None of the members interviewed mentioned differences in their decision-making process when they invest through the club. Two key factors members did mention were the starting base from where they make their decision and the faith they have in the decision. The value proposition of the investor club is the presentation of investment-ready start-ups. For members, this does not mean they simply invest without doing any research themselves. By using the material provided by the investor club, members do not necessarily have to do research themselves. When investing outside of the investor club, they would have to collect all relevant material to their decision themselves, prompting the start-up to release this information. A common problem here is information asymmetry, where investors receive unvalidated data on exactly that which entrepreneurs want to show (Taylor, 2019). Through the investor club and the due diligence done by them, this issue is largely resolved. Especially angel club members also mentioned that investing through the club, where multiple other investors invest as well, gave them more confidence in their decision.

6.3 Start-up related factors of importance

As expected, common factors named by members were team, market and product. This is directly in line with factors named by any type of private equity investor and is logical, as these are the main three facets which define the unique investment opportunity. To distinguish good opportunities from bad ones, these factors will always play an important role. Subfactors that were named included the experience and enthusiasm of the founders, market growth potential and market entry barriers are consistent with reports on factors of other types of investors. One factor that was named more often than usual was regulatory approval. However, this is probably not related to investment through an investor club, but more directly to investment in the healthcare industry, where not being able to attain regulatory approval is one of the major risks for start-ups.

During the interviews, when asked about important factors, most members focused specifically on strictly start-up related factors. This is in line with angel investment criteria, but as the value proposition of the investor club is their diligent research into the start-up,

having all members focus on exactly these factors is somewhat unexpected. Here, three explanations for why this is the case are presented. The first two are member-related, while the third focuses on the research methodology. As the investor club is still young, the processes and factors of members are still constantly evolving. Especially for members who are used to investing through other methods or that follow a more academical method of investment, these factors come to mind the quickest. A secondary theory is that these factors will remain important for investor club members. These members made a conscious decision to join an investor club instead of investing their money through an investment fund. Through the investor club, they themselves have final say in what start-ups their money is invested in. To decide in which start-up to invest, distinguishing factors between start-ups are necessary, the most common of which are the team, market and product. These three factors combined form most of the core of a start-up pitch, especially when the financials and other red flags have been audited by a third party. A third potentially influential factor is the research methodology. During the interviews, a superficial view on all factors of influence for member decision-making was established. While most members did expand upon the factors they named either autonomously or after being prompted, the data gathered about these factors did not go into depth due to time constraints. While investor club members did mention these three factors, they can be divided into a plethora of subcategories in which differences might arise. These three explanations could all be a causing factor for the results gathered. However, to be certain, this would need to be assessed in future research.

During the interviews, a major focus was laid by members on market entry barriers in the form of regulatory approval, reimbursement and patent protection. In the decision-making process, this plays a large role due to the risk involved with each of these steps. If the product does not get approved, the company will fail, if reimbursement is not accepted, buyers will not be willing to pay for it and if the solution is not patented, the company is at risk of being copied by competitors. All these three factors are consistent with literature. In start-up investment and especially in the healthcare sector, market entry barriers like regulatory approval and reimbursement are common factors for rejection. Both of these factors are not directly controllable by the entrepreneurs and are potentially dooming if they are not reached in a timely matter, especially as they are necessary to enter the market. Patent protection has a different impact, allowing the start-up to stay afloat and even cooperate with large incumbents in the market of ideas. Without a patent on any proprietary elements of the product, incumbents with way more resources will copy the idea quicker than the start-up is able to react. This is especially true for high-tech solutions, but as one member said, patent protection is the only way to preserve a sustainable competitive advantage and to keep the unique selling point of the company.

6.4 Strategy-related factors

Another set of factors are those aiming to fit the start-up with the investment strategy of the investor. One key factor to investment for all members was the exit strategy a start-up presented. As an investor with a limited budget, when they will receive a return on investment is key when deciding whether or not to invest. This is highly related to the longer-term strategy of the investor. Shares in a start-up might hold a certain value, but until this is liquidated or the start-up starts paying dividends, the investor will not see any return on investment. To ensure a sufficient cashflow and not become stuck holding

paper over cash, these members focus on the exit strategy of the start-up, trying to align this with their own investment strategy.

Another factor where the investment strategy of the investor exhibits itself is the strategic fit or cooperation specifically corporate members look for. Although this is not surprising as this is a core strategy for corporate venture capital as explained in section 2.2.2, this factor is impossible to take into account for either the start-up or the investor club. As one member mentioned, the club does sometimes forward investment opportunities that do not fit the club portfolio, but might be interesting to that member. Apart from this method, it is impossible to focus on personalized strategic fit for members due to sheer size issues. The investment strategy of different members and member types does not align, meaning it cannot be acted upon in preselection. Although personalized opportunities are not a focus of the club, this does mean corporate members are less likely to invest in any start-up pitched through the investor club. This is consistent with the numbers given by members. Where both family offices and two out of three angels have invested at least once and in some cases up to five times already through the investor club, at least two out of three corporate members have not yet invested through the club at all.

6.5 Trust as a decision-making factor

A factor specifically mentioned by one of the investor club managers was trust. As they explained it, a trend was apparent in ticket sizes of individual investors. Over time, as the track record of the club grew, the amount members were willing to invest grew with it. Trust as a decision-making factor plays an important unconscious role for members, especially due to the model of an investor club. For an experienced investor to invest in a start-up, they want to be sure it is a good investment. If they can trust the selection process of the investor club, as some members mentioned they do, this box has been checked before even assessing the start-up themselves. In an ideal world, members trust the investor club to an extent where interest, societal impact and feeling would be the only distinguishing factors for an investor. Trust as a factor also plays a role in a group perspective. Members are more inclined to invest in an opportunity that other members are confident about. Over time, this factor can be expected to play a larger role, as the track record of the club grows and members become more confident in the selection process. A potential future research paper based around trust as a decision-making factor could give interesting insights into the way and the extent this influences decision-making.

6.6 The different types of investor club members

During data collection, the main goal was to reach data saturation through the interviews, in doing so generating patterns through the data. During the sampling process, a dual selection process was set up, focused on selecting a representative sample both in member type and member nationality. Throughout the research, the focus was laid however on the member types, not the country of origin. When combining both categories, five out of six options were represented. However, all of these sections were represented by one or two members. This was not enough to achieve data saturation, with variability between members potentially being responsible for variations in factors and decision-making, rather than any specific pattern of importance.

A group in which data saturation was not actually impossible were the family offices. Although the initial datasheet contained one German family office and no Turkish family offices, the final selection contained two Turkish family offices. As far as the club management is concerned, these were all the family offices in the club. As a consequence, data saturation was not fully reached, even though all family offices were interviewed. This poses the question whether family offices should have been a separate category in the first place. The investor club consists mostly of angel investors and corporate members, with family offices only making up a minority group. However, during the interviews, key differences between the family offices and other members were apparent. Where angel investors and corporate members form the two ends of the member spectrum, both family offices, although their organization was different from one-another, were positioned in the middle. However, leaving out the family offices would have spared time to interview more members of the other two categories, potentially giving additional insights to these categories.

7 Conclusion

The changing investment sector, where angel investors are bundling their efforts into different type of groups, brings with it many questions on the decision-making of members of these new groups. Where much is known about individual angel investors, it is unknown whether this research is transferable to this new population of investors.

As this emerging subcategory of the market has been growing in recent years, of which the young investor club used as a case study in this research is an example, the decision-making of members of this club is examined in this research. The main question posed was *When given a pre-validated set of options from an investor club, which factors affect the members' decision-making process?*. This research question stemmed from the objectives of the research, which were:

- Outline the investment process within the organization and the ways this could influence decision-making
- Evaluate factors for decision-making in other sectors
- Explore member decision-making on a general level related to investor club investment opportunities
- Produce a set of factors that influence member decision-making

The first objective was addressed through the use of ethnography. By immersing into the public meetings of the investor club, as well as receiving additional information on the process of the club, this process was outlined. The results gathered here were combined with later interview results, creating assumptions through patterns in the data, analyzing potential influences of these factors on decision-making. The second factor was answered using literature. By utilizing the existing knowledge base on investor types related to the investor club members, a framework of factors was created which was used both to create the questions used in the research and to validate differences between members and the existing knowledge base. The latter two objectives were answered primarily through the interviews conducted with eight members of the investor club. In these interviews, members of different types were allowed to speak freely on their decision-making process and the factors that influence it. Through directed questions, a thread through the different interviews was kept, using this later to draw conclusions from the results, which were used to answer the research question.

In this paper, the factors that influence member decision-making are presented throughout the results and the relevance and future expectancy of these factors are discussed. Important factors named by members were amongst others start-up related, strategy related, trust in the club, member background, member type and initial motivation. Through the factors named in this research, a framework of influential factors on decision-making can be drafted for future research, allowing other researchers in this specific field to enhance the knowledge base further.

7.1 Recommendations

In this research, no judgment was implemented. All the members interviewed have done a great job to get to where they are and are successful in their own right, using their

own decision-making method. However, to improve upon their decision-making, the main recommendation to all members is to continue learning from each other. Some members already named this as an important factor to join an investor club and by continuing down this path of collaborative improvement, the members will continue to become greater investments both individually and through the club. This research paper can also provide a source of learning, giving insight to the decision-making criteria commonly utilized in the club, as well as differences between individual members and different member types.

Secondary, all three main parties that play a role in the investment process should reassess their strategy. For the investor club, this means continuing the wide approach, catering to different member types who focus on different factors and have a distinctly different strategy. For the start-up, that means whether they are open to cooperation and what they could gain from that. For members, specifically those that have not invested through the club yet, at some point a decision must be made. Perhaps the next round provides the perfect strategic fit, but if this is not the case, one of two things needs to happen. Either the member must change their strategy, or they should reevaluate their membership and really consider whether or not this specific investor club, or an investor club at all, is the right fit for them.

For the investor club, the main focus should lie on increasing the level of trust between themselves and the members. The first step to do so is by continuing to select high quality investment opportunities for them. A proven track record is the perfect way to instill trust both in current members, but also members joining the club in the future. Some effort could also be put into know-your-customer operations. As one member mentioned, the valuation of the last couple of companies was way too high for them. However, as other members did not name this as a problem, potentially this member is just an outlier. The club already does work in this area, having someone working on member relations both for German and Turkish members, but perhaps the valuation is an additional step that could be checked.

7.2 Future research

As stated in the introductory chapters of this paper, the knowledge base on the decision-making of investor clubs members is not well-established, leaving an opening for many knowledge gaps that could be researched in the future. Potential focus points could be:

- Compare clubs with different selection procedures to establish the impact of this procedure on decision-making or specifically on the perceived trust by members
- Research into the evolution of member types present in the club, ticket size growth and strategy of all members over time
- The effect of personal experiences on investor club decision-making
- Large scale quantitative research on investor club member attributes, motivation to join, member strategy and member type, potentially combined with total number or frequency of investment.

Where this research focused on the establishment of a framework for investor club member decision-making, the same framework could be extended to a larger number of investor

clubs. In doing so, the effect of differences between the clubs on the factors mentioned could be analysed. One factor that plays a large role in decision-making, but was held constant in this research due to the usage of a single investor club for sampling is the selection procedure of the start-up. The investor club which this research focused on does quite extensive selection, also including red flag due diligence in their procedure. This is effected to have an effect on the decision-making of members, specifically through the perceived quality of a start-up that gets through the selection procedure. That a start-up was even allowed to present to members already instills a certain level of trust into members about the quality of the opportunity.

As the investor club used for this case is quite young, some of the decision-making process is not yet as clear, both for investors and the organization. Due to this fluid decision-making process, the research is more valuable for the club, as they are still actively focusing on improving their process. However, over time the factors will consolidate, showing a more honest picture of what members actually look or looked at when investing. Because of this, a repeat of this research in a couple of years could be valuable, allowing for a clearer image of factors over time. One specific factor that could be assessed due to this somewhat longitudinal approach is the development of trust in the club. As said by one of the investor club managers, trust in the club is growing, which shows itself in the amount of money invested per investment. This pattern might continue to expand itself and could be an interesting quantitative element to a research focused on trust. Another focus point could be the change of strategy of the club members. Where currently a large subgroup of primarily corporate members focus on a strategic fit and also have not yet invested, a few years from now, these members might have either changed their strategy or left the club.

A very human reaction to healthcare investment is emotional decision-making, where investors might be more likely to invest in an opportunity if they have personal experience with the problem it solves. In the data gathered for this research, no specific conclusion on the commonality of personal experience as a decision-making factors could be drawn. However, this was not the main focus of the research. Additional investigation into the effect of personal experiences could strive to validate the assumption that personal factors play a role and assess how many members allow their judgement to be skewed by these factors.

While the first two future research paths described are both primarily of a qualitative nature with maybe some quantitative elements, an entirely quantitative research design focused on creating a clear image of investor club members, could be very valuable to future research in the field. Not much is known about the average investor club members, making generalization in any way almost impossible. By assessing member type, member attributes, member strategy, motivation to join and potentially also the number or frequency of investment, a picture can be painted of the "average" investor club member. This will allow investor clubs to better cater to their customers as a direct advantage, but will also set up future research on investor clubs with a framework to work with, allowing them to combine their own data with this data-set and analyze patterns at a deeper level.

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A Interview questions

The question list below was drafted for the interviews with different types of members in mind. Within this list, every numbered question was asked to every member. The follow-up questions (like 2a, 4a, 7a, ...) were only asked when the member did not touch on these topics thoroughly in their initial answers. Next to the drafted questions, additional follow-up questions based on the answers of the interviewees were asked. In question 6, the questions 6i and 6ic were only asked when the member had previously answered positively when asked whether they also invest as an individual angel. Question 6ni is the same question as 6i, but for family offices and corporate members instead of business angels. After the numbered questions, some extra questions remain as inspiration for when time is left at the end of the interview. These questions give additional insights and some are follow-up questions to already posed questions.

A.1 Question list

- 0: Do you consent to us taking audio-recording of this interview to use for the research?
- 1: Could you tell me something about yourself, what is your background?
- 2: Why did you decide to become a member of the 10x health club?
 - 2a: Why healthcare?
 - 2b: Why this club?
- 3: Do you also invest through other means than the 10x health club?
- 4: What do you know about the 10x health selection process?
 - 4b: How do you like the current process?
- 5: What do you know about the health sector? What is your experience in this?
- 6: When being presented with a start-up, what is your decision making process? Could you walk me through this step by step?
 - 6i: How does your process as an individual investor differ from when you are investing through 10x?
 - 6ni: How does your process differ when investing through the 10x health club instead of separately?
 - 6b: Who is involved in your decision-making process?
 - 6c: When deciding whether or not to invest in a specific start-up through 10x, what factors do you look for in a start-up?
 - 6ic: How do these factors differ from your process when investing outside of the 10x health club?
- 7: What is the role of start-up related factors in your investment decision?
- 7: How do factors not related to the start-up itself play a role in your decision-making? (Factors like your personal situation, societal factors, ...)
- 7b: So you named The entrepreneur as an important factor to your decision. Could you elaborate on that? Why is this important/what do you look for in a "good" entrepreneur?

7c: What do you look for when assessing the market?

8: What are reasons for you to reject a start-up that 10x pitches to you?

8i: How do these rejection factors differ from your process as an individual investor?

9: We talked about your general investment decision-making so far. Let's try to get more specific. Can you recall the last 10x health venture you invested in. Talk me through why you chose to invest in this.

9b: What affected your decision to do so?

10: And for the last investment you rejected? Could you talk me through your decision-making about that?

11: See Figure 8.

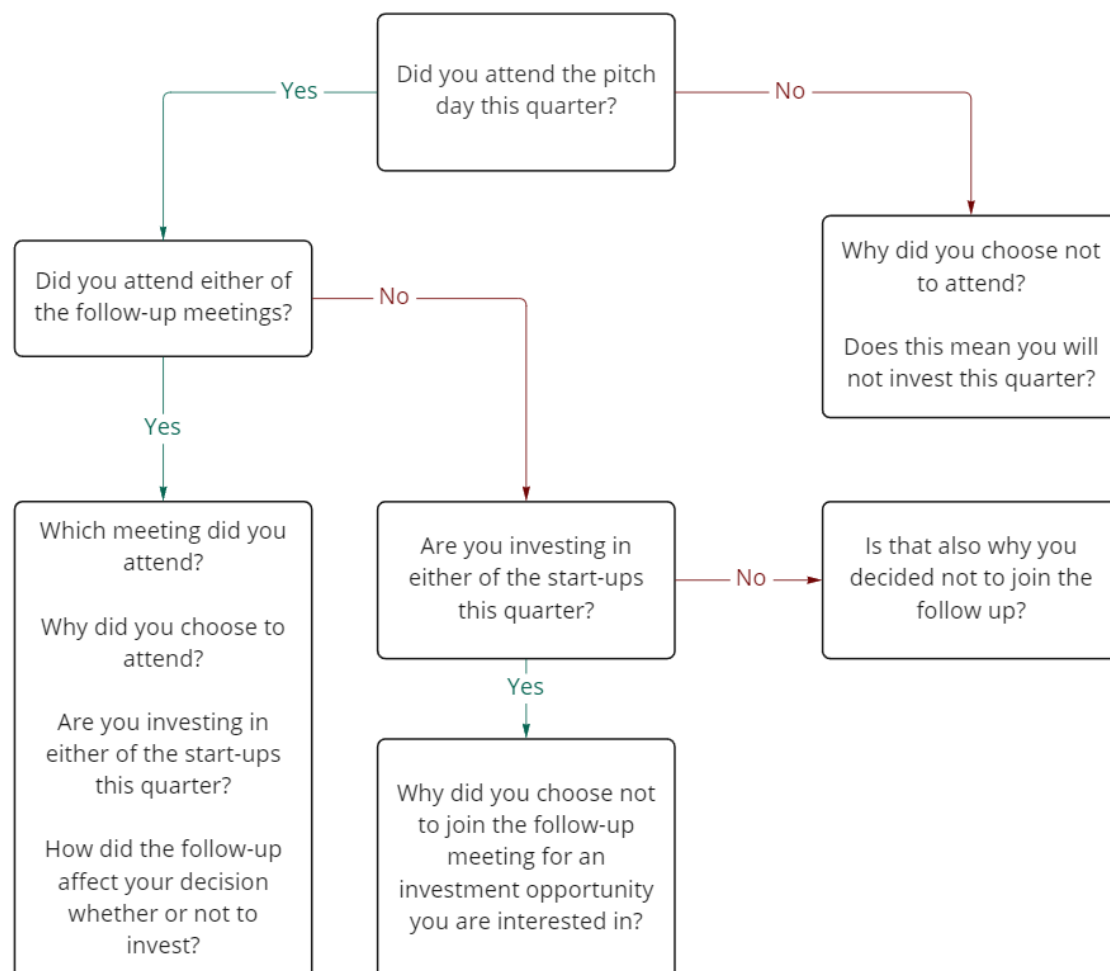


Figure 8: Flowchart for question 11 aimed at attendance at the different meetings and their influence on decision-making

12: Does the way a start-up is brought to you through 10x affect your decision-making?

12b: How would you like to be informed about investment opportunities?

12c: Are you more likely to invest in a start-up if you were able to join the pitch days in person?

12d: What about the current process of investment through 10x affects your decision-making in a positive way?

13: What could 10x change to make you more likely to invest?

—
If you were to describe your perfect investible start-up, what would you look for?

What do you look for in an entrepreneur/team?

What would be your ideal market?

Do you prefer a certain exit strategy?/Do you focus on your exit strategy when making an investment?

What are some cases that you regret not investing in through 10x?

What made you choose to go into (angel/direct) investment?