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*Early stage capital raising conflicts between
Norwegian tech start-ups and local angel
investors*

MSc in Innovation and Entrepreneurship

Georgi Karhu

Supervisor: Erling Maartmann-Moe

Centre of Entrepreneurship
Faculty of Mathematics and Nature Sciences
University of Oslo

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ABSTRACT

This master thesis tries to determine the reasons behind Norwegian angel investor's lack of investments to local technology based start-up companies. Formulated research question is: *"Why Norwegian business angels do not want to invest into local tech start-ups?"* Five hypotheses were designed to help to find an answer to it: H1: Norwegian business angels find local start-up's business sectors unattractive, H2: Norwegian business angels and local start-ups have lack of partnership chemistry, H3: There are more attractive funding options available for Norwegian tech start-ups, H4: Norwegian business angels see other investment opportunities (real-estate, stocks) more attractive than local tech start-ups, H5: Norwegian system (tax system, trade policies and entrepreneurial environment) makes it difficult to make angel investments. I proposed organizational-industry-macro environment level framework to conduct the study.

Both quantitative survey and qualitative face-to-face interviews methods were used. Comparative research and holistic multiple case designs were used as research designs. 30 Norwegian technology start-up entrepreneurs and 9 Norwegian business angels took part from the survey. Face-to-face interviews were conducted with 2 tech start-ups, 1 business angel and 2 start-up and early stage funding experts.

Research results show that lack of angel investment activity is mostly influenced by macro environmental factors like Norwegian governmental policies and lack of entrepreneurial awareness. Research has found out Norwegian governments interest in supporting traditional and real-estate business sectors by using tax breaks affects business angel's motivation negatively to invest into local tech start-up. Also government's lack of evaluating competency of technology ventures and little risk taking in supporting innovative, high risk, start-ups, results succumb of Norwegian entrepreneurial scenery. Business angels as vital, early stage investment source have too little public attention, demotivating angel investors to contribute in local entrepreneurship development. Lack of visibility also affects negatively co-operation opportunity between angel investor and start-up.

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I have always believed in getting maximum out of everything I do, everything I have put my mind and time into. Writing a master thesis is no exception: instead of fulfilling only the purpose of receiving academic diploma after successful defending, it should also help to open some doors for future. Opportunities that are especially valuable and handy for the young professional seeking a way to make his / hers first step to highly competitive world.

By keeping that in my mind, I am grateful for the following great people who helped me to expand my professional network and who contributed professionalism to the research by participating in my thesis:

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1. INTRODUCTION

1.1 Thesis topic motivations

There are many reasons why Angel Investment Conflicts was chosen as my thesis topic.

Firstly, personally I see self-employment as an attractive opportunity in future. Angel investors are considered as one of the most attractive choice for early seed funding- coming across with them through face-to-face interviews during my thesis writing process would be an excellent opportunity to broaden my personal network in this area. Interviews with start-ups help me to broaden my eyesight related with funding challenges that young entrepreneurs are facing at.

Secondly, I am interested in money as a subject. It is being said that money makes the wheel spin and money equals power. Lack of financial resources succumb even the greatest enterprises, need for money pushes companies into head-to-head economic wars and financial frauds generate scandals and intrigues that are hard to wash off. Money is an interesting subject for me to explore. Angel investments and start-up capital raising schemes are part of this agenda.

Thirdly, what comes to tuition fees, my master's program here in Norway was for free for me. I found it personally necessary to give something back to Norwegian society by contributing local entrepreneurial environment with my research. Hopefully my work helps to understand local angel investment and start-up capital raising challenges and obstacles more clearly and therefor streamline success stories, from witch everyone could be proud of.

Fourthly, I wanted my thesis to be practical oriented. It is personally for me much more motivating to work on something that involves meeting with people, work with real-life business cases and come up with analyses results that would make direct impact. I wanted to make my thesis interesting reading material not only for the university academia but also for the enthusiasts who are interested in start-ups and angel investments.

1.2 Importance of the research problem, objectives and aims

Entrepreneurship has come to be perceived as an engine of economic and social development throughout the world (Zaleski 2011). It is commonly acknowledged that small and medium-sized enterprises (SMEs) play a vital role for the economic well-being of any country. It is therefore a major problem that young high-growth ventures are faced with a number of challenging conditions which can impact on their sustainability and growth. In particular, accessing finance can present significant challenges (Macht, Robinson 2008). Given their limited operating history, start-ups are arguably the most information ally opaque firms in the economy. Consequently, it is generally believed that start-ups, due to potential difficulties in obtaining intermediated external finance, are heavily dependent on initial insider finance (Cassar 2004). There appears to have been a substantial number of start-ups with high survival rates that did not receive bank loans. These companies made significantly more use of other sources of borrowed capital than did those companies receiving bank loans (Åstebro, Bernhardt 2003). Without business angel resources, many entrepreneurial firms would not survive and/or reach subsequent stages in the firm development life cycle (Lindsay 2007). Experienced angel investors have widening pools of start-up funding in many entrepreneurship ecosystems. “Mentor financing” not only increases the chances of scale-ups but also the critical mass of angel investors that can grow the sector stronger in their start-up ecosystems, allowing new waves of start-ups to emerge (EBAN).

Hallstein Bjercke, Oslo’s vice mayor, said there are moves to diversify away from natural resources “Tech is becoming more and more important. We see knowledge-based industry as the future. You can’t live on resources forever.” (Bamboo Innovator). The 2012 Nordic Growth Entrepreneurship Review study reveals that young companies are lacking of abilities and skills to accelerate growth to fully realize their potential and it points out the priority in developing new sources of growth by promoting young, fast growing companies is therefore important in order to prepare for “life after oil” (Nordic Growth Entrepreneurship Review).

The objective of this research is to determine the reasons behind Norwegian angel investor’s lack of investments to local technology based start-up companies.

The aim of this paper is to make a positive contribution to the development of successful Norwegian entrepreneurial environment.

1.3 Research question and hypotheses

Research question helps to clarify the nature of the research, e.g. define what needs to be found out. It should allow for suitable analysis, provide a future perspective, allow the generation of new insights and should avoid common areas of research (Wilson 2010).

My research question is: *“Why Norwegian business angels do not want to invest into local tech start-ups?”*

A hypothesis is an unproven proposition or possible solution to a problem. Hypothetical statements assert probable answers to research questions (Wilson 2010).

Proposed hypotheses would be:

H1: Norwegian business angels find local start-up’s business sectors unattractive

H2: Norwegian business angels and local start-ups have lack of partnership chemistry

H3: There are more attractive funding options available for Norwegian tech start-ups

H4: Norwegian business angels see other investment opportunities (real-estate, stocks) more attractive than local tech start-ups

H5: Norwegian system (tax system, trade policies and entrepreneurial environment) makes it difficult to make angel investments

2. LITERATURE REVIEW

This chapter discusses about business angels, their nature and way of thinking and different factors that influence their investment decision making. There is decent general body of literature on this subject, however almost none or very little Norway related information is available: no extensive or relevant business angel related studies has been undertaken on the case example of Norway. First, an overview of business angels and their business opportunity evaluation factors are introduced, followed by description of main mistakes that technology start-ups do in early stage capital rising, after that investment deal making suggestions and tips are described. In the end one of the big influencers, Norwegian national entrepreneurship policy, is introduced.

2.1 Business angels

Business angels are wealthy private investors who provide risk capital to new and growing business in which they have no family connection (Maxwell, Jeffrey, Levesque, 2011; Macht 2011).

They are generally experienced and well educated investors (e.g. familiar with the stock market), have fair degree of financial acumen and are confident in their own ability to evaluate the merits and risks of prospective investments. Typically, they invest in opportunistic, rather than scientific way, relying more on instincts and character than on detailed documentation. Many investors are also motivated, in part, by the part of making informal investments. Business angels are sufficiently wealthy so as not need the returns from a successful investment. Equally, although losses will hurt, they will not affect their lifestyle. However, they gain personal satisfaction and excitement from being involved with an entrepreneurial venture (Mason, Stark 2004) and helping in to get started and grow (Mason, Harrison 1996).

Traditionally, there has been a domination of middle-aged professional males in the informal private equity market. In more recent times, younger people (both male and female) from a variety of backgrounds and with promising careers have participated in making private equity

investments. Others have found evidence that many business angels have previous entrepreneurial experience in start-up of new business ventures (Feeney, Heines, Riding 2010) and that they have accumulated their wealth through these entrepreneurial activities rather than through high income occupations. Thus, the profile of business angels appears to be both complex and changing. They are difficult to locate. Although some of the more professional and syndicate-oriented business angels may join associations, most do not. Many business angels make only one or two investments during their career although more experienced angels may have multiple investments. It seems that the more active business angels prefer to invest in additional opportunities but are hampered by a lack of suitable potential investments (Lindsay 2007).

They are risk takers. Because of their investment focus, the environments they operate in tend to be dynamic and changing where there is a need for them to be structured organically to respond to uncertainty and change. Underpinning the research is the notion that business angels need to be consummate entrepreneurs to be successful in undertaking their investment activities (Lindsay 2007).

Angel investors invest 16 times as often as venture capitalists (VCs) in seed ventures. VCs tend to invest into ventures at later development stages since they offer shorter exit cycles and lower period levels of risk. Because of this, angel investors are much more important investors in early stages. Since existing investment from business angels is often a prerequisite for obtaining investment from VCs, increasing the number of business ventures that receive funding from business angels is of interest to all potential VC investors (Maxwell, Jeffrey, Levesque, 2011). Loan finance can meet some of the financing needs of technology-based firms. However, as generalists, banks have difficulties in evaluating technology projects. They perceive that lending to such firms involves high risk, with no prospect of compensating high reward because they do not normally share in the upside (Mason, Harrison 2010).

2.1.1 Norwegian angel investors

According to Hanna Aase, social media expert in Norway and founder of Toveis Media, “There is little real angel funding culture in Norway. There are no well-known incubation programs. Although I easily raised funding for a media company which had clients, there seems to be zero appetite for early stage technology companies which need funding to grow if they are to succeed.” (Tech Crunch).

“In Norway we like to invest in what’s already successful. The fear of failing here is huge even though you can’t predict in advance how a company will do. Norway is missing the boat compared to our neighbours in this field” (Tech Crunch). It is also worth noticing that the Norwegians appear seeing great opportunities in entrepreneurship, but at the same time they are among those who report the highest fear of failure. This leaves the general impression that policy initiatives have succeeded in improving the image of entrepreneurship, but not yet to a full extent in encouraging one to become an entrepreneur (Nordic Growth Entrepreneurship Review, 66).

Hallstein Bjercke, Oslo’s vice mayor admitted that there are fiscal issues that had to be addressed to help build a thriving angel investor community: “Stock options are taxed and there are no incentives for investors to become angels” (Bamboo Innovator).

2.1.2 Business angels add value

Entrepreneurs believe business angels without appropriate industry or small business experience to be of limited use as they cannot provide appropriate contributions (Macht 2011).

The most commonly utilized way of categorizing BAs is the distinction between ‘active’ (also called ‘hands-on’) investors and ‘passive’ (or ‘hands-off ’). Figure 1 displays the passive–active continuum and indicates involvement activities, which correspond to varying locations on the continuum (Macht 2011).

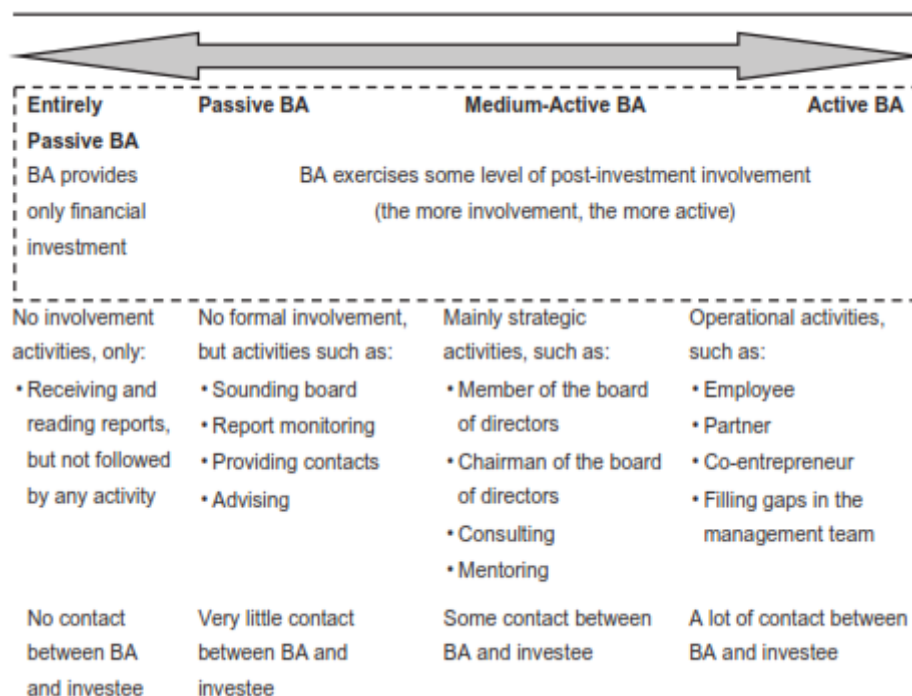


Figure 1: Passive-active continuum of involvement (Macht 2011)

The first study of business angel’s post-investment involvement in the United Kingdom concluded that over 75% of business angels are active investors, and over half dedicate more than one day per week to involvement. Overall, most activities exercised by angel investors tend to be of a strategic rather than operational nature (Macht 2011). Lindsay (2007) however argues with that by stating that business angels adopt an active management role in their investee firms. This helps them to provide constructive input to assist in the development of their investments as well as for personal satisfaction reasons. As such, business angels expect to have hands-on involvement with their investments to enhance performance (Lindsay 2007).

Politis has categorized business angel's value added roles into four main groups: 1) Sounding board / strategic role, 2) supervision and monitoring role, 3) resource acquisition role and 4) mentoring role (look at Table 1) (Politis 2008).

Table 1: Theoretical perspectives on how business angels add value

Value adding role	How do business angels add value?
Sounding board / strategic role	Building and protecting the bundle of valuable resources in the firm
Supervision and monitoring role	Minimizing conflicts of interests by means of formal control mechanisms
Resource acquisition role	Creating and maintaining a stable flow of critical resources
Mentoring role	Minimizing conflicts of interests by means of informal control mechanisms

Source: (Politis 2008)

Sounding board and strategic role. From the studies that have been reviewed it seems that business angels are likely to be active in this sounding board/strategic role in a number ways, such as helping to formulate business strategy, reflecting on ideas, enhancing the general pool of available management resources in the firm, and giving advice on the manner and timing for how to realize the value that is created in the firm. Interestingly, their prior business experience and management know-how seems to provide an important basis for adding value in the ventures in which they invest (Politis 2008)

Supervision and monitoring role. This supervision and monitoring role is about shielding the investments of the main resource providers of the enterprise (equity holders, as well as debt holders and employees) from potential managerial misbehaviour (e.g. the risk that the entrepreneur may mix personal and business goals). A common way to perform supervision and monitoring activities in venture capital-backed ventures is by instituting proper accounting information systems and by serving on the board of directors in the portfolio firms. These checks and balances enable business angel investors to oversee operating matters, protect the assets of the firm, and hold managers accountable for their actions in order to ensure the future survival and success of the enterprise (Politis 2008).

Resource acquisition role. The majority of business angels seem to be heavily involved in contributing added value by acquiring timely resources through their personal networks. This value adding resource acquisition role can be related to activities such as interfacing with investor groups, providing important business contacts and raising additional funds. The networking activities of business angels can be seen as helpful supporting the early development and growth of new and small firms, for example in developing and managing their network of connections with important stakeholders in the surroundings. Among other things, this makes the venture better prepared for acting on unexpected opportunities that arise in the marketplace as they have the necessary information and knowledge about when to act in order to take advantage of the ‘strategic windows’ that appear (Politis 2008). Investor’s networks inside the ecosystem as well as to other ecosystems are of extremely high value for the young firms as they benefit from it through market access, contacts to partners and potential customers (Nordic Growth Entrepreneurship Review, 82).

Mentoring role. The final value adding role is the involvement of business angels in mentoring activities, which refers to a developmental relationship between the more experienced business angel and the less experienced entrepreneur. This role is about being a helpful, open and trustful partner with the aim to build up a stable and committed working relationship with the entrepreneur. Reported activities that can be related to the mentoring role include providing moral support, lifting the spirits, sharing the burden, providing a broader view, and discussing and dealing with sensitive personal issues. The involvement in these mentoring activities can support important business operations, such as joint planning and problem solving based on social and relational means, and they also foster solidarity and trust. Trust can in this respect lead to improved performance as it economizes on transactions costs, as well as generating greater commitment and promoting collective learning. The mentoring role can thus be considered as highly important for the development of a well-functioning and trusting relationship between business angels and entrepreneurs (Politis 2008).

2.1.2.1 Performance gain statistics

European Private Equity and Venture Capital Association's 2013 May report states that private equity-backed companies are more focussed in their innovation efforts and deploy better management of innovation processes than their peers. These companies account for less than 6% of total private sector employment in Europe, yet they account for up to 12% of all industrial innovation, while their spending on research and development (R&D) accounts for 8% of all industrial spending on R&D (EVCA, 06).

In addition to the improved productivity that arises from higher levels of innovation, private equity contributes to creating an enabling environment to enhance the levels of productivity in the economy as a whole. It does this by increasing the finance available for capital investments, supporting companies through periods of commercial or financial distress, and by increasing the operating performance of portfolio companies. Some evidence points to private equity companies being less likely to fail than companies on average, with some studies suggesting that private equity-backed companies are up to 50% less likely to fail than non-private equity-backed companies with similar characteristics. Private equity backing improved the operating performance of portfolio companies by 4.5% to 8.5% during the first three years after investment. Private equity participation leads to improved productivity as measured by earnings before tax, depreciation and amortisation (EBITDA) per employee of 6.9% on average. Private equity participation can lead to more sustainable employment (EVCA 07).

Private equity has a direct impact on competitiveness through making funding available for risky but potentially lucrative new business opportunities. Studies have shown that private equity-backed companies are more focussed on internationalisation and private equity contributes to the creation of up to 5,600 new businesses in Europe each year (EVCA 07).

2.1.3 Business angel's investment decision making factors

According to many studies of private investment, rejection rates for investment proposals are high. High rejection rates prompt the need to understand better both the processes and criteria that private investors use to make their decisions. A better understanding of how private investors make their investment decisions can help business owners to increase their chances of attracting formal investors' interest in their firms (Feeney, Haines, Riding 2010).

Business angels need to be selective in identifying business opportunities submitted by entrepreneurs before making the decision to invest since they are investing their own money (Lindsay 2007). Investors prefer to invest 'close to home' and to syndicate with other private investors. On average, they anticipate holding a given investment for 5 to 8 years and expect to realize a capital gain on exit that provides the equivalent of an after-tax annualized rate of return of 30 to 40% (Feeney, Heines, Riding 2010).

The decision by potential funders to invest in an entrepreneurial business has largely been viewed as being if not a rational process, then at least a 'hard evidence'-oriented, 'substance'-based process. Different kinds of funders analyse entrepreneurs' business proposals in different ways and employ different funding criteria and place emphasis on different kinds of information when doing so (Colin 2008).

Maxwell, Jeffrey and Levesque were analysing over 120 entrepreneur's business opportunity pitching cases to business angels in a reality TV show called "Dragon's Den" and they found that the angel investors- Dragons, were making their decisions mostly by taking into account 8 different factors, which can be found in Table 2 (Maxwell, Jeffrey, Levesque, 2011).

Table 2: Business angel's critical investment decision making factors

Factor	Key question	Explanation
1. Adoption	Will customers in target market easily adopt this product?	Customer will easily adopt product or service Benefits harder to identify, some adoption issues No clear benefits, or major adoption issues
2. Product status	Product ready for market, or still major work required before it ships?	Finished product Design complete, all technical issues addressed Needs more research and development
3. Protectability	How easy it will be for other people to copy the product or service?	Product patented or significant other barrier It will not be easy to replicate Anyone could copy it easily
4. Customer engagement	Is a first customer identified? Does product meet customer need?	Customers in place or committed to purchasing Customers engaged to development project No first customers identified
5. Route to market	Is there realistic marketing plan and route to market?	Realistic marketing plan / distribution partner Options identified, no agreement in place Limited thought given to distribution issues
6. Market potential	Is there large market for this product?	Large market potential (i.e. > \$20 mil) Medium market potential (i.e. > \$5mil) Unable to predict, likely less than \$5 mil
7. Relevant experience	Does senior management have direct and relevant experience?	Significant relevant experience Limited experience, but appropriate knowledge No evidence of required knowledge
8. Financial model	Will they make money? Are they asking sufficient investment?	Sound business model and cash management Unclear profitability, limited cash management No evidence of profit or cash management

Source: (Maxwell, Jeffrey, Levesque, 2011).

2.2 Deal breakers

Feeney, Haines and Riding (2010) interviewed 194 angel investors who pointed out lacking attribute subcategories for entrepreneurs and businesses. Extended overview can be found in Appendix 1 and Appendix 2.

Attributes of the entrepreneurs:

- Lack of management knowledge. This was manifested by investors' perceptions that the principal(s) of the firm lacked the expertise to transform the idea into a viable business.

- Lack of realistic expectations. Investors' were discouraged from investing when entrepreneurs' expectations were overly optimistic or their forecasts were unsubstantiated. Unrealistic expectations often translated into excessive valuations of the business.
- Personal qualities. Investors viewed as shortcomings evidence that entrepreneurs lacked integrity, vision, or commitment and a high need to control the business.

Attributes of the business

- Poor management team. This shortcoming reflected investors' sense that the management team, while possibly having sufficient collective expertise, was otherwise deficient. These weaknesses might relate to lack of balance, experience, discipline, or teamwork. This criterion differs from that listed under 'Attributes of the owner(s)' immediately above. In this case, the weakness relates to the investors' perception of the totality of management ability across the business's management and ownership team. In the previous section, the weakness was ascribed to the principal owner. Of course, for one-person operations, these are the same.
- Poor profit potential for level of risk. Investors were discouraged from investing if they perceived that the business did not have the prospect of high returns.
- Poor fit. On occasion, the lack of congruence with investors' other interests was viewed as a difficulty.
- Undercapitalized, lack of liquidity. Investors viewed cash shortages and lack of owners' equity as problematic.
- Insufficient information provided. Poorly written, incomplete, or vague business plans were seen as weaknesses by investors.

2.2.1 Investment risks regarded with technology ventures

There are several specific sources of risk that underlie the perception amongst investors that investing in early stage technology based firms carries higher risks than investing in non-technology ventures (Mason, Harrison 2010).

These can be characterized as follows:

- management risk: technology entrepreneurs are likely to have excellent science/engineering credentials but be inexperienced in the commercial exploitation of technological innovations.
- agency risk: investors will encounter greater difficulties in undertaking due diligence, and incur higher costs, on account of the newness and complexity of the technology, products and markets and, as a consequence, the greater scale of information gathering.
- market risk: it is difficult for investors to assess the market potential for products that may not exist or which may create a new market.
- technological risk: the technology is likely to be unproven and its application yet to be demonstrated; development may take longer than expected, it may not work or it may be superseded by competitors.
- valuation risk: valuation of new technology based firms may be difficult because it is heavily dependent on the potential value of soft assets, notably patents, trademarks and human capital. Traditional financial based valuation methods are likely to be inapplicable in such circumstances.
- project risk: the speed of technological trajectories often requires rapid rate of commercial exploitation – and hence large injections of finance – before the advent of competitor products and/or redundancy.
- growth risk: technology-based firms need to grow, internationalize and develop new products in a very short time horizon. This places exceptional managerial, financial and technical demands on a new business.
- timing risk: technology-based firms are often characterized by short ‘windows of opportunity’ such that they might be unsuccessful if they enter the market too late, or too early.

2.3 Angel investment deal makers

Feeney, Haines and Riding (2010) suggested following attributes to attract possible angel investors:

Desirable owner attributes include:

1. Management track record. Respondents rated prior commercialization experience highly.
2. Realism. Investors were more apt to invest in opportunities when the owner(s) displayed realistic assessments of the potential.
3. Integrity and openness of the owners was also highly valued.

Desirable attributes of the opportunity include:

1. Potential for high profit. It comes as no surprise that investors seek financial gain from their investment.
2. A reasonable exit plan. Given the legislation-based difficulties with liquidity of shares in closely-held firms, the ideal proposal to investors should identify means by which the investors can realize their gains.
3. Security. A method of providing investors with some form of security on their investment is desirable.
4. Involvement of the investor. Investors do not typically want to be involved in the day-to-day operation of the business. However, they do look for a role that allows them input into improving the prospects of the investment.

2.3.1 Importance of the “pitch”, first impression

Entrepreneurs' presentational skills have a significant impact on the business angels' screening decisions. These presentations, which typically last between 15 and 30 minutes but can also take the form of one- to five-minute 'rocket' or 'elevator' pitches, are almost always delivered at an early, 'pre-contact' stage of the investor decision-making process – often before investors have met the entrepreneurs or seen their business plan. Business angels look for entrepreneurs who are 'honest', 'exhibit a strong work ethic', 'understand what it takes to make their business succeed' and have a 'realistic notion of how to value their business' (Colins 2008).

During the initial screening/first impressions stage, there are two types of trust-creating signals that are helpful to business angels wishing to invest in a start-up firm: a 'value' signal and a 'commitment' signal. While business angels receive extensive information from the entrepreneur, the latter has every incentive to present only that which is favourable. Thus, business angels need from the entrepreneur's presentation a signal of a reliable measure of value they expect from the proposed venture. Additionally, building on concepts drawn from organizational economics, the high business risk associated with new endeavours results in business angels desiring a 'commitment' signal on the part of the entrepreneur, in other words they desire a signal of the commitment by the entrepreneur to the new venture. Without such signals of expected value a business angel may act conservatively, undervalue the new venture and choose not to fund the venture since it is perceived not to have an acceptable return (Prasad, Bruton, Vozikis 2010).

2.3.2 Human capital

Shrader and Siegel conduct a longitudinal analysis of the role of human capital in the growth and development of 198 new technology-based ventures. Their results imply that the fit between strategy and team experience is a key determinant of the long-term performance of high-tech entrepreneurial ventures. For example, while a differentiation strategy was positively related to the profitability and sales growth of technology-based new ventures led by top management teams with high levels technological experiences, these important outcomes were negatively related to a differentiation strategy for start-ups led by teams with little technological experience. These findings demonstrate the importance for technology-based new ventures to select strategies for which they possess the human capital to successfully execute (Wright, Hmieleski, Siegel, Ensley 2007).

Educational achievement sends a signal to potential equity investors. Lack of a high school diploma may be viewed negatively by potential investors. Further, it is assumed that the impact of education is not linear. More education may be preferred to less, but not indefinitely. A college education is viewed more favorably than a high school education; and in certain areas, a doctorate or professional degree is required. Thus, it is hypothesized that entrepreneurs with higher levels of education are more likely to obtain external equity financing than those with less (Zaleski 2011).

It appears that there may be great benefits in university programs that combine science and technology with business management. An example would be a dual MBA and MS in Engineering program including a major in entrepreneurship that focuses on the process of opportunity recognition and exploitation. Such programs can provide both critical knowledge to nascent entrepreneurs as well as a platform for connecting technologists with experienced managers (Wright, Hmieleski, Siegel, Ensley 2007).

2.3.3 Improving communication line

The main problem however remains lack of information and awareness, both from the side of the entrepreneur and the side of the business angel. Indeed, different economic studies show that markets, including financial markets, can never work efficiently as there is always an information gap. One might assume that this information gap is particularly noticeable in the field of business angel financing. Although the problem of information asymmetry as such can never be completely solved, different techniques can enhance a better mutual understanding between the different partners. Different ways of increasing knowledge and awareness amongst entrepreneurs, business angels and public authorities must be explored (Aernoudt 2005).

2.3.4 Sharing investment risks

From the investor's perspective, investments in high technology firms are viewed negatively on account of their complexity and high risk rather in positive terms for their ability to generate attractive returns to the investor (Mason, Harrison 2010).

One way of allowing business angels to spread risk is by developing co-investment schemes where public money is invested together with the business angel investment and conditioned by the business angel's decision to invest. Such a scheme was successfully implemented in Belgium in the end of 2002, and since then, most of the business angels' deals appeal for the scheme. The scheme called "business angel+", consists of subordinated loan of maximum 125 000 euro granted to business totally or partially financed by business angels. The capital provided by the business angel added to the capital provided by the entrepreneur should at

least equal the amount provided by the public fund. Pre-selection of the project is undertaken by the business angel network (Aernoudt 2005).

2.3.5 Investor readiness

Entrepreneurs, especially those running enterprises with growth potential and who are willing to grow, need greater understanding of venture capital and specialist advice on how to structure business plans to secure external equity finance. There is evidence that some firms hold back from seeking external finance because they are unsure about the practicalities and worried about the complications. An empirical study carried out in Australia confirmed that by making new ventures investor-ready the business-investor community avoids a substantial waste of money. We could speak of a gap in the market akin to the classic equity gap: there is an information gap between the demand for and supply of funding, due to the fact that entrepreneurs do not fully understand the range of financial options. There seems to be a certain amount of luck involved in the search for funding. Financial institutions should help in filling this information gap of what is available and under what terms and conditions. This investor-readiness gap does not only apply to equity capital but is relevant to all forms of finances. Going to a business angel with a story written as a pitch to a public sector development agency is the quickest way to be shown the exit door. Therefore part of what needs to be done is to bring entrepreneurs to a point where they recognise how to tell the right story to the right investor at the right time (Aernoudt 2005).

2.3.6 Harvesting value from business angel networks

One of the best ways to bridge the information gap between business angels and entrepreneurs is by setting up business angel networks. The business angel networks form a platform where SMEs and business angels can make contact. This platform can function through the internet, magazines or organising fora. The networks give SMEs access to a new source of finance alongside bank financing and risk capital. The obstacle for the development of informal investment, apart from the crucial fiscal and regulative environment, is indeed the lack of good and well-presented projects. If there is any market failure, beside the specific issue of

the business angel academy, it is on the investees' side and hence, on how to find (not to select) the potential projects. Investees have to be guided in the presentation, both written and oral, of their projects, and have to be brought into contact with business angels who might be interested in their projects. Experiences in the United Kingdom and in the Netherlands showed that this market failure could easily be remedied with very simple means and led to the establishments of networks all over Europe. Evaluation showed that the scale of the network, the regional scale of the operation, the quality of staff, the level of financial support, the location, the complementary activities and the long term support from the stakeholders are considered as the success factors for a sustainable business angel network (Aernoudt 2005).

Importance of business angels and business angel networks is widely recognized by entrepreneurs and investors. Over the years, many business angel networks have emerged in order to assist business angels in their effort to discover investment opportunities. Most of these angel networks are national and provide Internet-based lookup services for investors and enterprises. In most cases, however, these services serve the purpose of a mere catalogue that is accessed within a website and explored with the help of simple search criteria, such as location, business sector, etc. (Mouzakitis, Karamolegkos, Ntanos, Psarras. 2011).

2.3.6 Being more proactive

Business angels need to be proactive in looking for new opportunities since they do not have a high profile in the market. 'There are no directories of business angels, their investments are not publicly recorded, and most strive to preserve their anonymity'. As such, entrepreneurs looking for early stage private equity finance may find it difficult to locate these investors. This may impinge upon business angel deal flow. In order to facilitate 'deal flow' and access potential investments, business angels need to use their initiative in searching out and identifying potential investments. Search strategies may include environmental scanning, reading relevant publications, and leveraging off professional and social networks. Although both formal and informal networks are utilized to tap into deal flow, often investment opportunities come from informal sources (friends, media, associates, etc.) rather than from more formal sources (accountants, lawyers, etc.) (Lindsay 2007).

2.3.7 Integrated financing schemes

Integrated finance is a concept that aims to reduce the cost of finance for SMEs by proactively analysing the likely finance needs in performance of a business plan or project. It seeks to achieve conditional offers from different finance providers against performance milestones. This, in turn, may offer comfort to a business angel who is asked to provide early stage capital. Further analysis of expenditure needs may identify requirements in principle for invoice discounting or asset finance at other points of development. This pro-active financing modelling concept has a number of advantages: it demonstrates a command of financial requirements; it secures all the elements of appropriate finance in one exercise; it should reduce cost by removing elements of uncertainty and it presents a strong image of the company, thus enhancing its prestige (Aernoudt 2005).

Entrepreneur incurs some cost in dealing with the angel, this action, in itself, signals that the entrepreneur has chosen to exert a positive level of effort and, thus, that he is going for the equilibrium that would lead to a positive cash-out firm value. The implication of this finding for practitioners is that angel-backed firms could be seen as firms whose founders opted for a viable firm, rather than choosing to ‘take the money and run.’ (Elitzur, Gaviols, 2002).

2.3.8 Overcoming unethical conflicts

Unethical behaviour may appear in many forms: unfair competition, unfair communication, abuse of power, privileging one’s own interests, non-respect of agreement and outright fraud (Collewaert V., Fassin Y. 2011).

In other cases, entrepreneurs and angel investors perceived unethical behaviour when (other) investors tried sidestepping and eliminating them with all means possible. Unfair communication is perceived by providing overoptimistic information and withholding crucial information for reasons of hidden agenda. Entrepreneurs further felt unethically treated where communication on commissions and finder fees was deliberately held and where the investor launches rumours in the VC community about the venture’s bad shape. Examples of perceived abuse of power include investors enforcing unbalanced contracts or eliminating minority shareholders through questionable methods, such as forcing them to sell their shares

at reduced price or, the opposite, blocking their investment. Investors also cornered entrepreneurs by refusing to co-invest in replacing end-of-life materials, owned by the investor but crucial to the entrepreneur's business. Examples of privileging her/his own interests against company interests include entrepreneurs or investors billing excessive costs, entrepreneurs negotiating a better remuneration for themselves with new investors without the previous investors' agreement (Collewaert V., Fassin Y. 2011).

2.4 Norwegian entrepreneurship policies

Entrepreneurship policy in Norway is primarily the responsibility of the Ministry of Trade and Industry, and the Ministry also coordinates the Government's innovation policy. The Ministry of Local Government and Regional Development has a major role in promoting entrepreneurship with a regional perspective. When it comes to the framework conditions, the Ministry of Finance, the Ministry of Labor and the Ministry of Education and Research are also important players. On the operational level, most funding and instruments are concentrated around three agencies; 1) Innovation Norway, which is responsible for loans, grants and advice for business and regional development, 2) The Research Council of Norway, which is responsible for most R&D related instruments and 3) SIVA, the Industrial development Cooperation, which aims at strong regional and industrial clusters through infrastructure, investment and knowledge networks and instruments (Nordic Growth Entrepreneurship Review, 64).

The Government has also established a number of funds for start-up companies over the past few years. However, long-term and high-risk private capital is scarce. In addition, many public grant schemes and funds are oriented towards rural areas, while entrepreneurship activity is more concentrated around the urban areas. This apparent mismatch represents a challenge for the Norwegian system (Nordic Growth Entrepreneurship Review, 65).

Entrepreneurship has received increased political attention. A number of initiatives have been introduced since the first Government entrepreneurship strategy in 2004. So far, most policy instruments in this area have focused on removing barriers to entrepreneurship and nurturing an entrepreneurial culture (Nordic Growth Entrepreneurship Review, 68).

In response to the financial crisis, start-up grants to companies with growth potential were substantially increased, but have now been considerably reduced, following a general phasing out of the measures. In its budget proposal for 2013 the Government introduced increase in funding for start-up grants, with a special emphasis on companies at an early stage (less than 3 years old). The expansion concerns grants on the national level, thus avoiding the risk of mismatch with funding and entrepreneurship in regionally oriented grants (Nordic Growth Entrepreneurship Review, 69).

According to the EU Commission's report, Norway had great human capital, good research systems, and "relatively" good access to capital and assistance to entrepreneurs. But, it said, there has been a sharp decline in investment in innovation. The report also found Norway was low on its investment in innovation, the number of new patents, new products and new services (Tech Crunch).

3. RESEARCH METHODOLOGY

According to Wilson (2010) a research design is a detailed framework or plan that helps to guide through the research process, allowing a greater likelihood of achieving research objectives.

The research question is “*Why Norwegian business angels do not want to invest into local tech start-ups?*”

There are numerous research papers available that discuss about relevant investment conflicts between tech start-ups and angel investors. However, there has no study being published that would discuss mentioned topic on basis of Norwegian start-ups and local angel investors, hence referring my thesis as exploratory research.

Wilson (2010) describes exploratory research as a research problem where there currently exists very little, if any, earlier work to refer to. Hence, where there is a lack of published research and a lack of knowledge about a given topic, then exploratory research is a viable research design.

3.1 Criteria for the research design, limitations and method selection

As mentioned earlier, my research question is “*Why Norwegian business angels do not want to invest into local tech start-ups?*”

Nature of the research question sets many demands and requirements which need to be considered when choosing the most appropriate research methodology. Since the paper generalizes and tries to establish understanding among all start-ups and angel investors across Norway, it was absolutely critical to reach as many participants all over country as possible. Start-ups are located all over Norway, most of them are registered and operating in bigger cities like Oslo, Bergen, Stavanger and Trondheim. Business angels are even harder to contact due to their active nature: often they are wealthy business owners and managers who need to travel constantly around the world or who are residing most of the time outside Norway. Due to my travelling and research time limitation, the most suitable method in reaching target groups was to use quantitative approach by using virally sent online surveys.

By living in Oslo, Norwegian capital with most entrepreneurial activity regarded with start-ups and having established network that includes local start-up entrepreneurs and related experts, I found it very necessary to use this opportunity to conduct face-to-face case interviews and therefore have additional qualitative input. Received thoughts and insights would help in discussion and formulizing research results.

3.2 Units of analyses

Unit of analyses helps to set boundaries in research. Typical units of analysis in business case study research include an organization, business function, strategic implementation or possibly and individual (Wilson 2010).

In my research case, I chose units of analyses to be individuals who are the decision makers and experts of financial capital raising / investments. These units would be:

- Norwegian based technology start-up entrepreneurs: they are the founders of the companies who have the best overview of their business model, value proposition and industry sector. Decision makers of financial planning
- Norwegian angel investors: wealthy individuals who are in control of making an investment. They choose companies to invest in and set the “partnership rules”
- Recognized start-up and seed funding experts: neutral individuals who have excessive knowledge and experience in Norwegian start-up and early stage capital raising scenery

3.3 Research design

Wilson (2010) states that the study question, propositions, units of analysis, logic thinking the data to the propositions and criteria for interpreting findings are essential influencers of choosing most suitable research design.

For this paper I found the combination of *comparative* and *holistic multiple case* designs as the most appropriate way to meet the research objectives the most professional manner (look at Figure 3). These research designs are also considered as most suitable answering “Why?” structured research questions. (Wilson 2010).

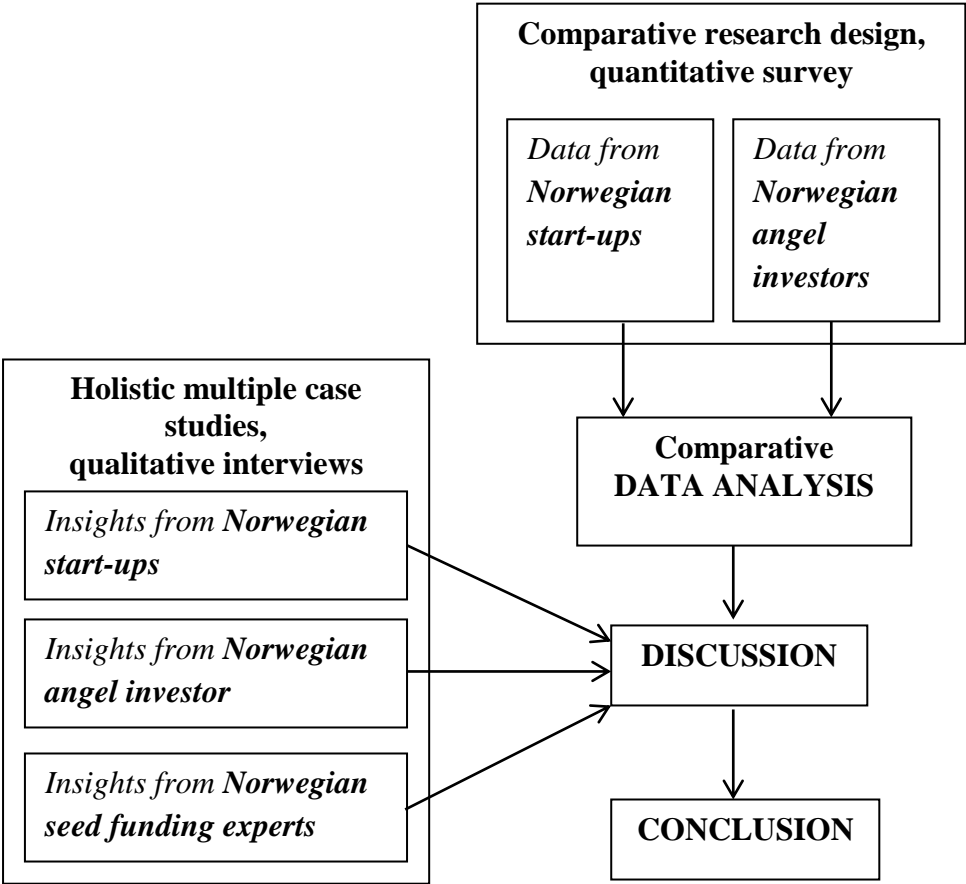


Figure 4: Research strategy

Comparative research design compares two or more groups on one variable. A variable is a characteristic that can be measured (Wilson 2010).

In order to find an answer my research question (“*Why Norwegian business angels do not want to invest into local tech start-ups?*”), I need to analyse and understand different conflict areas, where start-up’s and angel investor’s expectations and demands either match or clash. From literature review and related background interviews I came out with three conflict variables to investigate: mismatches at organizational level, mismatches at industry level and mismatches at macro environment level (look at Figure 4). Quantitative surveys are being used for this design.

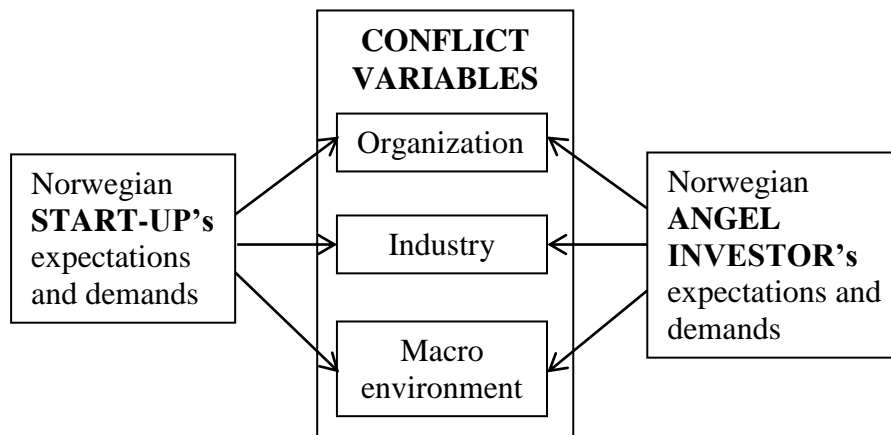


Figure 4: Comparative research design

Organizational conflict variable would possess mismatches at personal co-operation “chemistry” and business ownership level. Studies have shown that one of the main angel investment deal breakers has been investor’s and entrepreneur’s character incompatibleness and disagreements in company valuation and ownership sharing.

Industry conflict variable analyses lack of co-operation interest regarded with specific business sector like ICT, natural resources (mining, forestry, agriculture), engineering, real-estate, advisory etc. There are many evidences available that show that angel investors are most likely invest into industries he / she is familiar and comfortable with. Also start-ups find most valuable business angels who possess expertise and network in the industry sector that the start-up is operating in.

Macro environment conflict variable includes attributes that are outside the reach of start-up's and angel investor's abilities and which influences angel investment deal making. Examples of these attributes would be like investment taxation, availability of more attractive investment resources (bank loans, government funds, VCs) and targets (real-estate, stocks, bonds, funds).

Multiple case design can be viewed as multiple experiments. The more cases that can be marshalled to establish or refute a theory, the more robust are the research outcomes. Cases need to be carefully selected so that they either produce similar results or produce contrasting results but for predictable reasons (Wilson 2010).

Three case groups were chosen as additional insight sources for my research design: 1) Norwegian technology start-ups, 2) Norwegian angel investors and 3) Neutral experts that are familiar with Norwegian seed funding and start-up environment (look at Figure 5).

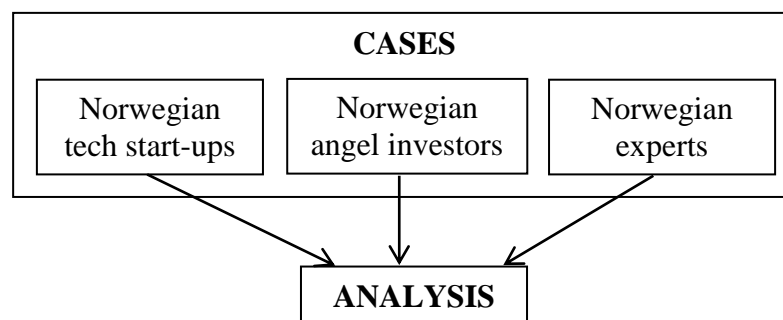


Figure 5: Multiple case study

3.4 Addressing ethical issues

The researcher was morally responsible to carry this study in accurate and honest way. All research stakeholders (project supervisor, organizational participants, researchers & community, individual participants and university) are treated with respect.

Journal articles, named books, previous studies and other information outtakes used as secondary data in literature review are referred according to rules and standards.

All survey participants were guaranteed anonymity and participating interviewees were asked permission to record their interviews and to refer them namely in the research paper. They were also told to have an opportunity to have a copy of this paper by contacting the researcher.

4. DATA

4.1 Survey and interview structure and question designs

Online questionnaires were used for quantitative and face-to-face interviews were used for qualitative research.

4.1.1 Quantitative survey questionnaire

A questionnaire is a method of data collection that comprises a set of questions designed to generate data suitable for achieving the objectives of the research project (Wilson 2010).

Advantages of using a questionnaire are as follows:

- They allow to obtain accurate information
- They provide a cost-effective and reliable means of gathering feedback that can be qualitative as well as quantitative
- A survey questionnaire can provide accurate and relevant data through thoughtful design, testing and detailed administration

Questionnaires used in surveys are found in Appendix 3 and Appendix 4. Purpose of the questionnaires was to gather primary data to meet the research objectives. It was critical to have the questionnaire in online environment so it could be sent out easily to target groups via email and that could be filled comfortably by participants. Online survey environment makes it also comfortable to gather and analyse feedback data. Due to the active and busy nature of targeted survey participants (business owners and entrepreneurs), length of the survey was strictly kept to 10 focused questions that could fit to one page. Both questionnaires have covering letter that explains the research purpose, that participants anonymity is guaranteed and researcher's contact information in order to receive a copy of the research paper.

Because of the comparative research design, questions were designed by having comparable result variables in mind. Also the questions try to clarify conflict areas of organization, industry and macro environment. All questions help leading to a rational and objective answer of the research question.

4.1.2 Qualitative face-to-face interviews

A face-to-face interview is a direct meeting between an interviewer (often the researcher) and an interviewee or interviewees. Given the personal nature of face-to-face interviews, they are also sometimes referred to as personal interviews. Several advantages are associated with face-to-face interviews. Among the most salient are (Wilson 2010):

- The ability to engage in verbal and non-verbal communication
- The respondent's feedback can often be recorded, thereby providing accurate information
- The greater flexibility regarding the delivery of the questions
- Completion is immediate and straightforward

All interviewees were asked to participate in the research through an email. Date, time and location were selected by keeping interviewee's comfort in mind. It was noticed in advance that the interview will take around 15 minutes of their time. At the start of the interviews, the nature of the study was explained and permission to use mobile as Dictaphone recorder and their name reference in the research paper was asked. Questions were focused by keeping research question in mind. Clarifying additional questions were asked and research hypotheses were pitched. Goal of the interviews was to receive additional interesting thoughts and insights to benefit quantitative survey. In the end, interviewees were thanked for participating and sending a copy of the research paper was promised.

4.2 Data collection

Interviews were conducted between 24th March and 11th April 2014 and surveys were created and sent virally to target groups on 13th April 2014 and data has been collected on 16th May 2014.

Anonymous, online start-up survey (look Appendix 3) and business angel survey (look Appendix 4) were created and hosted in [surveymonkey.com](https://www.surveymonkey.com)¹ homepage. Start-up survey was

¹ <https://www.surveymonkey.com/home/>

sent to 120 Norwegian start-up entrepreneur's contacts which were found on start-up incubator's / facilitator's, StartupLab² and MESH Norway³, websites and startupnorway.com⁴ database. Total 30 responds were received (response rate 25%). Angel investor's survey was sent by Norwegian Business Angel's Network (NORBAN) to selected 25 angel investors. In total 9 responses were received, making response rate of 36%.

Five qualitative case interviews were conducted: Two interviews with Norwegian technology start-up entrepreneurs- Daro Navaratnam (look Appendix 5) and Tomasz Przetchozki (look Appendix 6). One interview with Norwegian angel investor, Truls Berg (look Appendix 7) and two interviews with recognized start-up experts- Odd Utgard (look Appendix 8) and Tor Grønsund (look Appendix 9).

² <http://startuplab.no/the-lab/>

³ <http://www.meshnorway.com/meshers-list/#>

⁴ <http://startupnorway.com/companies>

5. RESULTS AND ANALYSIS

As mentioned earlier in Research Design chapter, comparative research design is being used to compare variables from two different data source groups. Hence hereby quantitative data from Norwegian tech start-up companies' survey and Norwegian angel investor's survey are presented side-by-side for a comfortable correlation analysis.

The purpose of Question 1 was to find out about angel investment statistics in Norwegian entrepreneurial environment (look at Figure 6).

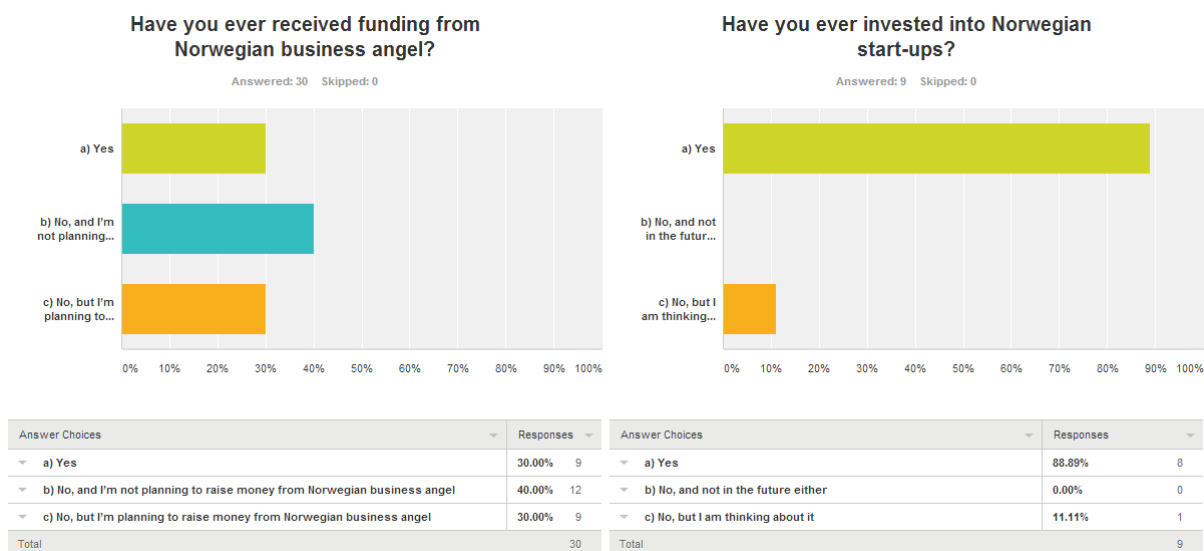


Figure 6: Question 1, angel investment statistics

Almost 90% of answered Norwegian business angels have invested into local start-ups, however only 30% of the companies have received funding. This phenomenon can be explained that business angels select investee companies carefully and there is not simply enough capital for all start-ups. It is interesting to see that majority, 40%, of tech start-up entrepreneurs are not planning to raise capital from Norwegian business angels at all. Low need for external Norwegian angel funding might be caused due to industry sector with low seed capital requirement (ICT, consulting) and availability of FFF (family-friends-fools) and access to government funding schemes. 30% of start-ups are planning to raise capital first time from Norwegian angel investor and around 10% of the investors are willing to try out making an investment into local start-up.

Question 2 tries to clarify the importance of networking schemes as the first step where entrepreneur meets investor (look at Figure 7).

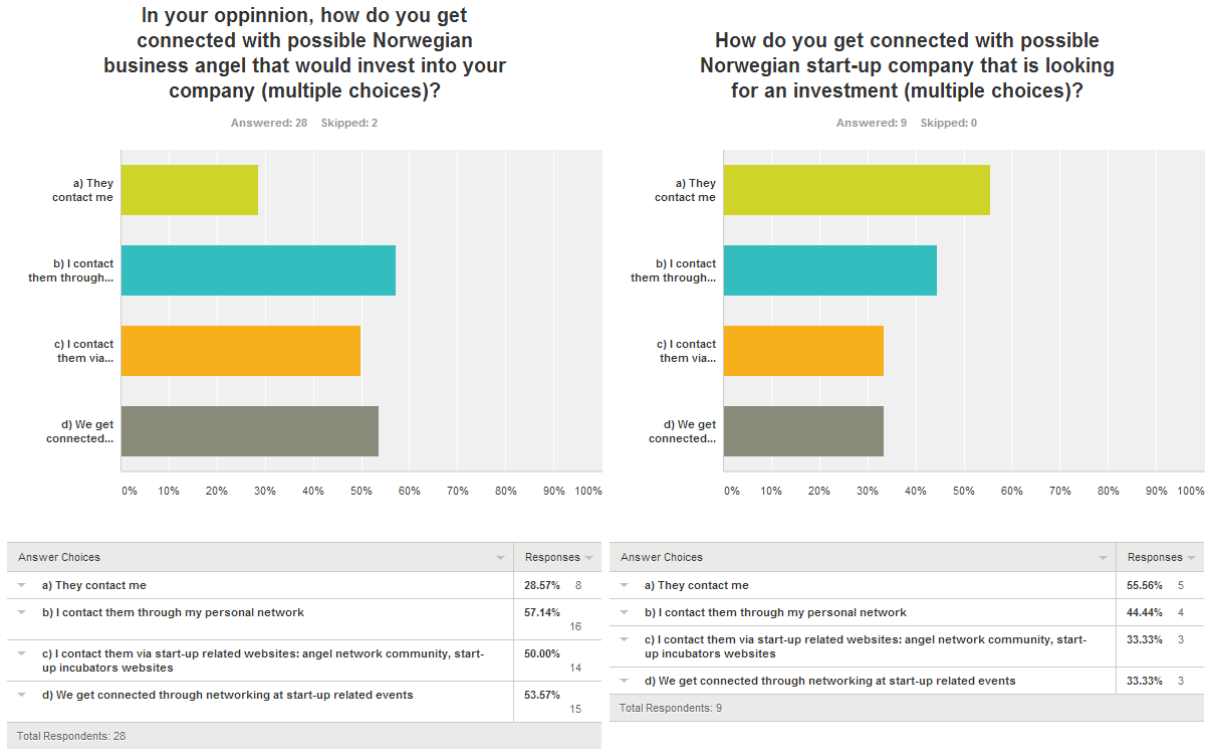


Figure 7: Question 2, Networking attitudes and power balance

There seems to be a strong correlation between start-ups and angel investor’s believe how networking should be done: Both agree that start-up should make the first step in order to get funded. Majority, 57%, of tech start-ups use their personal network to connect with possible angel investor and 44% of angels with investee company in their network. These numbers show that both start-ups and business angels value personal networks very high, perhaps mostly due to trust issue. 33% of business angels find start-up and angel related websites and events as a possibility to connect with entrepreneur, however over 50% of start-ups believe that mentioned “tools and ways” help them to meet possible angel investor. This question defines clearly power balance between start-up and investor: angel investor owns money, which makes him superior and more laid back in reaching out.

Question 3 tries to find seed investment amount matches between start-up entrepreneur’s capital raising expectations and angel investor’s readiness (look at Figure 8).

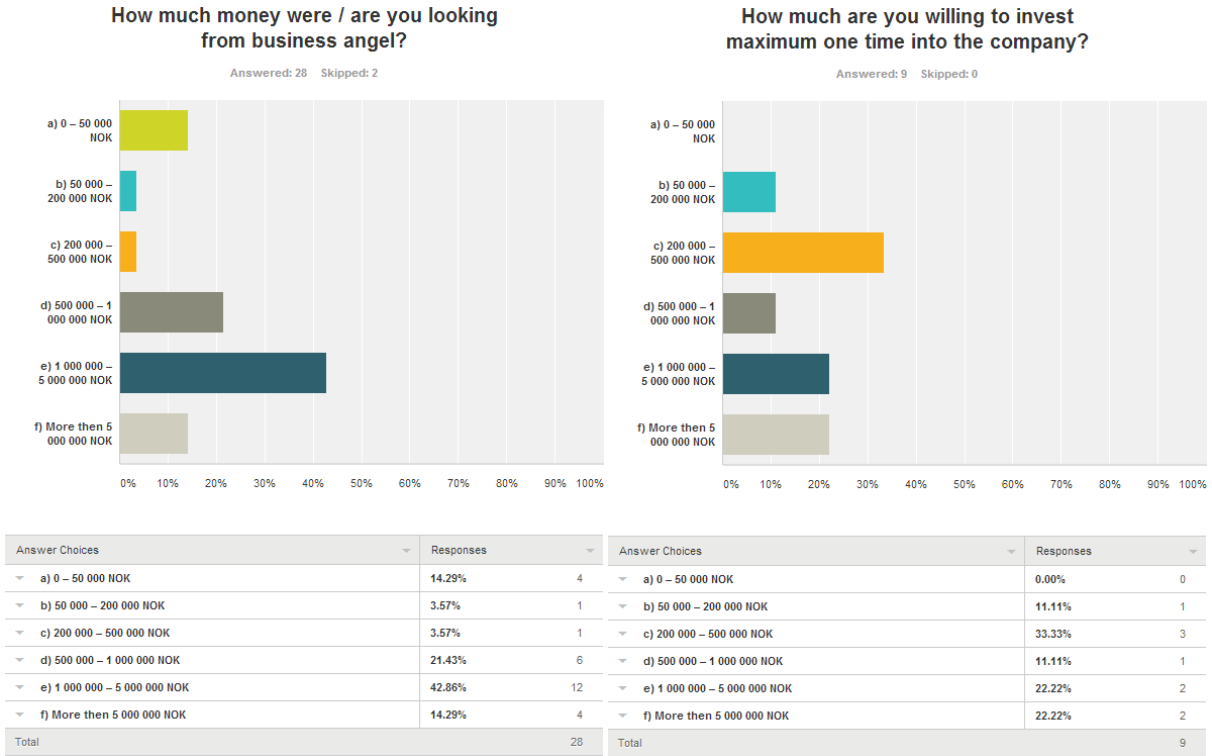


Figure 8: Question 3, capital raising expectations and investment availability conflict

Majority, almost 43% of start-up entrepreneurs are looking for 1...5M NOK from an angel investor, however only 22.2% of angels are willing to make that kind of contribution. Majority of angels (33,3%) are ready to invest 200 000 to 500 000 NOK which would cover the needs of 3,5% of entrepreneurs. Second (21,4%) most desirable amount of money looked by start-ups was 500 000...1M NOK which meets only 11% of angel’s capabilities. It is interesting to see that at the biggest amount of 5M+ NOK, offering exceeds demand. This question shows that Norwegian start-up entrepreneur’s capital raising expectation exceed often local angel investor’s investment readiness. However, there are investors who are capable investing one time more than start-up expects.

Question 4 tries to find answers at investee company ownership level: Are Norwegian start-ups willing to have multiple board members and is Norwegian angel investor willing to co-invest with other angel (look at Figure 9)?

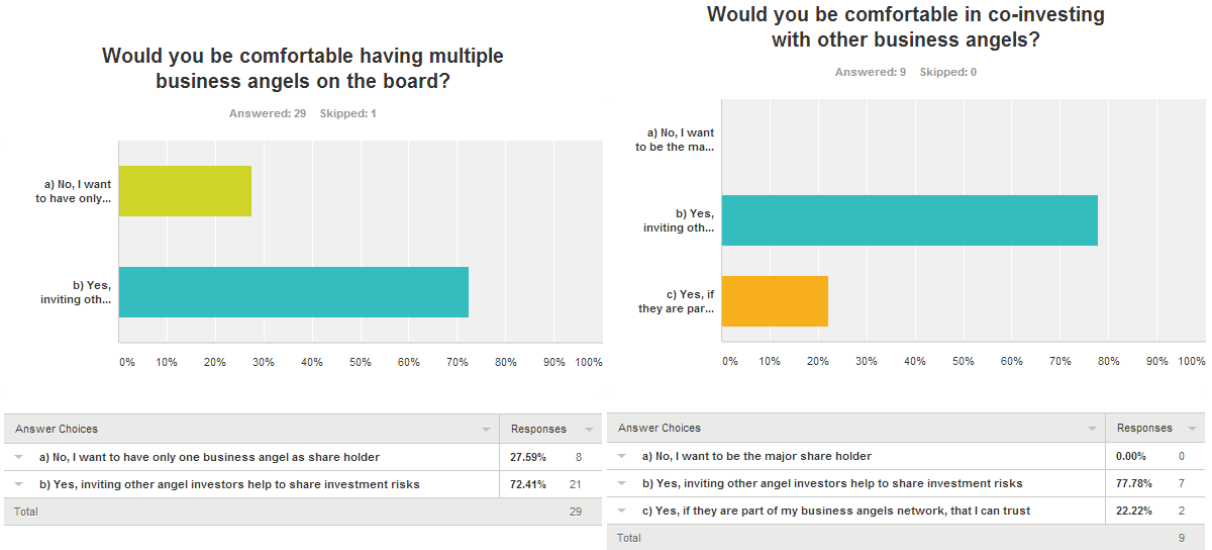


Figure 9: Question 4, matches in business ownership attitudes

Seems like there is a very strong agreement between both parties what comes to business ownership: 72% of start-ups find no problem giving extra shares away and have multiple angel investors on board and almost 78% of Norwegian investors welcome option to co-invest with other angels. However, 22% of angels would co-invest only with person from his/hers angel network he/she could trust. 28% of start-ups are accepting only one angel investor.

From crossing data with question 3 results, it turned out that 100% of angels who are willing to invest more than 1M NOK, are accepting co-investing option to manage investment risks. 75% of Norwegian start-ups that are looking for more than 1M NOK are accepting having multiple angels on board. This question explains financial risk management: the more money is required, the eager are investors to co-invest and start-ups looking for large capital tend to understand it.

Studies have shown that start-ups value mostly partnerships with investors who have the same business background and that angel investors are more comfortable in investing into industries that they are familiar with. Question 5 helps to clarify this area (look at Figure 10).

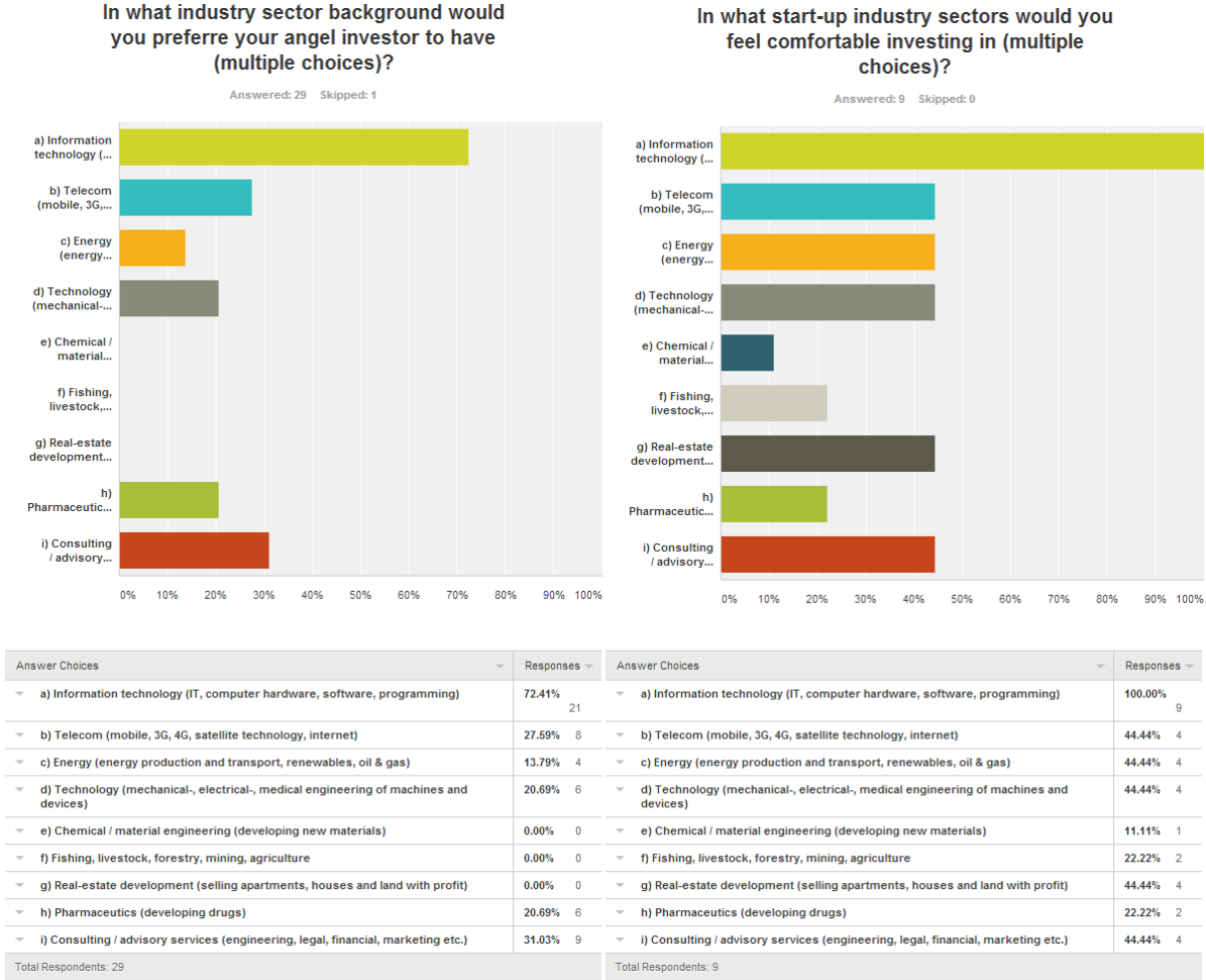


Figure 10: Question 5, industry matches

Majority, 72,4%, of participated Norwegian tech start-ups would like their angel investor to have IT background. This correlates strongly with Norwegian business angels: 100% of them are willing to invest into IT start-ups. 31% of start-ups want to have their investor background as consultant and almost 45% of angels would invest into that business industry. There is also strong correlation in telecom sector. No answered Norwegian start-up finds fishing, livestock, forestry, mining, agriculture, chemical engineering or real-estate angel background attractive. In general, business angels are more interested in various industries. Chemical engineering, fishing, livestock, forestry, mining and agriculture industries are the least attractive industries for angel to invest in. Overall, in terms of industry, there should be many business opportunities for local investors to harvest- they are seen attractive from start-up side.

Question 6 should help to find out if Norwegian tech start-ups and local angel investors see each other competitive on macro level, at global scale of substitute opportunities (look at Figure 11).

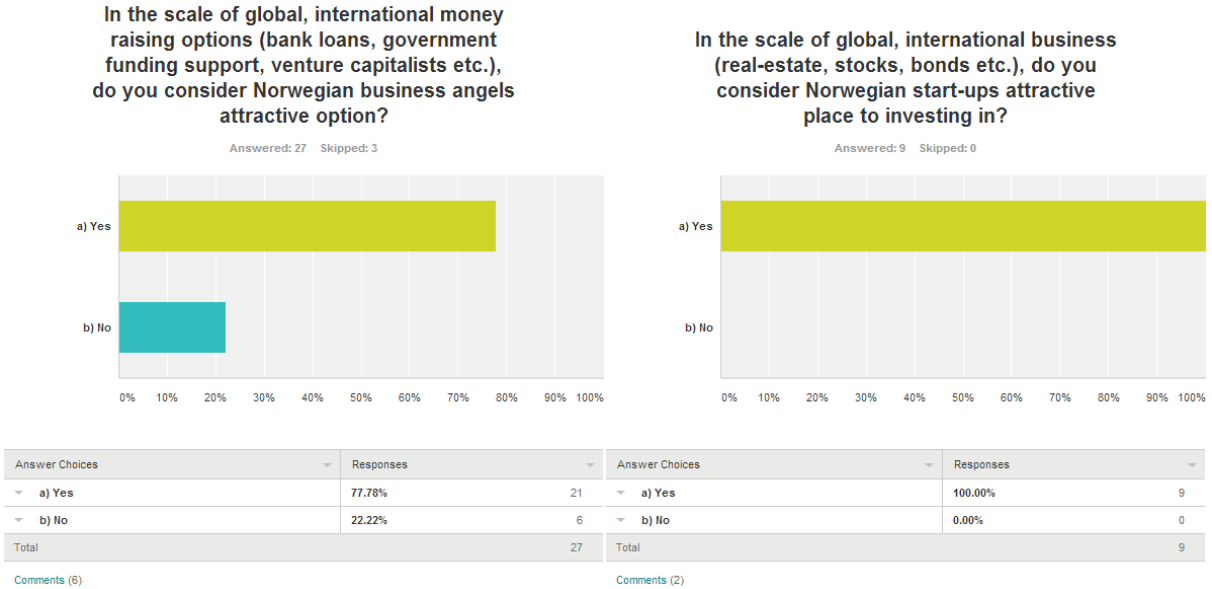


Figure 11: Question 6, global competitiveness

Both Norwegian tech start-ups and local angel investors find each other as attractive business partner. Only 22,2% of start-ups found that Norwegian business angels are not an attractive option.

When crossing the data with question 1, then it is not surprise that these 22,2% were the ones who have never and are never planning to raise capital from Norwegian angel investors.

Some comments from anonymous start-up entrepreneurs:

“Don't know, the angel network is not as visible here as in the U.S.”, “Only attractive to attract industrial investors”, “Not convinced about the value they would bring, esp wrt network/"smartness"”, “Don't know any. They are not out there. We have received money from outside Norway business angles only”, “Depends on requirements, input and shares”

Purpose of question 7 is to find out if Norwegian tech start-ups and local business angels are ethnically sensitive what comes to business collaboration (look at Figure 12).

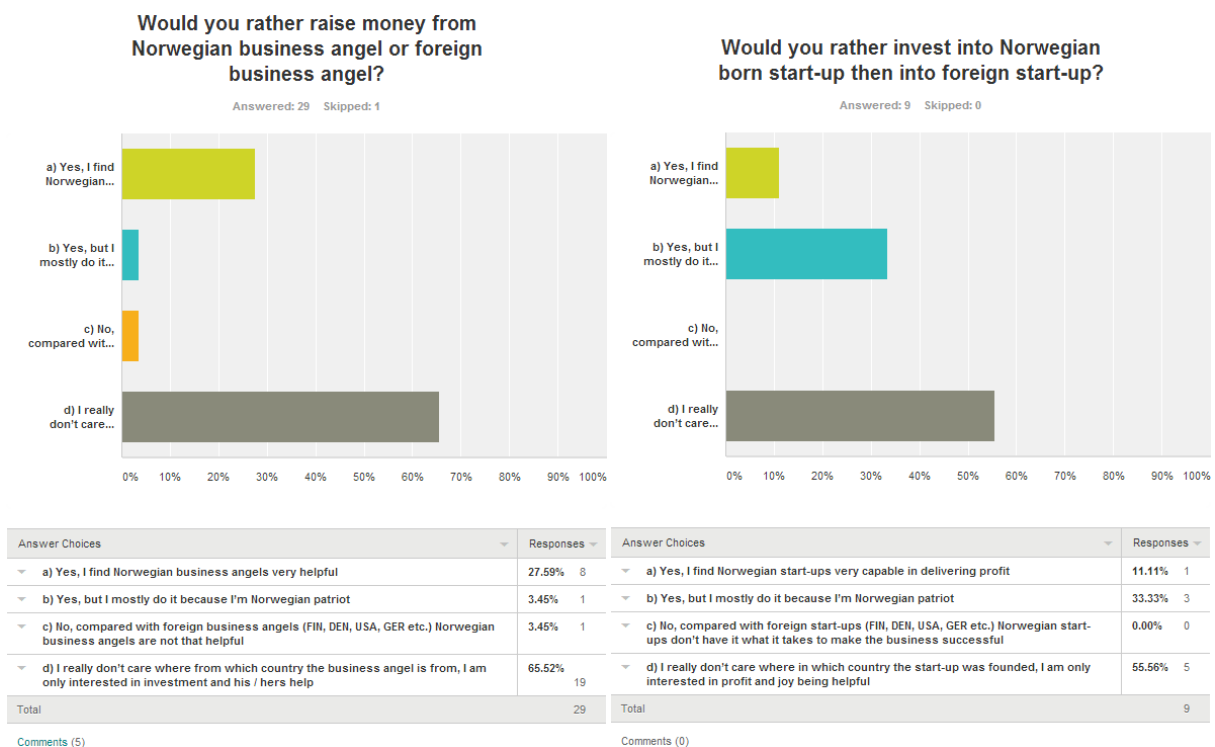


Figure 12: Question 7, national preference match in business

Majority of Norwegian tech start-ups (65,5%) and local angel investors (55,5%) do not find it important that their possible business partner is not Norwegian born. However 33,3% of local angel investors have said that their possible investee start-up needs to have Norwegian roots. 27,6% of answered start-ups said they find especially Norwegian angel investors very useful.

This question result shows that majority of Norwegian tech start-ups and investors have international mind set and evaluate business opportunities on global scale.

Some comments from anonymous start-up entrepreneurs:

“Very few succeed in getting funded by Angels abroad, due to geographical distance”, “In one way, receiving funding in general is a good thing. However, it also depends on requirements. Macro economically, it is also preferable to keep cash flow within known networks and perhaps within national boundaries”

Question 8. Studies have shown that start-up’s business readiness to receive external angel funding is valued critically by the investors. Majority of seed funding proposals are rejected due to lack of one of the following seven criteria that angel investors tend to value the most. This question tries to find out if Norwegian tech start-ups understand local angel investor’s expectations enough well to succeed in fund raising (look at Figure 13).

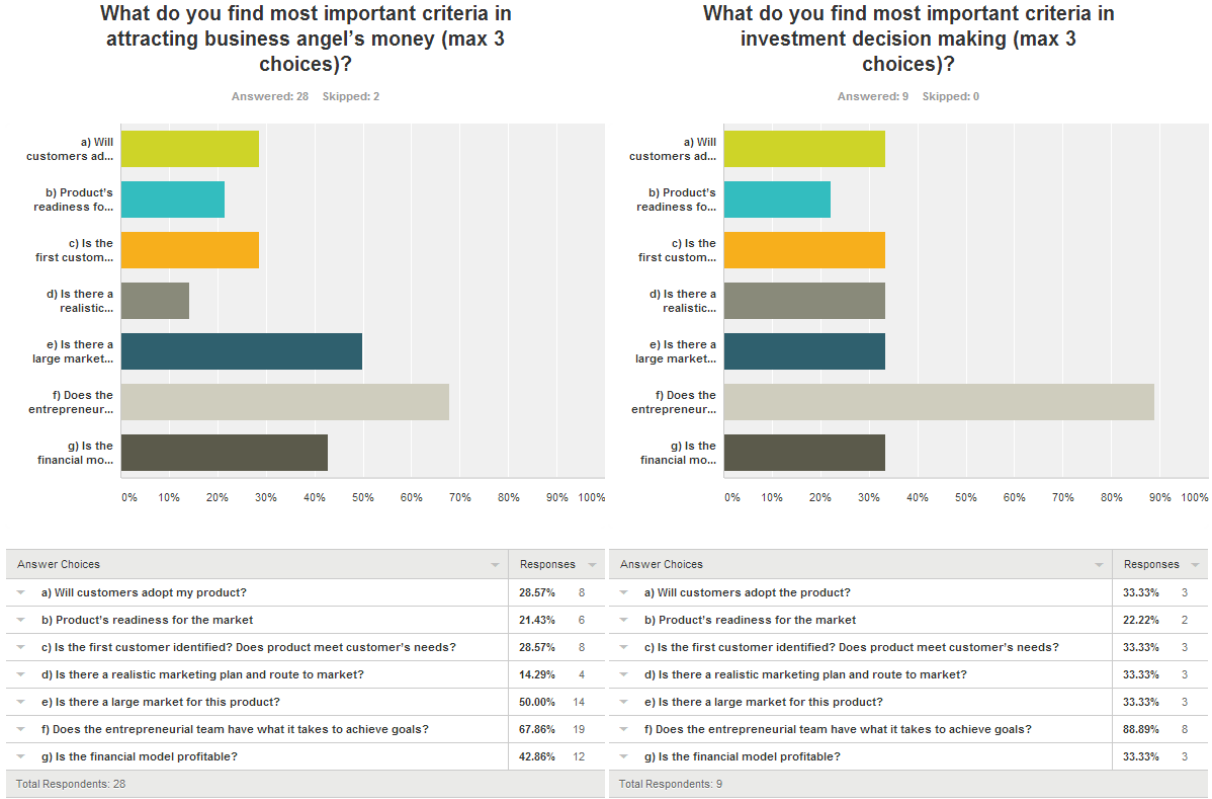


Figure 13: Question 8, matching start-up’s early stage capital raising knowledge with angel’s expectations

Majority of both parties (68% and 89%) find that entrepreneurial team’s ability to deliver results has the weigh in investment decision making. Norwegian angel investors are most giving in the area of product readiness for the market, however all other criteria are seen with 33,3% equally important. Norwegian tech start-ups seems to value marketing related criteria the most: 50% find importance of having evidence of large market, following with profitable financial model (42,8%), having good customer feedback and identified first customer, both stand at 28,6%.

Results show that both parties know that entrepreneurial team’s performance is the most important criteria in attracting Norwegian business angel’s money.

Question 9 tries to clarify possible investment conflict area at macro level and also show how familiar are Norwegian technology start-ups and local angel investors with angel funding related government policies / regulations and if they blame Norwegian government or each other in lack of angel investment activity (look at Figure 14).

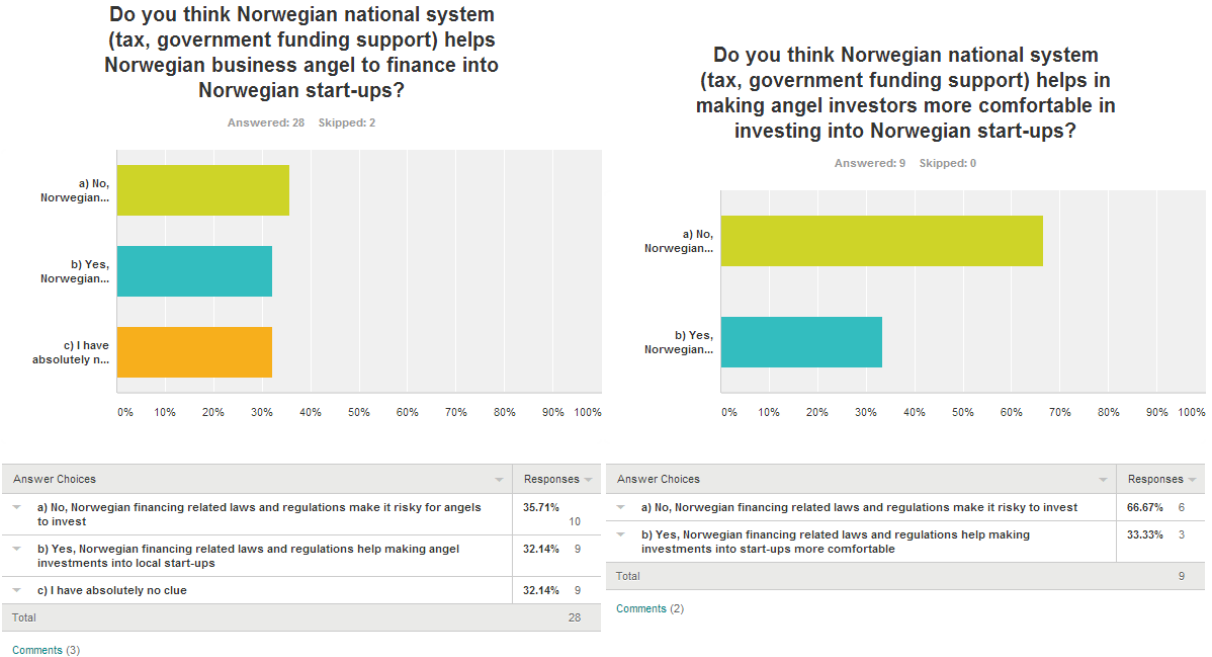


Figure 14: Question 9, macro level assessment

It seems that Norwegian tech start-ups are not very familiar or have little opinion about Norwegian national system policies which affect local angel investor’s decision making. However, more financially experienced angel investors believe that Norwegian national system is not supporting making investments into local tech start-ups. Rest 33,3% of investors on other hand believe that country’s national system benefits making investments into local start-ups.

Comment from anonymous start-up entrepreneur:

“Taxation on profit is presumably 28% after production costs are deducted. Unsure if other countries have much lower share. Norwegian tax system also has deductions for investments into research related products”

Question 10 would help to clarify conflicts at organizational level if Norwegian tech start-ups value and tolerate local business angel’s contribution and if local angel investors demand strictly being part of company’s everyday decision making (look at Figure 15).

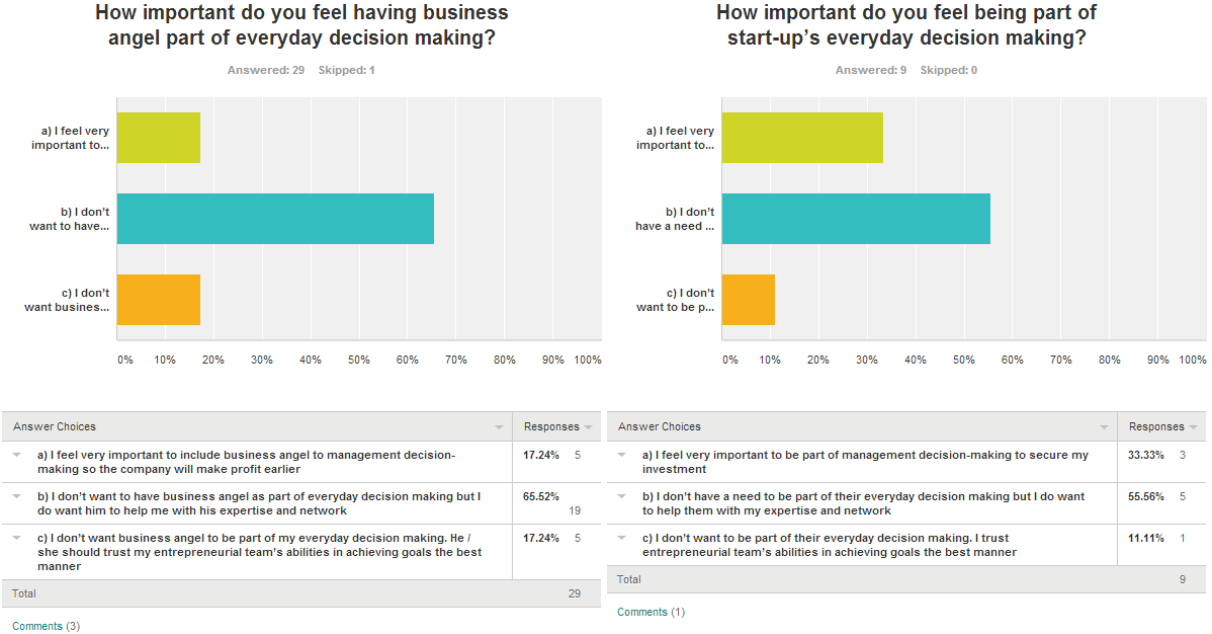


Figure 15: Question 10, Organizational partnership contribution matching

There is a strong mutual agreement of the understanding of angel investor’s involvement to the start-up’s everyday decision making: Majority, 65,5% of Norwegian tech start-ups and 56,5% of local angel investors find that there is no need for investor to be actively included to everyday business decision making. However start-ups value their angel’s expertise and network very highly and business angels are very happy to help their investee company with that. 33,3% of participated Norwegian business angels find it very important to be part of start-up company’s everyday decision making and 17,2% of start-ups agree with that. 11% of investors and 17,2% of start-ups do not want to co-operate business decision making wise during daily bases.

Result of this question shows that majority of Norwegian tech start-ups find angel investors valuable not only in terms of financial investment but they also find them attractive in terms of shared expertise and personal network. Both parties seem to agree on the level of company control intensity.

6. DISCUSSION

The objective of this research is to determine the reasons behind Norwegian angel investor's lack of investments to local technology based start-up companies. In this section I will go through all my findings and discuss my research question “*Why Norwegian business angels do not want to invest into local tech start-ups?*” by answering to previously developed hypothesis.

H1: Norwegian business angels find local start-up's business sectors unattractive

Studies have shown that due to high risk involved, angel investors tend to invest into companies and business sectors they are familiar with. By doing so, they are capable to benefit start-up at fullest by sharing their specific industry related network and add value to investee company by delivering industry related thoughts and ideas. Quantitative research has shown that Norwegian business angels find most attractive IT (100% of participated angels), telecom (44,4%) and business consulting (44,4%) sectors- industries that are also most popular among local start-ups. Study also shows that 100% of Norwegian business angels find local start-ups as attractive investment candidate and 33,3% of investors consider themselves as Norwegian patriots. Odd Utgard from StartupLab Norway said that Norwegian start-ups are considered among most profitable start-ups in the world and local angel investor, Truls Berg, said that he would rather invest into Norwegian company. Current research also points out that geographical and ethnical limitation are considered with greatest importance among Norwegian business angel's funding decision making. However, start-up entrepreneur, Tomasz Przechodzki, and acknowledged start-up expert, Tor Grønsund, find that Norwegian business angels might be passive because they find no interesting Norwegian start-ups to invest in. In general, *Hypothesis 1* is false because Norwegian angel investors find local start-up business sectors attractive place to invest.

H2: Norwegian business angels and local start-ups have lack of partnership chemistry

Literature review shows that entrepreneurial team's ability to deliver goal is ranked as the most important business angel's opportunity evaluation criteria. Quantitative research has shown that both parties have strong mind set correlations in this area: both start-ups (68%) and business angels (89%) indicate entrepreneurial team as the company's main asset. Same

understanding has been established on business management level: 65% of start-ups and 56% of angel investors find that co-operation should stand in delivering values in terms of industry expertise, know-how and network sharing. In terms of business ownership sharing, both feel comfortable having multiple angel investors on board (correlation 72%). Both interviewed start-up entrepreneurs- Daro and Tomasz, confirmed that they are welcoming partnership with Norwegian business angel. Angel investor, Truls Berg, said that as an addition to make money, the main motivation to make investments into start-ups is the feel of “doing good” and helping young entrepreneurial team to make a positive impact. He would also consider making additional investment to the same entrepreneur if previous ventures had failed. As mentioned earlier, statistically there is also match in investment business sector. There is likelihood that people having the same industry background are also greater way understanding each other. With everything that in mind, *Hypothesis 2* is false.

H3: There are more attractive funding options available for Norwegian tech start-ups

Previous studies have shown that as early stage funding, business angel’s money is seen as very attractive financing source. For example because 1) business angels tend not to be very harsh in securing its investment, less bureaucracy and will to control company operations, 2) angel funding is seen as a “quality stamp” by venture capitalists in later stage funding and for a technology start-up, 3) start-ups usually don’t have assets that are required by loan institutions, 4) it is considered more difficult to get a loan from a bank institution because it doesn’t know how to value technology business, 5) Norwegian national entrepreneurship financial support (Innovation Norway) is still considered as a loan with interest rate, 6) there are very few (2...3) venture capitalist companies (VSs) to choose between and VCs are not usually interested in early stage funding. Current quantitative research shows, that 78% of participated Norwegian tech start-ups find Norwegian business angels very attractive when considered other capital raising opportunities in Norway and outside the borders. In total of 70% of participated start-ups have either raised capital or are planning to raise funding from Norwegian business angels. In the end it makes *Hypothesis 3* false: Norwegian tech start-ups find local angel investors very attractive.

H4: Norwegian business angels see other investment opportunities (real-estate, stocks) more attractive than local tech start-ups

Quantitative research shows that 100% of participated Norwegian business angels find Norwegian tech start-ups an attractive place to invest. Business angel, Truls Berg, said that even though he is looking forward to make a profit on his investment, hitting a “gold pot” is not always the case: many times reinvestments into the same failed start-up company are seen as opportunities to get lucky. He also mentioned that Norway’s government makes it attractive to invest into local real-estate due to tax breaks, however he considers real-estate investment as just one part of possible income source in his portfolio. All other interviewees: Daro, Tomasz, Odd and Tor find that current Norwegian real-estate market is an attractive place to invest. Start-up entrepreneurs said that it is much less risky to invest into real-estate than to start-up. *Hypothesis 4* is considered false because business angels are seen as private investors who invest into start-ups, not into real-estate. Also, Norwegian business angels confirm that local tech start-ups are seen as attractive investment opportunity.

H5: Norwegian system (tax system, trade policies and entrepreneurial environment) makes it difficult to make angel investments

Majority, 67% of participated Norwegian business angels in the quantitative survey said that Norwegian system makes it difficult to make investments into local tech start-ups. Business angel, Truls Berg, pointed out three main macro level reasons for that: 1) National tax system motivates investing into fishing and real-estate industry, not into start-ups, 2) business angels are not recognized as “helping hands” in Norwegian entrepreneurial scenery, killing thus motivation “to do good” and 3) national entrepreneurship funding organizations lack of evaluating possible start-ups in professional manner, making it therefor difficult for angel investors to practice co-investing with public sector. Literature review points out that many Norwegian public grant schemes and funds are oriented towards rural areas, while entrepreneurship activity is more concentrated around the urban areas. These rural area activities are mostly related with agriculture, fishing, forestry and mining sector- industry that performed the poorest in “sector investment attractiveness” survey- only 11% of participated Norwegian business angels would consider investing into this industry sector. *Hypothesis 5* is true: Norwegian system makes it unattractive for local business angel to invest into local start-up.

I can now answer to my research question: *"Why Norwegian business angels do not want to invest into local tech start-ups?"*

Norwegian business angels do invest into local tech start-ups: 89% of participated angel investors said that they have made an investment into local start-up. There are very little misunderstandings and conflicts between the two parties on the organizational and industry level: both find collaboration mutually beneficial and both are interested in the same industry sectors.

Lack of angel investment activity is mostly influenced by macro environmental factors like Norwegian governmental policies and lack of entrepreneurial awareness. These two factors kill the potential collaboration before business angel and start-up entrepreneur have even met. I believe that there would be much angel funding activity in Norway if the government would not attract angel's excess money with tax cuts in traditional industry sectors and real-estate markets. Also local angel investors would be much more motivated in doing investments into local start-ups if they were publicly recognized as individuals who help to make Norwegian entrepreneurial scenery more competitive. It was also pointed out that Norwegian public authorities who are responsible for supporting local entrepreneurial community, are lacking of risk taking and business evaluation competency. There seems to be lack of communication and visibility between Norwegian business angels and start-ups: investors can't find enough attractive companies to invest in and start-ups don't know any business angels to contact. Norwegian business education institutions, national entrepreneurship development institutions and entrepreneurship related scenery in general should arise more angel funding awareness: more talk and appearances in media.

7. CONCLUSION

The objective of this research was to determine the reasons behind Norwegian angel investor's lack of investments to local technology based start-up companies. Understanding of this problem was done through a research question "Why Norwegian business angels do not want to invest into local tech start-ups?"

Through quantitative and qualitative research at organizational-industry and macro level, I came up with a conclusion that Norwegian business angels and local technology start-ups find each other mutually very attractive and beneficial. As an addition to financial support, start-ups value the most by angels their personal network and knowledge / experience know-how. There seems to be no frustrations on the behalf of both parties regarded with company ownership sharing and operational management culture. Norwegian business angels value the most being helpful and support young start-ups with expertise. High investment returns are always desirable among angel investors, however "hitting gold" is not that important business collaboration outcome that angels are seeking for.

Lack of angel investment activity is mostly influenced by macro environmental factors like Norwegian governmental policies and lack of entrepreneurial awareness. Research has found out Norwegian governments interest in supporting traditional and real-estate business sectors by using tax breaks affects business angel's motivation negatively to invest into local tech start-up. Also government's lack of evaluating competency of technology ventures and little risk taking in supporting innovative, high risk, start-ups, results succumb of Norwegian entrepreneurial scenery. Business angels as vital, early stage investment source have too little public attention, demotivating angel investors to contribute in local entrepreneurship development. Lack of visibility also affects negatively co-operation opportunity between angel investor and start-up.

In order to increase angel investment activity in Norway, I would recommend: 1) Government should stimulate angel-funding with start-up investment tax breaks and 2) More positive business angel awareness in entrepreneurial communities, both at public sector and private industry.

8. RECOMMENDATIONS FOR FURTHER RESEARCH

This research was conducted in relatively short time-frame- just in 3 months. It is extremely difficult and time consuming to find and to contact business angels. In order to deliver a professional research, longitudinal design approach should be used which allows gathering data over a long period of time, even years.

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APPENDIXES

Appendix 1: Shortcomings of opportunities: attributes of owners

Table 2 Shortcomings of opportunities: attributes of owners

Lack of management knowledge

- Bad planning lack of knowledge of market opportunities
- Lack of management knowledge—under capitalized—lack of management experience
- Lack of depth of understanding of business
- Lack of management expertise
- Market research lacking

Lack of realistic expectations

- Unrealistic approach to results—actual returns are 12%, media reports of 30%
- Short-term solution to long-range problem—lack the big picture view
- Lack of long-term vision
- Wild ideas
- Unrealistic goals
- Unrealistic demands on investors by entrepreneurs
- No basis for existence—hot air!!!
- Entrepreneur has little credibility and two strikes against him
- Unrealistic market expectations

Personal qualities

Lack of integrity

- Entrepreneurs are hucksters and cannot be trusted
- Lack of knowledge of people—lack of integrity
- Professionally I advise people to invest only in people they know personally
- Entrepreneur has little credibility and two strikes against him
- Lack of credibility of principals

Lack of vision

- Short-term solution to long-range problem—lack the big picture
- Lack of long-term vision
- Lack of vision towards new growth potential to stick to original idea and product
- Not looking at big market picture but too many local investors want to see shipping documents
- Badly written plan—no big picture

Lack of commitment

- People come to me with good ideas but until I see someone really put his whole life on the line, I don't invest
- Entrepreneurs weren't putting everything on the line (house assets, etc.)

Need for control

- They think that they can do it all themselves—they need to delegate to Investors more
- Too reliant on franchise plan or business plan; not willing to deviate or take risks
- Entrepreneurs unwilling to give up the stronghold they have on their product/service to investors, inexperienced entrepreneurs feel they can make it work on their own
- Attitude towards introduction of change

Appendix 2: Shortcomings of opportunities: attributed of business

Table 3 Shortcomings of opportunities: attributes of business

<i>Poor management team</i>
<ul style="list-style-type: none">• Poor management, lack of delegation• Unproven management team, needs outside professional influences• Poor management• Poor original management teams difficult to replace• Poor management planning• Entrepreneurs' overzealousness—lack of management, unbalanced teams• Lack of experienced management• Bad management; no experience• Good idea, poor management• Bad management, bad cash flow• Lack of planning, accounting, discipline
<i>Poor profit potential for level of risk</i>
<ul style="list-style-type: none">• Complex market place—lack of market penetration• Lack of day-to-day cash flow• Unrealistic low return promise to investors• Products not attractive enough to get investors interested• Poor return• Not enough profit margin on production—didn't know market situation• Not high enough profits
<i>Poor fit</i>
<ul style="list-style-type: none">• Don't fit with our business• Finding the right market compatible with my company
<i>Undercapitalized; Lack of liquidity</i>
<ul style="list-style-type: none">• Lack of good management, undercapitalized, lack of availability of funds• Lack of personal credit or capital• Lack of management knowledge—undercapitalized—lack of management experience
<i>Insufficient information provided</i>
<ul style="list-style-type: none">• Badly written proposal—do not consider historical market trends• Badly conceived business plans• Lack of detail in business plan• No 10-year plan• Not enough information• Badly prepared projects• Badly written plan—no big picture• Lack of exit plan for investors• Poorly planned compensation package for investors

Appendix 3: Online survey for start-ups

Hi!

My name is Georgi Karhu, second year Innovation and Entrepreneurship master student in University of Oslo and I would like to ask you kindly to participate in my thesis's survey. I want to find out what keeps Norwegian angel investors back in funding Norwegian born start-up companies. Hopefully my thesis is going to benefit local angel investors and start-ups by clarifying this area. The anonymous survey has total 10 simple questions that will take 5 minutes of your time.

If you want to receive a copy the results and copy of my master thesis, feel free to contact me via LinkedIN or email: georgi.karhu@hotmail.com

Thank you very much for your time!

1. Have you ever invested into Norwegian start-ups?

- a) Yes
- b) No, and not in the future either
- c) No, but I am thinking about it

2. How do you get connected with possible Norwegian start-up company that is looking for an investment (multiple choices)?

- a) They contact me
- b) I contact them through my personal network
- c) I contact them via start-up related websites: angel network community, start-up incubators websites
- d) We get connected through networking at start-up related events

3. How much are you willing to invest maximum one time into the company?

- a) 0 – 50 000 NOK
- b) 50 000 – 200 000 NOK
- c) 200 000 – 500 000 NOK
- d) 500 000 – 1 000 000 NOK

- e) 1 000 000 – 5 000 000 NOK
- f) More than 5 000 000 NOK

4. Would you be comfortable in co-investing with other business angels?

- a) No, I want to be the major share holder
- b) Yes, inviting other angel investors help to share investment risks
- c) Yes, if they are part of my business angels network, that I can trust

5. In what start-up industry sectors would you feel comfortable investing in (multiple choices)?

- a) Information technology (IT, computer hardware, software, programming)
- b) Telecom (mobile, 3G, 4G, satellite technology, internet)
- c) Energy (energy production and transport, renewables, oil & gas)
- d) Technology (mechanical-, electrical-, medical engineering of machines and devices)
- e) Chemical / material engineering (developing new materials)
- f) Fishing, livestock, forestry, mining, agriculture
- g) Real-estate development (selling apartments, houses and land with profit)
- h) Pharmaceuticals (developing drugs)
- i) Consulting / advisory services (engineering, legal, financial, marketing etc.)

Comments

6. In the scale of global, international business (real-estate, stocks, bonds etc.), do you consider Norwegian start-ups attractive place to investing in?

- a) Yes
- b) No

Comments

7. Would you rather invest into Norwegian born start-up then into foreign start-up?

- a) Yes, I find Norwegian start-ups very capable in delivering profit
- b) Yes, but I mostly do it because I'm Norwegian patriot
- c) No, compared with foreign start-ups (FIN, DEN, USA, GER etc.) Norwegian start-ups don't have it what it takes to make the business successful
- d) I really don't care where in which country the start-up was founded, I am only interested in profit and joy being helpful

Comments

8. What do you find most important criteria in investment decision making (max 3 choices)?

- a) Will customers adopt the product?
- b) Product's readiness for the market
- c) Is the first customer identified? Does product meet customer's needs?
- d) Is there a realistic marketing plan and route to market?
- e) Is there a large market for this product?
- f) Does the entrepreneurial team have what it takes to achieve goals?
- g) Is the financial model profitable?

Comments

9. Do you think Norwegian national system (tax, government funding support) helps in making angel investors more comfortable in investing into Norwegian start-ups?

- a) No, Norwegian financing related laws and regulations make it risky to invest
- b) Yes, Norwegian financing related laws and regulations help making investments into start-ups more comfortable

Comments

10. How important do you feel being part of start-up's everyday decision making?

- a) I feel very important to be part of management decision-making to secure my investment
- b) I don't have a need to be part of their everyday decision making but I do want to help them with my expertise and network
- c) I don't want to be part of their everyday decision making. I trust entrepreneurial team's abilities in achieving goals the best manner

Comments

Appendix 4: Online survey for angel investors

Hi!

My name is Georgi Karhu, second year Innovation and Entrepreneurship master student in University of Oslo and I would like to ask you kindly to participate in my thesis's survey. I want to find out what keeps Norwegian angel investors back in funding Norwegian born start-up companies. Hopefully my thesis is going to benefit local angel investors and start-ups by clarifying this area. The anonymous survey has total 10 simple questions that will take 5 minutes of your time.

If you want to receive a copy the results and copy of my master thesis, feel free to contact me via LinkedIN or email: georgi.karhu@hotmail.com

Thank you very much for your time!

1. Have you ever received funding from Norwegian business angel?

- a) Yes
- b) No, and I'm not planning to raise money from Norwegian business angel
- c) No, but I'm planning to raise money from Norwegian business angel

2. In your opinion, how do you get connected with possible Norwegian business angel that would invest into your company (multiple choices)?

- a) They contact me
- b) I contact them through my personal network
- c) I contact them via start-up related websites: angel network community, start-up incubators websites
- d) We get connected through networking at start-up related events

3. How much money were / are you looking from business angel?

- a) 0 – 50 000 NOK
- b) 50 000 – 200 000 NOK
- c) 200 000 – 500 000 NOK
- d) 500 000 – 1 000 000 NOK

- e) 1 000 000 – 5 000 000 NOK
- f) More than 5 000 000 NOK

4. Would you be comfortable having multiple business angels on the board?

- a) No, I want to have only one business angel as share holder
- b) Yes, inviting other angel investors help to share investment risks

5. In what industry sector background would you preferre your angel investor to have (multiple choices)?

- a) Information technology (IT, computer hardware, software, programming)
- b) Telecom (mobile, 3G, 4G, satellite technology, internet)
- c) Energy (energy production and transport, renewables, oil & gas)
- d) Technology (mechanical-, electrical-, medical engineering of machines and devices)
- e) Chemical / material engineering (developing new materials)
- f) Fishing, livestock, forestry, mining, agriculture
- g) Real-estate development (selling apartments, houses and land with profit)
- h) Pharmaceuticals (developing drugs)
- i) Consulting / advisory services (engineering, legal, financial, marketing etc.)

Comments

6. In the scale of global, international money raising options (bank loans, government funding support, venture capitalists etc.), do you consider Norwegian business angels attractive option?

- a) Yes
- b) No

Comments

7. Would you rather raise money from Norwegian business angel or foreign business angel?

- a) Yes, I find Norwegian business angels very helpful
- b) Yes, but I mostly do it because I'm Norwegian patriot
- c) No, compared with foreign business angels (FIN, DEN, USA, GER etc.) Norwegian business angels are not that helpful

d) I really don't care where from which country the business angel is from, I am only interested in investment and his / hers help

Comments

8. What do you find most important criteria in attracting business angel's money (max 3 choices)?

a) Will customers adopt my product?

b) Product's readiness for the market

c) Is the first customer identified? Does product meet customer's needs?

d) Is there a realistic marketing plan and route to market?

e) Is there a large market for this product?

f) Does the entrepreneurial team have what it takes to achieve goals?

g) Is the financial model profitable?

9. Do you think Norwegian national system (tax, government funding support) helps Norwegian business angel to finance into Norwegian start-ups?

a) No, Norwegian financing related laws and regulations make it risky for angels to invest

b) Yes, Norwegian financing related laws and regulations help making angel investments into local start-ups

c) I have absolutely no clue

Comments

10. How important do you feel having business angel part of everyday decision making?

a) I feel very important to include business angel to management decision-making so the company will make profit earlier

b) I don't want to have business angel as part of everyday decision making but I do want him to help me with his expertise and network

c) I don't want business angel to be part of my everyday decision making. He / she should trust my entrepreneurial team's abilities in achieving goals the best manner

Comments

Appendix 5: Interview summary with Daro Navaratnam, CEO of dSafe

Date: 24.03.2014

Time: 11:19am

Location: Oslo Science Park (*Forskingsparken*), Gaustadalléen 21, Oslo

Duration: 18min 44sek

From Daro's experience, when he went first time to raise capital from a business angel in 2010, he received a denial because it was too risky for investor to invest. However, he believes that now, when the company has an income, it would be easier to raise some funding. He got in contact with the angel through the people he knew in his personal network and was invited to pitch the business case to the investor. Daro believes that his case was rejected mainly due to lack of profitability evidence. He was planning to raise 1...5M NOK back in 2010. Daro believes that it's entrepreneur job to contact the angel investor, personally he was looking for an angel with IT background. He believes that in Norway it is much better to invest into real-estate than into start-ups- less risky. The entrepreneur thinks that inviting angel to everyday decision making depends strongly from the angel's personal background. He also values angel's help and contribution in terms of access to investor's personal network. Daro believes that before making a partnership commitment with a angel, they should "study each other": according to his words "*you should date before getting married*". Entrepreneur also believes that Norwegian investors are more "simple" than colleagues from abroad and they like products that can be touched. His advice for other entrepreneur's looking for angel investment would be to focus more on market and products, get some customers on board before going to talk with possible investor.

Appendix 6: Interview summary with Tomasz Przechodzki, CEO of VisTechnologies

Date: 25.03.2014

Time: 19:42pm

Location: Quality Expo Hotel, Snaroyveien 20, Fornebu, Oslo

Duration: 16min 28sek

Tomasz believes that local business angels don't invest actively to Norwegian start-ups, because it is more attractive and less risky for them to invest into real-estate. He also thinks that Norway is not like Silicone Valley in terms of having start-ups with very cool ideas that might change the world. Entrepreneur also points out another possibility why there is little angel investment activity, which is nature of Norway: it is heavy oil & gas engineering country with little IT sector, where most of local start-ups are active (80% develop apps). Tomasz hasn't tried raising capital from angel investors. He believes that because his company- VisTech, is offering services for oil & gas industry, it is not being seen as attractive in the eyes of local angel investor. He's aware of other start-ups that have received angel funding. Tomasz believes that local start-ups might attract funding by attending events, where start-ups can pitch their ideas to investors, like *Investment Forum*. He points out that some investors might demand 50% of the company for a little as 100 000 – 200 000 NOK investment, which he finds unreasonable. Start-up entrepreneur has never heard anything about Norwegian Business Angel Network- NORBAN and their registered angel lists. In future, Tomasz is considering to raise some capital from business angels. However right now he believes the time is not right because the valuation of the company is low and he would not receive enough funding to make a difference. Having multiple business angels on board is not seen as a problem. Besides money, Tomasz is looking from business angel's mentoring support and benefits from his / hers personal network- someone who might "open doors".

Appendix 7: Interview summary with Truls Berg, president of NorBAN

Date: 03.04.2014

Time: 12:08pm

Location: NorBAN, Fridjof Nansens Plass 9, Oslo

Duration: 35min 18sek

As an angel investor himself, Truls points out three main reasons why angel investors might not make investments into local start-ups: 1) It is financially stupid due to tax. In today's Norwegian system, angel is rewarded when investing into shipping sector or into real-estate: only 20% of the property is being taxed. He doesn't understand why Norwegian government is acting like that because real-estate hasn't created any major jobs or created "better tomorrow". Truls believes that country should have that kind of advantages also for start-ups. 2) He believes that angel investor's get too little public credit and acknowledgement from their investee company's success stories. He brought out an example that in San Francisco everyone knows who was the first private investor for Google but in Norway, helping hands and heads are being forgotten. 3) Norwegian system that is responsible for developments in entrepreneurial, start-up, sector is not functioning. They have 26B NOK every year to invest into projects, however they don't put enough entrepreneurial mind into evaluating them, therefore most of innovative start-ups get "No" answer and less "risky", traditional and proven ideas receive "Yes".

He believes that Norwegian business angels would prefer investing into local start-ups rather to foreign companies if the investee company proves that they're worth it. Truls would advise local start-ups that are looking for funding from local business angel to focus in pitching on areas that would really make a positive difference and in a smart way. *"Don't pitch in a way that you need my million kroner to improve the world... Because when I wanted to do that, I could send my million to United Nations, Red Cross or somewhere else..."*. He wants to do something that is nice and good, but he also wants his one million to become a ten million. Truls told that when business angels look at their investment portfolio consisting let say ten companies, then typically 3...4 of them go bankrupt, 3...4 just exist (they make no loss and no profit- *zombies*) and perhaps only 2 of the companies are going to produce profit. It must be kept in their mind that profit might be made in mentioned 2 companies, but at the same time angel loses money with all other cases. The business angel mentioned that "doing good"

is his biggest motivation to invest- "*It is a fantastic learning experience*". And even though their investee company has tossed his money away twice, he would still consider investing into the entrepreneur the third time, because they might get lucky this time.

Appendix 8: Interview summary with Odd Utgard, co-founder and partner of StartupLab Norway

Date: 26.03.2014

Time: 10:04am

Location: Oslo Science Park (Forskingsparken), Gaustadalléen 21, Oslo

Duration: 20min 42sek

Odd points out that there is a suggestion that Norwegian angel investors tend to invest less into tech start-ups than their colleagues in Sweden and U.S. He believes business angels are very rational and they go carefully through risk-reward analysis. He points out that purchasing real-estate is probably less risky and the tax is also lower. Odd says that statistically Norwegian small and medium sized companies are most profitable in the world, which means that they are considered an attractive option to invest. Roughly third companies in StartupLab have received angel funding and in his opinion, angel investments are mostly under 500 000 NOK. Odd agrees strongly that start-ups find angel's personal network very valuable. He believes that major pitfall what start-up entrepreneurs do in choosing investors is not knowing their potential business partner well enough *"They don't actually know these people, somehow they just trust and take face value of these guys. But if you would look them up, you would find that they have criminal records"*. What comes to angel's investment decision making, Odd believes that there is no clear line, path or criteria that angels follow: it's all up for the specific individual. However, he believes that entrepreneurial team is the most important evaluation unit *"You don't invest into a team that you don't believe in"*.

Appendix 9: Interview summary with Tor Grønsund, entrepreneurship lecturer in University of Oslo, founder of Lingo Labs, innovator

Date: 11.04.2014

Time: 15:28pm

Location: Tekna, Kronprinsens gate 17, Oslo

Duration: 23min 08sek

Tor mentioned several reasons why in his opinion local start-ups won't receive local business angel's investment: 1) There are not many interesting start-ups out there, 2) start-ups are not visible to the wealthy Norwegian angels, 3) start-ups are not mature enough to receive external funding. According to his words, Norway has lot of start-ups per capita, however these companies are often so called one-man consultancy companies. Tor points out that Norwegian start-ups might not be so goal driven because there are many opportunities to earn good living as a regular employee. He also thinks that there is less need for external funding because start-up costs are nowadays lower then it was couple of years ago. *"You don't need to buy a 100 000 kroner server to run your website, nowadays you use Amazon service. Don't need to hire marketing manager, but you use google services for that ..."* Tor said that lot of people in Norway have access to 100 000 kroners to invest into start-ups, they don't do that to get rich but to do something useful. He also said that interesting Norwegian start-ups might emigrate into abroad communities with larger start-up ecosystems, like Berlin, making it even harder for Norwegian angel to compete for interesting Norwegian start-ups, because they have to compete with outer European angel investors. Tor brought out two cases when start-up went to Berlin and London due to better access to talent and professional angel capital and lower business running costs. His advice for start-ups that are looking for angel funding would be learning how to communicate the entrepreneurial story in passion so others would be willing to co-operate with you. That would inspire people to invest in his company.