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Startups Seeking Business Angel Financing

From the Entrepreneur's Perspective

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Problem description

The purpose of this thesis is to shed light on how entrepreneurs secure business angel financing.

The authors will perform a multiple case analysis of the investment process between entrepreneurs and BAs from the entrepreneur's perspective. This thesis focuses on, but not limited to, the pre-investment phase of the investment process.

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Supervisor: Lise Aaboen, IØT, NTNU.
Co-supervisor: Roger Sørheim, IØT, NTNU.

Preface

This master thesis is written by Nicoline Saarisilta Bergh, Solveig Christensen and Celina Hagen. The authors are master students from the NTNU School of Entrepreneurship at the Norwegian University of Science and Technology. This thesis is based on research conducted in the period January-May 2018.

The three authors have a pre-understanding of the initiation process for technology-based startups in obtaining business angel financing from the entrepreneur's perspective. This is from being students at NSE, where they have gained theoretical and practical experience from the field of entrepreneurship and innovation in working in two different startups. Two of the three authors were working full-time in their own startups when writing this thesis. The last author has been in contact with several business angels with the goal of raising early stage funding. The interest of the topic is therefore highly relevant for the authors. That said, the authors have been aware of the potentially biased position they possess. Different choices based on gathered literature have been discussed, among both themselves and with their supervisor.

We want to thank our supervisor Lise Aaboen for excellent support and guidance throughout the spring 2018, and for insights into business relationship initiation. We would also like to thank our co-supervisor Roger Sørheim for providing valuable insight into the business angel investment process which has helped us gain a greater understanding of this phenomenon.

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Abstract

In this master thesis we have performed an explorative study on the business angel-entrepreneur relationship to investigate how entrepreneurs secure investment from business angels (BAs). Through a literature review of the BA literature and the relationship initiation literature followed by a multiple case study of six technology-based startups, we have outlined key findings regarding current gaps in previous literature and analyzed empirical findings on the BA-entrepreneur relationship through a suggested framework which combine the two literature streams. Our main findings from the literature review are that there has been limited research regarding the perspective of the entrepreneur in the process of obtaining external BA funding and a lack of understanding on the BA-entrepreneur relationship and the factors facilitating the initiation process. Therefore, the pre-investment process between entrepreneurs and BAs was researched through the lens of relationship initiation to get a relational perspective of the process, which resulted in a proposed conceptual framework to investigate the initiation process. The framework was further used in an empirical study to research the entrepreneur's perspective on the relationship initiation process with BAs and the key facilitators which triggers the relationship to move forward, as well as the challenges entrepreneurs face when acquiring BA funding. Key findings suggest that the BA-entrepreneur relationship is relevant in the process of initiation, as it is characterized by high levels of uncertainty and trust. By taking a more relation perspective to the process of initiation, rather than the previous transactional perspective, entrepreneurs can build trust and hence reduce uncertainty through their network, reputation and relationship building. The findings of this study contribute to the under-investigated demand for capital by giving further insights into 1) the initiation of BA-entrepreneur relationship, 2) how trust is built early on and how social capital can provide the foundation of trust in the initiation of relationship, and 3) the entrepreneur's perspective on how a successful BA-entrepreneur relationship can be initiated at an early stage of a funding process. The thesis further gives concluding remarks and suggest implications for entrepreneurs and further research.

Sammendrag

Gjennom en eksplorativ studie på forholdet mellom engleinvestor (engel) og entreprenør, undersøker denne masteroppgaven hvordan entreprenører initierer et forhold med engler for å sikre investering. Studien tar utgangspunkt i to litteraturstrømmer; investeringsprosessen med engler og initiering av forretningsforhold, etterfulgt av en komparativ case studie bestående av seks teknologibaserte startups. En gjennomgang av litteraturstrømmene ga oss oversikt over mangler ved dagens litteratur og det viste seg at det finnes få studier på; engleprosessen sett fra entreprenørens perspektiv; forholdet mellom engel og entreprenør; og faktorer som fører til at investeringsprosessen beveger seg fremover. Vi studerte prosessen fra et relasjonelt perspektiv for å undersøke hvordan forholdet mellom entreprenør og engel utarter seg i tidlig fase. Dette resulterte i et rammeverk som hadde til hensikt å undersøke selve initieringen av forholdet sett fra entreprenørens perspektiv, hvilke faktorer som får prosessen til å utvikle seg og utfordringer entreprenøren støter på under prosessen. Våre hovedfunn tilsier at forholdet mellom engel og entreprenør i stor grad kjennetegnes av tillit og usikkerhet, og det er derfor svært relevant å undersøke investeringsprosessen sett i lys av relasjonslitteratur. Ved å se på prosessen mellom entreprenør og engel gjennom et relasjonelt perspektiv, snarere enn et transaksjonelt perspektiv, kan entreprenøren gjøres bevisst på tillitsbyggende aktiviteter, som for eksempel bruk av nettverk, et godt rykte og relasjonsbygging. Tidligere studier har etterspurt litteratur som undersøker selve engleprosessen sett fra entreprenørens perspektiv. Våre funn bidrar derfor til økt innsikt på følgende områder; 1) initiering av forhold mellom entreprenør og engel, 2) hvordan tillit skapes tidlig i prosessen og hvordan sosial kapital kan legge til rette for tillit i forholdet, og 3) hvordan entreprenører kan lykkes med å initiere et forhold med engler for å lykkes med tidligfase investering. Masteroppgaven avsluttes med en konklusjon, forslag til praktisk implementering for entreprenøren og forslag til videre forskning.

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1. INTRODUCTION

The majority of startups do not generate revenue for many years when starting up and are therefore dependent on early-stage capital (Douglas & Shepherd, 2002). Raising financing is therefore central for startups to succeed and for the process of entrepreneurship (Shane & Cable, 2002). Today, it is widely acknowledged that BAs play a vital role in the growth and development of startups, both in terms of early-stage capital and experience, knowledge and network relationships (Freear et al., 1994; Avdeitchikova et al., 2008; Edelman et al., 2017). However, an overwhelming amount of empirical evidence show that startups have difficulties raising funding, and the process of obtaining funding is argued to be one of the greatest challenges for startups (Knyphausen-Aufseß & Westphal, 2008; Landström, 2017; Lindström & Olofsson, 2001), and many startups never acquire the resources they need (Baker & Nelson, 2005). Previous research on the BA financing process mainly focuses on the supply-side perspective and the investor's criteria when screening startups. In contrast, existing literature has devoted little attention to the demand for capital (Edelman, 2017). There is clearly a need for more research on the process of acquiring BA financing from the entrepreneur's perspective. Similarly, the overall BA investment process remains limited in scope and detail and is only investigated from the supply-side perspective. It would therefore be useful to examine the demand-side to chart the perceptions and expectations of entrepreneurs (Paul et al., 2007).

Several studies argue that the entrepreneur's ability to access BA financing depends on the entrepreneur's experience, status position, interactions and existing network relationships (Hallen, 2008; Hsu, 2007; Zhang et al., 2008; Heuven & Groen, 2012). When starting up, the lack of experience, reputation, resources and an extensive network makes it more difficult for startups to identify and access financial resource providers (Oukes & von Raesfeld, 2016; Rasmussen & Sørheim, 2012; Heuven & Groen, 2012). One of the key underlying challenges to the identification and accessing of BAs are argued to be the issue of matching with one another (Knyphausen-Aufseß & Westphal, 2008). Rather than utilizing existing resources and network relationships, startups have to embed themselves into a pre-existing network of established relationships, and are therefore dependent on the skills, resources, actions, and intentions of others (Håkansson & Snehota, 1995; Håkansson et al., 2009; La Rocca et al., 2013; Oukes & von Raesfeld, 2016). It is argued that it is particularly critical for startups to understand their relationships and how they develop (Aaboen & Aarikka-Stenroos, 2017; Aaboen et al, 2017; La Rocca et al., 2013). As startups increase their knowledge about these processes, they can analyze their present relationships and be more prepared for future relationships to improve performance (Aaboen et al., 2017). Therefore, it is necessary to further explore how successful BA-entrepreneur relationships can be initiated at an early stage to prepare entrepreneurs to become investor ready (Lauvås et al., 2013). This is especially in regard to how relationships begin, due to lack of explicit research on the initiation phase (Edvardsson et al., 2008).

The process of seeking external financing is complex and societal in nature (Rasmussen & Sørheim, 2012). Previous research has investigated the value-added roles of BAs post investment, such as strategic role (Harrison & Mason, 1992; Mason & Harrison, 1996), resource acquisition role (Sætre, 2003; Sørheim, 2005; Madill et al., 2005) and mentoring role (Amatucci & Sohl, 2004; Mason & Harrison, 1996). Additionally, Sætre (2003) found that entrepreneurs and

BAs view their relationships as potential co-entrepreneurs. Different factors have been mentioned in previous literature for the development of BA-entrepreneur relationships, and especially trust has been highlighted as an important factor (Amatucci & Sohl, 2004; Maxwell & Lévesque, 2014). However, research on BA-entrepreneur relationships and the initiation of relationships undertaken by startups when seeking early-stage funding from BAs is not yet covered in previous literature (Mason & Kwok 2010; Mason & Harrison 2004b; Rasmussen & Sørheim, 2012). This is an important subject that has been given less attention in the literature, especially from the entrepreneur's perspective (Edelman et al., 2017). More specifically, little attention is paid to the role and characteristics of the relationship in the pre-investment process.

The aim for this master thesis was therefore to explore how startups initiate relationships with BAs with the goal of obtaining BA financing. The thesis presents the entrepreneur's perspective on the different factors affecting the relationship and the challenges entrepreneurs face when attracting and acquiring potential BAs. In particular, we provide valuable insights into the characteristics of the BA-entrepreneur relationship and highlight the facilitators which influence the relationship to move toward a more successful funding process. This aim contributes to the under-investigated demand for capital and how entrepreneurs can improve their chances for obtaining BA financing.

In the following papers, we propose a framework for investigating BA-entrepreneur relationships and the related subprocesses of initiation in the pre-investment process through the lens of relationship initiation theory. Further, we used this model in a multiple case study with six technology-based startups to capture the entrepreneur's perspective of the pre-investment process, as well as the initiation subprocesses that take place. In doing so, we conclude on how entrepreneurs secure investments from BAs and what entrepreneurs can do to raise financing successfully. With the two papers, the authors analyze an important but under-investigated phenomenon, namely the pre-investment process from the demand-side perspective.

2. Methodology

This section gives an overview of the research methodology for this thesis. A more detailed view of appropriate research design, data collection and data analysis are presented in the respective articles.

The authors conducted a literature search and analysis during fall 2017 to investigate what the literature say about the initiation of BA-entrepreneur relationship from the entrepreneur's perspective. An important gap identified in the initial search was the lack of research on the demand for capital (Edelman et al., 2017), and especially the initiation of relationships by startups (Aaboen & Aarikka-Stenroos, 2017). Moreover, it is argued that inconsistencies in previous research can be solved by looking into the pre-investment process from the demand-side perspective (Rasmussen & Sørheim, 2012). Initially, the focus was mainly how the relationship initiation literature can contribute to the BA literature, but as the analysis took shape, we identified areas of contribution the other way around, which we will discuss further in Section 4. Moreover, through combining the literature streams, we developed a model to investigate the relationship initiation in BA-entrepreneur relationships, and the important role of third party referrals.

Initially, trust as a factor within the pre-investment process and relationship initiation process was in focus because trust is argued to be important to the development of strong relationships. However, as we went through more research, we found that trust is a mean of uncertainty, and that uncertainty better defines the BA-entrepreneur relationship. Therefore, we decided to perform a qualitative multiple-case study to shed light on the facilitators that can accelerate the process and reduce uncertainty within the relationship, as most of the empirical research on the pre-investment process has focused on the process from the supply-side perspective (Maxwell & Lévesque, 2014). After interviewing the six technology-based startups, we transformed the transcribed interviews into useful data, followed by a within-case analysis and cross-case analysis to shed light on the facilitating factors of the initiation process. The coding was based on themes from the theoretical framework, and as emergent themes appeared during the process, they were continuously compared to previously coded material to ensure validity. The within-case analysis focused on creating an overview of the individual cases, and the cross-case analysis focused on comparing cases and identifying patterns within the initiation process. The analysis and the iteration between data and theory stopped when the incremental improvement to theory was adequate.

2.1 Reflections and limitations

There are several advantages and limitations to the methodological choices made in developing this thesis. First, as there are a low number of studies discussing the demand for financing, we had access to a limited amount of research on the BA investment process from the entrepreneur's perspective. Therefore, we decided to use literature from the supply-side perspective to fill this respective gap. Through the supply-side literature we gained insight on the pre-investment process from the investor's perspective, such as how BAs make their investment decisions and why investment proposals are rejected, and we could therefore draw parallels to the demand-side. Similarly, only a few studies have examined relationship initiation as a process of its own, especially with regards to startups, and therefore we incorporated studies on relationship development and used the first phases of the development process to explain the initiation process. Moreover, we performed a semi-structured literature review with focus on snowballing, which can lead to biased results based on previous understanding and knowledge. We do, however, believe that we covered all relevant subjects of the BA investment process and the relationship initiation process to answer our thesis.

To investigate the initiation of BA-entrepreneur relationships undertaken by startups, we decided to perform a qualitative multiple case study, as this is suitable when researchers seek to establish the meaning of a phenomenon from the views of the participants (Creswell, 2014) or investigate how something takes place (Yin, 2003). We decided to use interviews as the only data collection method rather than a multiple data collection method. Moreover, we are aware that multiple data collection methods, such as combining for example interviews, questionnaires and observations, could strengthen the grounding of theory by triangulation of evidence (Eisenhardt, 1989), but chose to focus purely on interviews to capture the perceptions of the entrepreneurs. Similarly, we interviewed entrepreneurs only to fill the gaps in the literature from the entrepreneur's perspective. We see how it is valuable to investigate this phenomenon from both sides of the dyad and propose future researchers to perform the same study from both perspectives. However, due to being time constraint as the time available for this thesis was six months, we chose to focus on the most important gap. Moreover, the studied group is a small sample, and the findings may be generalized on the wrong basis. When selecting cases, we purposely selected cases where the development of hardware and/or software were present to extent the theoretical generalizability to all types of startups (Eisenhardt, 1989), while still avoiding the complexity that come with too many cases. Similarly, and for the same reasons, the age of the startup, experience, prior funding and reputation differ among the selected cases. To understand how a process works, it is important to find a method that makes interview objects talk about their experiences and perceptions (Smircich & Stubbart, 1985; Gartner et al., 1992). Therefore, we decided to collect data through semi-structured interviews. Combined with relevant literature, this provides the data needed for the framework (Dalland, 2012).

The BA literature and relationship initiation literature complement each other, as the BA literature look at the investment process between startups and BAs from a transaction-oriented view, and the relationship initiation literature at the process of building relationships from a more relation-oriented view where resources are seen as valuable when combined. Both literature streams emphasize trust and network relationships as important elements in the process. In sum, through the combination of a literature search and empirical testing, we believe we managed to capture the important subprocesses of initiation in the BA-entrepreneur relationships and the important facilitators that move the process forward.

3. Summary of appended articles

This section gives an overview of the purpose, research questions and main findings in the two appended papers. The focus of the papers is to contribute to the question of how entrepreneurs seek external financing from BAs.

Paper 1: Business angel financing and relationship initiation - a literature review

The aim of this paper was to perform a literature review to investigate what the literature says about the relationship initiation process between startups and business angels from the entrepreneur's perspective. The outlined purpose was researched by investigating the following research questions:

1) What does the literature say about the business angel pre-investment process and the relationship initiation?
2) How can the combination of these literature streams give a better understanding of the initiation process between entrepreneurs and business angels?
3) How can the literature streams contribute to a better understanding of the initiation of BA-entrepreneur relationships?

Summary of main findings

The review of the BA literature and relationship initiation literature provides an overview of the relevance and limitation of each stream of literature describing the pre-investment stage and how entrepreneurs can initiate new relationships with BAs. The BA literature has not yet looked at the investment process through the lens of relationship initiation. Therefore, the authors sought to fill the current gap by looking at relationship initiation and BA literature on both the supply for capital and the limited research on the demand for capital. Our findings show that the BA-entrepreneur relationship is highly relevant due to the importance of building close relationships in the process of obtaining BA funding. This is based on the previous research that state the importance of subjective decision-making criteria, especially on the characteristics of the entrepreneurs. Therefore, we proposed a conceptual framework which combined the BA and relationship initiation literature streams to investigate the initiation of BA-entrepreneur relationships. The model consists of three main stages of the pre-investment process, namely familiarization, screening and bargaining. Within these stages are six subprocesses of initiation, which starts with need identification and ends in an agreement. Previous BA pre-investment process models are based on VC models, which are transaction-oriented. From our literature search we found that the BA process is rather relational, and the previous models were thus not adequate to explain the process of initiation. This is especially important for the initiation of relationships undertaken by startups due to the apparent asymmetry and uncertainty. Therefore, the new conceptual model has taken the connectivity perspective from the relationship initiation literature, where resources are seen as valuable when combined with others. Moreover, the model recognizes that initiation of BA-entrepreneur relationships is a non-linear process consisting of blurred subprocesses that may occur simultaneously. The suggested framework thus allows for a structured investigation of the initiation of BA-entrepreneur relationships by startups.

Paper 2: Relationship initiation between startups and business angels - from the entrepreneur's perspective

The aim of this paper was to examine the facilitators for the relationship initiation between BAs and entrepreneurs. The outlined purpose was researched by investigating the following research questions:

1) What are the facilitators in the three main stages of initiation?
2) How do the facilitators contribute to the initiation process?

Summary of main findings

To investigate the outlined aim, a multiple case study with six technology-based entrepreneurs was conducted. By using a process model of initiation between BAs and entrepreneurs, we identified facilitators that trigger movement in the various stages of the initiation process. This contributes to the lack of research on the BA process from the demand-side perspective, and thus solve some of the inconsistencies in previous research because understanding the process from both sides is essential to fully capture the dynamics and elements in the BA-entrepreneur relationship. An important finding is that the entrepreneur's characteristics - previous experience and reputation - affects how efficient the entrepreneur can access BAs and the level of uncertainty in the initiation process, and thus the level of rationality and trust. The BA-entrepreneur relationship is vital for the initiation process as the process is rather relational, and therefore the development of trust is emphasized as critical. The study shows that startups can start to build trust early in the process by accessing BAs through trusted referrals. This is not as relevant for experienced entrepreneurs as they already have legitimacy, and they can therefore access BAs directly without the need for third party referrals or introductions. Frequent meetings and face-to-face interactions are shown to further build trust within the BA-entrepreneur relationship. However, if trust is not yet built when the two parties meet, entrepreneurs have to show results, execution skills, market possibilities, and financial models to prove commitment. The level of uncertainty is therefore related to trust and the way BAs make their investment decisions. For example, our findings show that a higher degree of uncertainty yield less rational decision-making by BAs, and that many investment decisions is therefore based on their gut-feeling. This finding is based on the perceptions of the entrepreneurs. To facilitate the process to move from defining exchange to forming the future, the entrepreneur can give the BA a time limit, which creates a sense of urgency to invest. The study shows that having a lead investor can reduce the level of uncertainty and increase the level of trust, as they see that another BA was eager to invest in the startup and was willing to recommend it. Another important finding was that showing commitment and frequent contact also reduce uncertainty within the relationship, and thus develop trust. This finding shows the importance of the BA-entrepreneur relationship itself, as it is vital for the process to move toward an agreement. The facilitators identified, sense of urgency, lead investor, and commitment to the relationship, trigger the initiation process by developing trust and reducing uncertainty by showing the ability to execute and giving the entrepreneur credibility.

4. Discussion and implications

This thesis examines the relationship initiation between BAs and entrepreneurs to investigate how entrepreneurs secure BA capital. From the literature review, we developed a new conceptual framework for analyzing the subprocesses of relationship initiation that describes the process undertaken by entrepreneurs when seeking BA financing. Further, through an empirical analysis of six technology-based startups, we identify the facilitators that contribute to the process. An important finding from this thesis is the identification of both the subprocesses and facilitators that affect the process in the various stages, and that the relative weight of the facilitators depends on the stage of the process, but also on the characteristics of the entrepreneur and BA. Previous literature has called for research investigating the BA pre-investment process from the demand-side perspective (Paul et al., 2007) and the factors that impact the different stages of the investment decision-making process (Haines et al., 2003; Feeney et al., 1999). Our findings contribute to the knowledge about the entrepreneur's perspective, since we have identified the relationship-building subprocesses entrepreneurs undertake when seeking BA capital and the facilitators that trigger movement in the relationship initiation process through the eyes of entrepreneurs. Taken together, we provide several implications to previous literature on relations, startups and BAs from the analysis on the BA-entrepreneur relationship.

Level of uncertainty

Our analysis of both papers in combination show that the BA-entrepreneur relationship involves a high degree of uncertainty. The uncertainty among entrepreneurs in the BA pre-investment process is mostly related to the lack of experience. This is especially prevalent in the familiarization stage and in the bargaining stage, namely at the beginning and end of initiation. The uncertainty among BAs in the relationship is related to the BAs perception of the low probability of success in technology-based startups (Mason & Harrison, 2004b), information asymmetry (Carpenter & Petersen, 2002; Shane & Cable, 2002), lack of legitimacy and track record (Lounsbury & Glynn, 2001), lack of mutual understanding and deep familiarity (Edvardsson et al., 2008). Moreover, it is argued that a high degree of uncertainty in a relationship leads to reluctance toward developing the relationship further, and thus the relationship can be terminated more easily (Edvardsson et al., 2008; Mason & Harrison, 2004b). Building on previous research and the prevalence of uncertainty in business relationships, we have identified ways to cope with uncertainty in the relationship initiation process, such as accessing BAs through trusted third-party referrals, reputation, and frequent contact to maintain and build the relationship and develop trust. This contributes to the literature on the initiation of business relationships since we have identified ways to cope with uncertainty in the process. This is especially for startups, as our analysis shows that uncertainty is higher when asymmetry between the two parties is high. This can also be transmissible to other buyer-seller relationship which is characterized by high uncertainty and risk and close relationships, such as service-related firms or firms selling to the industrial market. However, this needs to be investigated further as we lack empirical basis on relationships between more mature firms. Further, our finding on how to investigate relationships with high levels of uncertainty also contribute to research on BA-entrepreneur relationships as our analysis show how the entrepreneurs handled the uncertainty BAs felt toward the investment proposal in initiation.

Our analysis show that BA-entrepreneur relationships have higher levels of uncertainty than other business relationships, such as customer relationships, supplier relationships, partner relationships and relationships with consultants. This is because the stakes at risk are higher and making a wrong decision for both parties may be destructive. Previous literature on the initiation of buyer-seller relationships look at the initiations as economic transactions that may evolve into long-term relationships (Dwyer et al., 1987; La Rocca et al., 2013). Our findings propose that relationships with uncertainty will benefit from looking at the initiation more as relational interactions rather than economic transactions. This means to focus on the interactions and relationship-building triggers that take place to grow a long-term relationship. This is especially important for startups, where uncertainties about technology, product, and team are high. Thus, a parallel can be drawn from our research on how to investigate relationships with higher levels of uncertainty to other business relationships initiated by startups, and thus contribute to the increasing stream of startup literature on how to investigate relationships with high levels of uncertainty as relational episodes rather than economic transactions. The uncertainty in startup relationship initiation do therefore also contribute to the BA literature and the initiation of BA-entrepreneur relationships, as uncertainty is perceived to be high.

Level or rationality in the decision-making process

Our analysis show that the process of obtaining funding is rather social, meaning the relational aspects are emphasized compared to the transactional. It is evident that the BA-entrepreneur relationship is highly relevant in the process of initiation. For example, we identified the process of sharing information and building a closer relationship with the BA as the most important activities for entrepreneurs due to the importance of trust and relational aspects in the BA-entrepreneur relationship. This is in line with previous research, given that BAs base their decision-making on several non-rational and subjective criteria (Smith et al., 2010). However, previous BA process models are based on VC models (Paul et al., 2007), and are not adequate to analyze the BA-entrepreneur relationship. Since our analysis show how the relationship-building and development of closer relationship is highly relevant in the initiation of relationships by startups, we contribute to the startup-related literature on how to initiate relationships with more mature actors, and that the process is more relational rather than transactional. This again, contribute to the BA literature, as no research has covered the initiation of BA-entrepreneur relationships (Mason & Kwok 2010; Mason & Harrison 2004b; Rasmussen & Sørheim, 2012; Lauvås et al., 2013), or the process of acquiring BA financing from the entrepreneur's perspective (Edelman et al., 2017).

Further on the BA-entrepreneur relationship, our analysis show that the BAs are non-rational in their decision-making and that they often base their investment decision on their gut-feeling rather than making optimal and rational decisions. Moreover, we found that the rationality decrease as trust is built, and that this is related to the level of uncertainty in the BA-entrepreneur relationship. This is in line with the finding by Ford (1980) on that buyers' decision making is based on the reputation of the supplier in the initial phase as a substitute for experience. Thus, our finding confirms the important role of trust in the relationship initiation and to the rationality of decisions, and hence the essential role of the relationship itself. Another finding is that BAs are less rational in their decision-making compared to buyers in buyer-seller relationships between more mature firms. Previous research in the buying literature has explained the buyer-seller initiation as a rational decision-making process where buyers evaluate potential sellers on the basis of proposals, presentations and negotiations, and thus, not as an on-going relationship (Johnston & Lewin, 1996; Dwyer et al., 1987). In contrast, BAs base their investment decision on several subjective criteria and tend to invest based on gut feel (Haines et al., 2003; Paul et al., 2007; Riding et al., 2007; Kelly, 2007; Smith et al., 2010). However, understanding how to cope with less rationality in initiation is especially important for startups compared to more mature firms, as the initiation process is characterized by high levels of uncertainty. Therefore, our findings contribute to the understanding of how startups initiate new business relationships when the decision-making is less rational. This is especially for relationships initiated by startups, as the decision-makers have less information to build their analysis on. To cope with non-rationality in initiation, startups can create a sense of urgency and benefit from the group mentality when fronted with an opportunity. Thus, our findings also contribute to the stream of startup-related literature on how to manage lack of rationale in the relationship initiation process. Furthermore, this also contributes to the BA literature and confirms previous research that startups need to be aware of the non-rational decision making of BAs, as the BA pre-investment process is, to a large extent, based on non-rational decision-making (Hsu, 2007), and thus based on the relationship with the entrepreneurs. Moreover, we contribute to the increasing stream of BA literature discussing the difficulty raising funding (Knyphausen-Aufseß & Westphal, 2008; Landström, 2017; Lindström & Olofsson, 2001).

5. Conclusion

The aim for this master thesis was therefore to explore how startups initiate relationships with BAs with the goal of obtaining BA financing. We have explored this phenomenon through an explorative study on the BA-entrepreneur relationship. We first performed a literature review to explore what has been written about the BA pre-investment process and the business relationship initiation process, how these literature streams can be combined to analyze the pre-investment process, and how this contribute to the understanding of the initiation process between BAs and entrepreneurs. Our main findings from this literature review show that little emphasis has been placed on the pre-investment process, the perspective of the entrepreneur, and the initiation of BA-entrepreneur relationships. This leads to a gap in the literature and an unbalanced understanding of the various forces affecting the investment process. Moreover, it leads to a low understanding of the demand for funding and how entrepreneurs access financial resources. This resulted in a new conceptual framework that can be used to investigate the initiation of BA-entrepreneur relationships. Building on this model, we performed a multiple case study of six technology-based startups to examine the facilitators for relationship initiation between BAs and entrepreneurs. The main finding from this thesis is the importance of the BA-entrepreneur relationship, as the process of initiation is characterized as social, non-rational, and uncertain. Success is thus determined based on both the entrepreneur and BA. In conclusion, the BA-entrepreneur relationship is highly relevant in the process of initiation, as it is more relational rather than transactional. By taking a more relational perspective to the process of initiation, entrepreneurs can build trust and hence reduce uncertainty through trusted third-party referrals, reputation, and frequent contact. Furthermore, the non-rational decision making by BAs highlights the importance of building trust in the initiation phase. How to cope with less rationality in this phase is particularly important, as the initiation process is characterized by high levels of uncertainty. These findings contribute to previous literature in three ways; 1) further insights into the initiation of BA-entrepreneur relationships (Mason & Kwok 2010; Mason & Harrison 2004b; Rasmussen & Sørheim, 2012; Lauvås et al., 2013), 2) how trust is built early on and how social capital can provide the foundation of trust in the initiation of the relationship (Edelman et al., 2017) and 3) the entrepreneur's perspective on how a successful BA-entrepreneur relationship can be initiated at an early stage of a funding process (Paul et al., 2007; Lauvås et al., 2013). We lastly suggest implications for how the BA-entrepreneur relationship initiation process contribute to literature on relationship initiation and startups.

A practical implication for entrepreneurs is first of all to focus on having frequent interactions in the initiation process with BAs to build trust and mutual goals for the potential relationship. For example, through requesting meetings or face-to-face interactions with potential BAs to establish a relationship. This is especially important for those relationships that are long-term, such as BA-entrepreneur relationships. Second, entrepreneurs should develop a general understanding of the important elements and facilitators of how relationships are initiated and developed. Through our study we have contributed to a greater understanding of how BA-entrepreneur relationships are initiated, and entrepreneurs should therefore follow the guidelines presented. This involves being aware of the challenges related to these themes, such as the challenge of uncertainty and non-rationality in the process and understanding how the development of trust can contribute to these challenges. Third, especially relevant to entrepreneurs is the way of accessing BAs, and how experience, reputation, and network relations influence the most effective way of initiating contact. Moreover, inexperienced entrepreneurs can access BAs through trusted third-party referrals to accelerate the process and develop trust and reliability early in the process. Entrepreneurs should therefore acquire resources such as key persons with experience and reputation in the early stages to prepare themselves for future initiations. For example, entrepreneurs can develop close network relationships prior to acquiring funding, as well as improve visibility through e.g. competitions and attending events where BAs are present. In sum, the relationship and relational aspects are essential in the initiation process, and therefore the focus should be on relationship-building and -maintaining processes.

From this thesis, we propose several possible future research opportunities. First, our analysis provides insights on how to cope with uncertainty and non-rationality in the initiation of BA-entrepreneur relationships from the entrepreneur's perspective. Future research can build on this by performing a more in-depth study on how uncertainty affect the relationship from both sides of the dyad, and how it can be managed. For example, future research can seek to answer the questions 'How does uncertainty affect BAs and the way they make decisions?', 'How does uncertainty affect entrepreneurs and the way they interact with BAs?'. This is not only a direction for research within BA-entrepreneur relationship, but also other business relationships undertaken by startups, such as relationships with partners, pilot customers, and suppliers. A study that examines whether the ways to cope with uncertainty presented in this study is transmissible to other relationships between more mature actors is also called for. Moreover, how third-party referrals affect the perceived uncertainty is also an interesting unit of research. Second, a more descriptive study on the characteristics of the BA-entrepreneur relationship to shed light on the relationship itself and fully understand how the relationship can affect the pre-investment process. This type of research could seek to answer questions such as 'What are the key characteristics of the BA-entrepreneur relationship?', 'What key factors define the BA-entrepreneur relationship?', and 'How does the BA-entrepreneur relationship differ from other business relationships?'. This study could be combined with an empirical study to examine facilitators that contribute to initiate these types of relationships, such as frequent contact, sense of urgency and lead investor. Lastly, studies that investigate the role of trust within the BA-entrepreneur relationship in isolation is called for. Although there are studies on trust within the BA pre-investment process, more studies on the role of trust from the demand-side perspective would contribute to the under-investigated topic of demand for capital. This could also contribute to the topics of uncertainty, and to the development of BA-entrepreneur relationships.

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Business angel financing and relationship initiation - a literature review

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Abstract

While there has been a growth in interest of business angels in the recent years, the process of obtaining external funding from the entrepreneur's perspective is still an under-investigated phenomenon. This article provides a structured literature review of two literature streams; business angel literature and relationship initiation literature. The authors have reviewed 95 articles from both literature streams which have been published between 1980 and 2018. The aim of the article is to present, compare, and combine the two literature streams to investigate current gaps and how they can contribute to each other. By combining the literature streams, we aim to investigate the initiation process between entrepreneurs and business angels. We find that literature on the process of obtaining BA financing from the entrepreneur's perspective is lacking in previous literature, as well as the factors influencing the BA-entrepreneur relationship in the pre-investment process. Our analysis suggests a new conceptual framework to investigate this phenomenon, which includes elements from both literature streams. Finally, we conclude with key implications for business angels and entrepreneurs, and implications for further research.

Keywords: Business angels; Demand-side; Supply-side; Startups; Relationship initiation; Network; Trust; Review

1. Introduction

New technology-based startups are important in the growth and renewal of industries (Bjørgum & Sørheim, 2015), and for the creation of an entrepreneurial climate (Mason & Harrison, 2008). Despite the substantial interest of the development of startups in research and practice, generating revenue may take several years (Aaboen & Aarikka-Stenroos, 2017), and early-stage financing is crucial for the vast majority of startups to survive and grow (Douglas & Shepherd, 2002). The largest source of early-stage risk capital is from business angels (BAs), a group defined as "individuals who invest in unquoted companies in which they have no family connection" (Mason & Harrison, 1999, p. 9). BAs can in addition to financial capital contribute their experience, knowledge and network in attracting additional capital at a later stage (Sørheim, 2003).

The process of seeking financial capital requires two conditions to be fulfilled; the entrepreneur deciding to seek capital, and the investor deciding to fund the startup (Rasmussen & Sørheim, 2012). Previous literature has tended to view the supply and demand for capital as separate entities, but in reality, they are regarded as interdependent (Landström, 2017). Hence, understanding both of these events is fundamental (White & Dumay, 2017). However, despite the widespread recognitions that raising external capital is one of the greatest challenges for startups (Landström, 2017), there is very little attention paid to this subject in previous literature, especially from the entrepreneur's perspective (Edelman et al., 2017). Research on the overall BA pre-investment process is limited in scope and detail (Paul et al., 2007), and it is argued that inconsistencies in previous research can be solved by looking into the pre-investment process from the demand-side perspective with more theory-driven research (Rasmussen & Sørheim, 2012).

Though previous research indicate that relationships and network are of great importance in the pre-investment process, no research has investigated how the initiation process between startups and BAs actually occur (Mason & Kwok 2010; Mason & Harrison 2004b; Rasmussen & Sørheim, 2012; Lauvås et al., 2013). This is surprising, considering the fact that the BA-entrepreneur relationship plays a crucial role in the process (Rasmussen & Sørheim, 2012). Moreover, it is argued that it is particularly critical for startups to understand their relationships and how they develop (Aaboen & Aarikka-Stenroos, 2017; La Rocca et al., 2013). Similarly, Lauvås et al. (2013) indicate that it is necessary to further explore how successful relationships between entrepreneurs and investors could be initiated at an early stage to prepare entrepreneurs to become investment ready. This is especially related to the development stages of the startup and different levels of investor readiness (Lauvås et al., 2013). As startups increase their knowledge about these processes, they can analyze their present relationships and be more prepared for future relationships to improve performance (Aaboen et al., 2017), and thus the rate of success for BA financing. In other words, entrepreneurs need to understand how to prepare for the BA investment process, especially in regard to developing new business relationships with BAs to raise early-stage funding. Researchers have called for studies for how entrepreneurs can improve the attractiveness of their startups (Mason & Kwok, 2010; Mason & Harrison, 2004a; Rasmussen & Sørheim, 2012). Regardless of its importance for both startups and the growth of new industries, considerably less research has focused on the BA-entrepreneur relationship from the perspective of the entrepreneur (Edelman et al., 2017)

This paper aims to investigate what the literature says about the relationship initiation process between startups and BAs from the entrepreneur's perspective. By looking at two literature streams, BA financing research and business relationship initiation research, this paper aims to fill the research gaps by answering the following research questions:

(1) What does the literature say about the business angel pre-investment process and the relationship initiation?
(2) How can the combination of these literature streams give a better understanding of the initiation process between entrepreneurs and business angels?
(3) How can the literature streams contribute to a better understanding of the initiation of BA-entrepreneur relationships?

This paper contributes to the BA literature in three important ways. First, attempts on developing robust BA investment process models have failed due to lack of rigid structures, and it is called for alternative ways to describe the process (Maxwell, 2016). Second, by combining the previous BA process models and relationship initiation models, we introduce a new way to investigate the forces that affect the process and thus the development of BA-entrepreneur relationships. The investigation of relationship initiation on the BA investment process opens up a new avenue for research on BA-entrepreneur relationships. Third, building relationships between entrepreneurs and BAs are of great importance in the investment process and understanding *how* and *when* to build successful relationships are essential. This is especially important for startups (Aaboen & Aarikka-Stenroos, 2017; Aaboen et al. 2017). Our research will therefore also contribute to the emerging stream of startup-related literature. This paper argues that the combination of BA literature and business relationship initiation literature will 1) shed light on how the initiation of a BA-entrepreneur relationship occur, and 2) provide a new way of analyzing the pre-investment process through a relational perspective, and 3) contribute to understand how startups can develop relationships with BAs with the aim of raising funding.

In this paper, we present a literature review of the relationship initiation between entrepreneurs and BAs. First, the research for this paper includes a literature review using a semi-structured literature search methodology, which involves developing insights, reflections, implications for future research and research questions. This is presented in the next section. Second, we present relevant BA literature describing the investment process followed by a presentation of business relationship initiation literature describing the B2B initiation process in the same matter. Third, we combine the two literature streams and present a conceptual model for investigating the initiation of business relationships in the investment process. Lastly, we offer conclusions and suggestions for future research into the initiation between startups and BAs in the pre-investment process and limitations of our study.

2. Research method

A semi-structured literature search was undertaken to identify relevant literature, starting with a preliminary search to get an initial understanding of the subjects reviewed, followed by a structured search and snowballing. In addition, the authors were guided toward relevant literature by Hans Landström, Roger Sørheim, and their supervisor Lise Aaboen. The most used databases were ProQuest, Web of Science (WoS) and Oria, and the most frequent journals were *Venture Capital, Journal of Business Venturing, Industrial Marketing Management, Journal of Marketing, International Small Business Journal* and *Entrepreneurship: Theory and Practice*.

2.1 Preliminary search

In the preliminary search, the literature reviews by White et al. (2017) and Edelman et al. (2017) were used as guidance in understanding the terms, keywords, topics and perspectives of the previous BA literature. It was evident that the BA literature has not focused on the initiation of relationship, but rather on the investment process and the decision criteria of investors. Therefore, the article by Aaboen and Aarikka-Stenroos (2017) was used as a guidance to understand the topics, terms, perspectives and important authors in the field of business relationship initiation. Combined, the three articles gave insight into the keywords, important authors and perspectives of the two main topics; BA financing and business relationship initiation.

Table 1: *Identified keywords in the preliminary search*

Author	Identified keywords
White et al. (2017)	Informal venture capital; informal investors; entrepreneurial finance; decision criteria
Edelman et al., (2017)	Supply-side perspective; demand-side perspective; angel investor; angel financing; early investor; early investment; investor readiness
Aaboen & Aarikka-Stenroos (2017)	Relationship development; business relationship initiation; IMP perspective; asymmetric relationship; stage model; state models; status models; facilitator

2.2 Structured search

The structured search approach was undertaken to ensure a relatively complete census of the relevant literature (Webster & Watson, 2016), and contained four stages; 1) relevant keyword searches in WoS, ProQuest and Oria, 2) scanning articles by reading titles and times cited, 3) reading relevant abstracts, 4) reading relevant articles.

The search terms used were 'relationship', 'relationship development' and 'initiation'; and 'business angel(s)', 'angel investing', 'informal investor', 'investor readiness', 'decision-making' and 'trust'. Four strings were used to find relevant articles. To avoid duplication, the relevant literature was registered in a shared citation platform. Additionally, to create a better overview of the different topics and related literature, a shared article database was created. The database with spreadsheets, which was divided by topics, made it easy for the authors to document and find information. The topics were 1) BA demand-side perspective, 2) trust, 3) relationship initiation 4) relationship development models, 5) network, 6) asymmetric relationships, and 7) investor readiness. An overview of the search strings conducted and resulting articles are illustrated in Table 2 below.

Table 2: *Structural searches*

Keyword	Database	Search result	Abstracts read	Articles read	Selected articles
investor readiness AND relationship AND business angel AND entrepreneur	Oria	120	45	11	Silver et al. (2010); Paul et al. (2007); Cox et al. (2017); Brush et al. (2012); Clark (2008); Hsu (2000); Politis (2008)
informal investor AND entrepreneur	WoS	37	14	4	Landström (1998); Harrison & Mason (2015)
business angel AND entrepreneur AND trust AND initiation	Oria	3	3	2	Fairchild (2011); Klabunde (2016)
initiation of relationship AND trust	WoS	79	9	2	Valtakoski (2015)

The structured search provided the authors with 12 articles of relevance, and some new insights into the topics reviewed. First, the search strings combining 'investor readiness', 'relationship', 'business angel' and 'entrepreneur' gave varied results but guided the authors toward investigating the research by Harrison and Mason (2015) further, as they showed up several times with regards to BAs. The first two strings gave many results but many of the papers focused on VCs and not on BAs and were therefore not applicable. Second, the last two search strings gave relevant articles for the term 'trust' and how it affects the relationship initiation process. The last string provided several articles on trust in general, but not in relation to the business initiation process and were therefore not selected. Additionally, the authors tried to search for articles on business relationship initiation, but the search strings gave articles the authors already had access to. Thus, the structured search gave limited results into the phenomenon but served as a starting point for the snowballing.

2.3 Snowballing

Following the selection of relevant key articles, the next step was to examine the cited references and reference list of highly relevant articles through the reversed snowballing approach. This approach consisted of three steps; 1) reviewing the title, 2) reviewing the date and journal, and 3) reviewing the authors and times cited (Wohlin, 2014). Once a relevant paper was found from the reference list, the abstract was read to confirm or disconfirm its relevance. Table 3 provides an overview of the literature cited in other articles.

Table 3: *Literature cited in articles*

Primary source found	New sources
Business angel	
Rasmussen & Sørheim (2012)	Myers (1984); Politis et al. (2008); Brush et al. (2012); Mason & Kwok (2010); Carpenter & Petersen (2002)
Edelman et al. (2017)	Bammens & Collewaert (2012); Hindle & Wenban (1999); Maula et al. (2005); Sudek (2006); Maxwell et al. (2011); Mitteness et al. (2012a); Mitteness et al. (2012a, 2012b); Croce et al. (2017); Ding et al. (2015); Hsu et al. (2014); Paul et al. (2007); Madill et al. (2005); Brush et al. (2012); Clark (2008); Birley (1985); Mason & Harrison (1999); Piper (2000); Schwienbacher (2007); Sohl (1999); Lindström & Olofsson (2001)
White & Dumay (2017)	Amatucci & Sohl (2004); Feeney et al. (1999); Politis (2008); Sørheim (2003); Becker-Blease & Sohl (2007); Maxwell & Lévesque (2010); Sohl & Hill (2007); Avdeitchikova & Landström (2016); Steier & Greenwood (1999); Wetzel (1987)
Silver et al. (2010)	Mason & Harrison (2004a, 2004b); Lindström & Olofsson (2001); Aernoudt (2005)
Brush et al. (2012)	Douglas & Shepherd (2002)
Maxwell et al. (2011)	Van Osnabrugge (2000); Landström (1998); Riding et al. (1997); Serva et al. (2005)
Paul et al. (2007)	Van Osnabrugge & Robinson (2000); Payne et al. (1992); Amatucci & Sohl (2004); Fiet (1995); Fried & Hisrich (1994); Haines et al. (2003); Harrison (1999); Harrison & Mason (2002); Mason (2011); Tyebjee & Bruno (1984)
Harrison & Mason (2015)	Mason (2006); Maxwell & Lévesque (2014)
Maxwell & Lévesque (2010)	Rempel et al. (1985); Riding et al. (1997); Whitener et al. (1998)
Relationship initiation	
Aaboen & Aarikka-Stenroos (2017)	Aaboen et al. (2017); La Rocca et al. (2013); Ritter (2000); Ford (1980); Dwyer et al. (1987); Mandják et al. (2015); Batonda & Perry (2003); Edvardsson et al. (2008); Polonsky et al. (2010); Frazier (1983); Wilson (1995)
Aaboen et al. (2017)	Aarikka-Stenroos (2008); Holmen (2005); Mainela (2007); Ritter (2000)
Aarikka-Stenroos (2008)	Aarikka-Stenroos & Makkonen (2014); Aarikka-Stenroos & Halinen (2007); Håkansson & Snehota (1995); Moncrief & Marshall (2005); Jamarillo & Marshall (2004); Holmen & Pedersen (2003); Andersen (2001); Waller et al. (2001); Halinen (1997)
Mandják et al. (2015)	Håkansson et al. (2009); Mayer (1995)

Moncrief & Marshall (2005)	Dubinsky (1981)
Valtakoski (2015)	Morgan & Hunt (1994); Anderson & Narus (1990)

When the reviewed articles had been selected, we read through them thoroughly with the aim of identifying what characterize the BA pre-investment process and the relationship initiation process; their stages and important elements.

3. Overview of appended literature

Table 4 provide an overview of the applied literature to illustrate the topics the different articles discuss. The table show the distribution of topics and keywords in the literature from 1980 to 2018 examined in this paper. The upper three rows to the left give the literature stream focus on the applied literature. The next two give the perspective of the paper, and the following seven give the selected key words and themes presented in this paper. The last two rows show whether the study is empirical or theoretical. From observing the columns in Table 4, no articles discuss both the initiation of relationships and BAs. This is surprising, considering how close and personal the BA-entrepreneur relationship is assumed to be. Most of the literature reviewed is BA research that has taken the supply-side perspective. This is the case even though we aimed for literature with a demand-side perspective. However, to get a good overview of the BA investment process and the activities and variables that take place, the supply-side literature was used to supplement the small amount of literature on the demand for capital. In total, 53 articles take the supply-side perspective while only 32 articles focus on the demand-side perspective. Further, more than half of the demand-side literature used an empirical methodology, compared to three quarters of the supply-side literature. Hence, we assume that the research on the demand for financing will benefit from a more empirical focus. Another interesting finding is that even though *business angel* was one of the key words in the search for articles, many of the studies on BAs also discuss VCs. It is assumed that more is written about VCs than BAs, and therefore the VC research is used to supplement the vast amount of BA research. In regard to the factors trust and network, it is evident that these factors are more often mentioned in BA literature as compared to VC literature. Thus, it can be assumed that trust is more important in the BA-entrepreneur relationship, as the relationship is often more personal than VC-entrepreneur relationships. In the relationship initiation literature, trust is a prominent theme and occurs in 70 percent of the relationship initiation literature. Further, relations and referrals are mentioned in 38 articles, but only stands for 36 percent in combination with relationship initiation literature. Following the focus on network, the relationship initiation literature discuss network in almost half of the studies. With the emerging startup-related literature, how to enter a pre-existing network has also been investigated, and so it can be assumed that networks and personal relations are important in this literature stream.

Looking at the time period of the literature, the BA-literature has mainly taken the supply-side perspective, showing an even distribution from the early 1990s and up until today. Pre-investment and investment criteria are topics that have been highlighted from 1995 and forward. Literature discussing investment criteria also elaborates on pre-investment. The focus on

Table 4: *Literature analysis with key words*

Key Word	Aaboen et al. (2017a)	Aaboen et al. (2017b)	Aarikka-Stenroos et al. (2017)	Cox et al. (2017)	Croce et al. (2017)	Edelman et al. (2017)	Landström (2017)	Avdeitchikova (2016)	Maxwell (2016)	Oukes & Van Raesfeld (2016)	Bjørgum & Sørheim (2015)	Ding et al. (2015)	Harrison et al. (2015)	Lewici & Bunker (2015)	Mandják et al. (2015)	Murnieks et al. (2015)	Valtakoski (2015)	Aarikka-Stenroos & Makkonen (2014)	Bammens & Collewaert (2014)	Hsu et al. (2014)	Maxwell & Lévesque (2014)	Pollack et al. (2014)	La Rocca et al. (2013)	Lauvås et al. (2013)	Brush et al. (2012)	Collewaert (2012)	Mitteness et al. (2012a)	Mitteness et al. (2012b)
Business angel				x	x	x	x	x	x		x	x	x			x			x	x	x	x			x	x	x	x
Venture capital						x	x				x									x				x				
Relationship initiation	x	x	x							x				x	x		x	x					x	x				
Supply-side				x	x	x	x	x				x	x			x			x	x	x	x				x	x	x
Demand-side						x	x	x	x		x								x					x	x	x		
Pre-investment				x	x	x	x		x				x			x				x				x			x	x
Investment criteria				x	x	x	x		x				x							x				x			x	x
Investment readiness				x			x		x											x				x	x			
Forces	x	x															x	x	x				x				x	x
*Trust **	x	x			x	x	x			x		X		X	X		X	x	x		X		x	x	x			
Relations / Referrals			x		x						x					x		x	x		x	x		x		x		
Network			x							x								x		x			x	x				
Empirical	x		x	x	x			x		x	x	x	x		x	x	x	x		x	x		x	x	x	x	x	x
Theoretical		x				x	x		x					x					x			x						

*X = Great emphasis of topic, x = mentioned, but not the main topic of the article.

Table 4: *Literature analysis with key words*

Key Word	Politis et al. (2012)	Rasmussen & Sørheim (2012)	Riding et a. (2012)	Aaboen et al. (2011)	Fairchild (2011)	Mason (2011)	Maxxwell et al. (2011)	Snehota (2011)	Mason & Kwok (2010)	Polonsky et al. (2010)	Silver et al. (2010)	Atherton (2009)	Håkansson et al. (2009)	Aarikka-Stenroos (2008)	Avdeitchikova (2008)	Clark (2008)	Edvardsson et al. (2008)	Knyphausen-Aufse & Westphal (2008)	Aarikka-Stenroos & Halinen (2007)	Harrison & Mason (2007)	Mainela (2007)	Paul et al. (2007)	Schwienbacher (2007)	Sohl et al. (2007)	Mason (2006)	Proimos & Murray (2006)	Sudek (2006)	Aernoudt (2005)
Business angel	x	x	x		x	x	x		x		x	x			x	x		x		x		x	x	x	x		x	x
Venture capital	x	x	x		x							x										x	x			x		
Relationship initiation				x				x		x			x	x			x		x		x							
Supply-side						x	x								x	x		x		x		x		x	x	x	x	x
Demand-side	x	x	x		x				x		x	x								x			x		x	x		x
Pre-investment		x	x		x	x	x		x			x			x	x						x			x	x	x	
Investment criteria		x	x			x	x		x							x				x					x	x	x	
Investment readiness		x							x		x															x		x
Forces										x				x			x		x			x						
*Trust **					x					x				x			x		x								x	
Relations / Referrals		x									x		x	x		x	x		x		x				x			
Network	x	x		x				x	x	x			x				x		x	x	x	x		x	x			
Empirical	x			x			x		x		x	x			x	x	x	x	x	x	x	x		x		x	x	
Theoretical		x	x		x	x		x		x				x									x		x			x

*X = Great emphasis of topic, x = mentioned, but not the main topic of the article.

Table 4: *Literature analysis with key words*

Key Word	Holmen et al. (2005)	Madill et al. (2005)	Maula et al. (2005)	Moncrief & Marshall (2005)	Serva et al. (2005)	Amatucci & Sohl (2004)	Delmar & Shane (2004)	Jamarillo & Marshall (2004)	Mason & Harrison (2004a)	Mason & Harrison (2004b)	Mason & Stark (2004)	Batonda & Perry (2003)	Haines et al. (2003)	Holmen & Pedersen (2003)	Sætre (2003)	Sørheim (2003)	Carpenter & Petersen (2002)	Douglas & Shepherd (2002)	Harrison & Mason (2002)	Andersen (2001)	Lindström & Olofsson (2001)	Waller et al. (2001)	Mason & Harrison (2000)	Prasad et al. (2000)	Ritter (2000)	Steier & Greenwood (2000)	Van Osnabrugge (2000)	Van Osnabrugge & Robinson (2000)
Business angel		x	x			x			x	x	x		x		x	x	x		x		x		x	x		x	x	x
Venture capital							x		x	x								x			x					x	x	x
Relationship initiation	x			x	x			x				x		x						x		x			x			
Supply-side		x	x				x		x	x	x		x			x	x	x	x				x			x		x
Demand-side						x									x		x	x			x			x			x	
Pre-investment						x			x		x		x		x	x	x							x			x	x
Investment criteria						x			x		x		x		x	x			x								x	x
Investment readiness									x									x			x							
Forces				x				x														x						
*Trust **				x	X	x	x	x					x			x			x					x				x
Relations / Referrals			x	x				x				x	x			x			x		x	x						
Network	x	x	x	x				x				x	x	x		x				x		x			x	x		
Empirical		x	x		x	x	x	x	x			x	x	x	x	x		x	x	x	x	x			x	x		x
Theoretical	x			x						x	x						x						x	x				

*X = Great emphasis of topic, x = mentioned, but not the main topic of the article.

Table 4: *Literature analysis with key words*

Key Word	Feeney et al. (1999)	Harrison & Mason (1999)	Hindle & Wenban (1999)	Sohl (1999)	Steier & Greenwood (1999)	Landström (1998)	Prowse (1998)	Whitener & Werner (1998)	Halinen (1997)	Rogers & Mason (1997)	Wesley & Lewin (1996)	Fiet (1995)	Håkansson & Snehota (1995)	Mayer et al. (1995)	Wilson (1995)	Freear et al. (1994)	Fried & Hisrich (1994)	Morgan & Hunt (1994)	Anderson & Narus (1990)	Gartner (1990)	Dwyer et al. (1987)	Wetzel (1987)	Birley (1985)	Rempel et al. (1985)	Tyebjee & Bruno (1984)	Frazier (1983)	Dubinsky (1981)	Ford (1980)
Business angel	x	x	x	x	x	x	x			x		x				x						x	x					
Venture capital	x	x										x				x	x								x			
Relationship initiation								x	x		x		x	x	x			x	x	x	x			x		x	x	x
Supply-side	x	x	x	x		x	x			x		x				x	x					x			x			
Demand-side					x																	x	x					
Pre-investment	x	x	x			x											x								x			
Investment criteria	x	x	x			x	x			x							x								x			
Investment readiness																												
Forces									x		x				x			x	x	x							x	
*Trust **					x		x	X	x		x		X	X	x			x			x			X			x	
Relations / Referrals	x		x		x	x	x		x				x				x										x	x
Network			x	x	x	x			x				x						x	x		x	x					
Empirical	x		x		x	x	x		x	x		x	x			x	x	x	x	x			x	x	x			
Theoretical		x		x				x			x			x	x						x	x				x	x	x

*X = Great emphasis of topic, x = mentioned, but not the main topic of the article.

demand for funding started in the early 2000s, which indicates a recent increase of interest for the entrepreneur's perspective. Investment readiness is a topic that has occurred in the latest years, where none of the articles from 1980-1999 researches this field. Along with demand-side, this is a topic that has arose from the early 2000s. Seen together, the demand-side perspective is discussed in almost all the articles about investment readiness. Another interesting observation is the focus on trust and relations combined with BA or VC-literature starting from 2004. Over the years, the majority of research on BA-literature has taken an empirical point of view, and the numbers are increasing.

There are no articles combining relationship initiation with investment readiness, pre-investment or investment criteria. This puts studies about relationship initiation combined with investment literature on the agenda. Trust in the relationship initiation literature is a popular combination, and in the latest years this stands for close to all literature on the relationship initiation. From 1985 until present date, almost all of the articles about relationship initiation explore trust as well. This makes trust an important subject of the relationship initiation literature. Personal relations and referrals are major topics combined with relationship initiation theory. Further, during the 2005-2009 period, the combination of relationship initiation, personal relations and referrals was highlighted the most. Relationship initiation and network literature combined seems to be an emerging focus, starting from 2005 to present date. In total, the relationship initiation literature has an equal distribution of empirical and theoretical studies. The theoretical methodology has an even distribution over the years, while the empirical studies tend to be more highlighted in the latest years.

4. Business angel financing literature

The process of raising external capital is one of the greatest challenges for startups (Landström, 2017), and it is particularly difficult to acquire interest from financial resources (Lindström & Olofsson, 2001). According to White and Dumay (2017), BAs provide an important source of financial capital to startups, as well as experience, knowledge and contacts. Previous literature has tended to view the supply and demand for capital as separate entities, even though they in reality are regarded as interdependent (Landström, 2017). It is therefore important to look at both the investor and entrepreneur to fully capture the dynamics of the relationship (White & Dumay, 2017). Furthermore, internal resources such as skills, capabilities, and network are assumed to be valuable if they are heterogeneous (Landström, 2017). Even though external resources are interdependent and challenging for entrepreneurs to raise, previous literature tends to utilize a resource-based approach (Landström, 2017).

To understand the process of the BA-entrepreneur relationship, the BA financing literature must be explored. Edelman et al. (2017) points out the decision-making process as one of the most important topics in the BA literature, and previous research has mainly focused on the characteristics and behaviors of BAs (White & Dumay, 2017; Sørheim, 2003; Mason, 2011) and decision-making criteria of investors (Clark, 2008; Maxwell et al., 2011; Mason & Stark, 2004; van Osnabrugge, 2000). An increasing amount of literature has also focused on the relationships between entrepreneurs and BAs by looking at the importance of trust (Bammens & Collewaert, 2012; Pollack & Bosse, 2014), or the gender of entrepreneurs and BAs (Amatucci & Sohl, 2004;

Harrison & Mason, 2007; Sohl & Hill, 2007). However, not much literature has focused on the BA investment process from the entrepreneur's perspective (Edelman et al., 2017; Rasmussen & Sørheim, 2012). This chapter will discuss findings from the BA financing literature search. We will start by introducing who BAs are and their characteristics, followed by a presentation of process models that explain the overall structure of the financing process. Then, we will go deeper into the pre-investment phase of the process by looking at the decision-making criteria of BAs and how entrepreneurs can become investment ready. Lastly, we will describe different factors and forces which influence the pre-investment phase of the BA-entrepreneur relationship.

4.1 Business angels - who are they?

The size of the angel investment phenomenon has increased due to the emerging entrepreneurial economy (Sohl, 1999), and BAs play an important role in the informal investment market for startups (Avdeitchikova & Landström, 2016). BAs can be defined as high net worth individuals who invest in early-stage startups (Freear et al., 1994; Avdeitchikova, 2008; Edelman et al., 2017), either individually or in angel groups. BAs use their own money directly in unquoted companies in which they have no family connection (Mason & Harrison, 2000). Prowse (1998) characterize them as typically older ex-business owners that focus on startups or infant stage firms. Their purpose is to achieve a financial return (Mason, 2006), and they are generally not only motivated by financial factors, but also by the opportunity of coaching entrepreneurs, functioning as mentors for early stage companies (Edelman et al., 2017).

4.2 Pre-investment process models

To understand the process of how BAs make their investment decisions, a line of research have attempted to examine the overall BA investment process from the supply-side perspective (Paul et al., 2007; Haines et al., 2003; van Osnabrugge & Robinson, 2000; Amatucci & Sohl, 2004). Maxwell et al. (2011) simplified the complex process into three overall stages; 1) the time before interaction, 2) the interaction, and 3) the time after interaction. Similarly, Amatucci & Sohl (2004) divided the model into pre-investment, contract negotiation and post investment. Van Osnabrugge and Robinson (2000) and Haines et al. (2003) suggested a more complex eight-stage model for the informal investor market. However, these process models (Maxwell et al., 2011; Amatucci & Sohl, 2004; van Osnabrugge & Robinson, 2000) lack empirical basis (Paul et al., 2007). Attempts on developing more robust models for the investment process are found in the supply-side VC literature (Tyebjee & Bruno, 1984; Fried & Hisrich, 1994). Using VC models as a theoretical basis, Paul et al. (2007) developed a more robust model for the BA investment process. The framework illustrates the BA pre-investment process as a multi-stage process broken down into three stages; 1) familiarization stage, 2) screening stage, and 3) bargaining stage, with two subprocesses in each stage.

All of the models describe the process as non-linear and sequential, arguing that the process consists of blurred stages that may not progress smoothly (Haines et al., 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994; van Osnabrugge & Robinson, 2000). The investors' motivation for investing is argued to go beyond purely financial intentions (Haines et al., 2003), whereas the market potential, product differentiation, managerial capabilities, cash-out potential, and opportunity of BAs to contribute to the firm are mentioned as the key dimensions for investing in business opportunities (Haines et al., 2003; Tyebjee & Bruno, 1984). BAs often learn about new investment opportunities through referrals from business associates (Haines et al, 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994). One important finding is that most funded cases come from referrals, and that referred cases are more likely to go through the screening process than for example cold calls (Tyebjee & Bruno, 1984; Fried & Hisrich, 1994). After the investment opportunities are found, the investors go through a fairly informal due diligence process (Paul et al., 2007; Haines et al., 2003; van Osnabrugge & Robinson, 2000).

Paul et al., (2007) emphasize the importance of the initial meeting with the entrepreneur for whether the process goes any further and has thus distinguished it by adding the first meeting as a separate activity in the pre-investment process. The first meeting is emphasized based on the argument that BAs give more weight to soft factors than VCs, such as first impression, competence and the personal relationship between the entrepreneur and BA (Paul et al., 2007). Clark (2008) confirmed these findings by showing a statistically significant relationship between the BAs' perceptions of the quality and content of the entrepreneurs' presentations and the decision of whether to pursue the investment opportunity. BAs are more likely to emphasize personal factors during the early stages of the investment process such as personal motivation and geographic location. Moreover, BAs place greater emphasis on the impact made by the entrepreneur at the first meeting, and the impression will thus determine if the investment process goes any further. After the first meeting, the BAs begin to perform due diligence (Paul et al., 2007). Haines et al. (2003) emphasize the value of trust in the due diligence process, as many BAs invest based on their gut feel. Investors may form an emotional commitment to the investment proposals at this stage (Paul et al., 2007) as the entrepreneur and BA get to know each other (Haines et al., 2003).

Following the due diligence is negotiations, where aspects of the shareholder agreement and firm valuation are negotiated (Paul et al., 2007; Haines et al., 2003; van Osnabrugge & Robinson, 2000; Amatucci & Sohl, 2004). This stage ends either in an agreement where the BA decides to invest in the startup, or the relationship is terminated (Feeney et al., 1999; van Osnabrugge & Robinson, 2000). After the investment is made, post-investment activities take place, where the investor expands from being an investor to a collaborator (Tyebjee & Bruno, 1984), advisor and/or board member (Haines et al., 2003; Paul et al., 2007). The stages from the most well-known models for the VC investment process (Tyebjee & Bruno, 1984; Fried & Hisrich, 1994) and the BA investment process (van Osnabrugge & Robinson, 2000; Haines et al., 2003; Paul et al., 2007) are introduced are presented in Table 5.

Table 5: *Pre-investment stages introduced in previous literature.*

Pre-investment stages	***Sub-stages of pre-investment (Author)***
Familiarization	1) Deal origination (Tyebjee & Bruno, 1984; Haines et al., 2003) 1) Generating a deal flow (Fried & Hisrich, 1994) 1) Investment motivations, 2) Investment criteria, 3) Finding deals (van Osnabrugge & Robinson, 2000) 1) Learning about the opportunity, 2) Meeting the entrepreneur (Paul et al.,

	2007)
Screening	2) Screening, 3) Evaluation (Tyebjee & Bruno, 1984) 2) Specific screen, 3) Generic screen, 4) First phase evaluation, 5) Second phase evaluation (Fried & Hisrich, 1994) 4) Initial screening, 5) Due diligence (van Osnabrugge & Robinson, 2000) 2) Initial screening, 3) Due diligence (Haines et al., 2003) 3) Initial screening, 4) Detailed screening (Paul et al., 2007)
Bargaining	4) Structuring (Tyebjee & Bruno, 1984) 5) Closing (Fried & Hisrich, 1994) 6) Negotiations and actual investment (van Osnabrugge & Robinson, 2000) 4) Negotiation, 5) Decision-making (Haines et al., 2003) 5) Deal structuring, 6) Agreement (Paul et al., 2007)

It is evident that research on the overall BA investment remains limited in scope and detail (Paul et al., 2007) as only a few models have been developed for the informal investment process. Despite the differences between VCs and BAs, the VC models are utilized to bring theoretical basis to the BA models. Similarly, the BA investment process is only examined from the perspective of the investors, and complementary studies on the process from the demand-side perspective is needed. The BA investment process is difficult to investigate due to the lack of a rigid structure compared to the VC process. This, as well as a small sample size is the reason why attempts on investigating the overall BA investment process from the supply-side perspective lack empirical basis (Van Osnabrugge & Robinson, 2000; Haines et al., 2003). Soft factors are of more importance in the BA investment process than in the VC investment process. It is called for future research that shed light on the factors that impact the different stages of the investment decision-making process (Haines et al., 2003; Feeney et al., 1999) as well as the importance of network (Paul et al., 2007).

4.3 Pre-investment activities

In the pre-investment process, the main activity for the investors is to screen potential investment objectives with the aim to find good investment opportunities. On the other hand, for entrepreneurs, the main activities are to realize that they are ready for investment and to choose the appropriate type of financier. This section will go in depth into these activities, starting with decision-making criteria.

Decision-making criteria of business angels

The majority of the research on the BA decision-making process has taken a disaggregated approach, focusing on particular stages to provide more in-depth insight into each stage of the investment process (Fiet, 1995; Madill et al., 2005; Feeney et al., 1999; Payne et al., 1992; Paul et al., 2007). A major research focus during the late 1990s and early 2000s has been to understand how BAs make their investments, specifically the decision-making criteria for screening investment opportunities (Riding et al., 1993; Landström, 1995, 1998; Rogers & Mason, 1997; Edelman et al., 2017). In the pre-investment phase, the BAs determine the personal qualities and characteristics of the entrepreneur (Harrison & Mason, 2002), evaluate the marketing strategy and the financials (Mason, 2011) and their own needs and expectations of what they require from an investment opportunity before a decision is reached. In reaching a decision, a key issue for BAs is balancing risk and reward. This is also confirmed by Fiet (1995), which highlighted the importance of agency risk to BAs in screening investments. The author found BAs to be more concerned with agency risk, rather than market risk when screening entrepreneurial firms.

The decision-making research predominantly argues that the BA decision-making process is dynamic where the importance of the criteria changes throughout the process (Landström, 1998; Mitteness et al., 2012a, 2012b; Brush et al., 2012; Croce et al., 2017). Landström (1998) highlights how BAs use different decision-making criteria in their assessment of new proposals and found that there is not any individual criterion that stands out as important for a large group of BAs. While Landström (1998) has taken a more general approach to criteria, Mitteness et al. (2012b) looked at how criteria change based on the type of BA. Brush et al. (2012) also looked at the type of BA but based the research on the different criteria they have on the base of their industry experience rather than their age or personality. Brush et al. (2012) found that criteria change throughout the decision-making process, though organizational characteristics are of most importance in the first stage of the process. Honing into each stage of the decision-making process, Croce et al. (2017) confirm these findings and argue that criteria varies along the investment process, where the characteristics of the entrepreneurs and management team are emphasized in the screening stage. Overall, findings suggest that the two most important factors are 1) the characteristics of the entrepreneur and the entrepreneurial team, and 2) the market potential of the investment opportunity (Smith et al., 2010). Some researchers even argue that knowing the entrepreneur is the most determinant factor of the BAs' propensity to make informal investments (Mason & Stark, 2004). Furthermore, assessing the characteristics and the quality of the entrepreneur involves a complex set of criteria, which are both objective and subjective (Clark, 2008). The large number of criteria can be confusing to investors and entrepreneurs (Maxwell et al., 2011), and may not always be adequate (Cox et al., 2016). However, the decision-making research argues that the decision-making process is dynamic and that criteria change throughout the process (Brush et al., 2012; Edelman et al., 2017).

Some authors have looked at the criteria applied when new investment proposals have been rejected (Maxwell et al., 2011; Harrison et al., 2015; Croce et al., 2017; Cox et al., 2016). Maxwell et al. (2011) argue that BAs use a shortcut decision heuristic called elimination-by-aspect to reduce the number of investment opportunities to a manageable size. Harrison et al. (2015) built on the use of heuristics and confirmed the use of heuristics in the decision-making process due to the vast differences in the type of BAs. In the investigation on why startups exhibit relatively poor investment potential, even though they are positively evaluated according to the criteria, Cox et al. (2016) argue that the criteria are not always sufficient. They further suggest that entrepreneurs seeking funding from BAs should also consider other factors such as industry-BA fit, entrepreneur-BA fit, and new technology development. While Cox et al. (2016) focused on the overall evaluation of the startups, Croce et al. (2017) researched the specific criteria which drive rejections of investment proposals of BA groups. Their findings suggest that the reason proposals are rejected in the screening phase is not due to lack of business innovativeness, but rather the characteristics of the team. After due diligence, the reason for rejection is low levels of profitability. Characteristics of the entrepreneur is highlighted by several authors as a key reason

Table 6: *Decision making criteria in present literature*

*Decision criteria**	Landström (1998)	Fiet (1995)	Mason & Harrison (1996)	Feeney et al. (1999)	Hindle & Wenban (1999)	Van Osnabrugge (2000)	Harrison & Mason (2002)	Haines et al. (2003)	Sudek (2006)	Paul et al. (2007)
Product										
Status	x	x	x		x	x	x		x	
Protectability	x		x		x	x				
Quality		x	x			x	x			
Market										
Market size	x	x	x		x	x		x	x	
Growth potential	x	x	x	x	x	x	x	x	x	x
Market dynamics	x	x	x	x	x	x			x	
Entrepreneur										
Industry experience.	x	x	x	x	x		x	x	x	x
Track record	x	x	x	x	x	x		x	x	
Passion		x	x	x	x	x	x	x	x	
Trustworthiness		x	x	x	x	x	x	x	x	
Tech. knowledge	x	x				x				x
Financial										
Profitable		x	x	x	x	x	x		x	
Cash flow		x	x	x	x	x	x		x	
Investment size		x	x	x		x			x	
Business plan	x	x	x	x			x			
ROI/valuation	x	x	x	x	x	x		x	x	
Investment										
Team characteristics		x	x	x	x				x	x
Entrepreneur fit			x	x	x	x		x	x	x
Business fit	x	x	x	x	x	x			x	x
Location	x	x			x	x				x
Referral source		x	x					x		
Co-investment	x		x			x			x	
Investor role	x	x		x	x	x		x	x	

** List of criteria found in Maxwell et al. (2011)*

for rejection, and Croce et al. (2017) implies that future research should investigate to what extent the characteristics of the BAs influence preferences and criteria.

Non-financial criteria are discussed in various studies (Feeney et al., 1999; Mason, 2011; Maula et al., 2005; van Osnabrugge, 2000; Madill, et al., 2005; Murnieks et al., 2015; Sudek, 2006), where the entrepreneur's abilities and track record (Feeney et al., 1999; Mason, 2011), attitudes, experience, perceived skills (Maula et al., 2005), and enthusiasm of the entrepreneur (van Osnabrugge, 2000) are emphasized. More subjective and less measurable human qualities are also discussed in previous research, such as the personality of the lead entrepreneur (Murnieks et al., 2015), perceived passion of the entrepreneur (Sudek, 2006; Mitteness et al., 2012b), openness, and honesty (Sudek, 2006; Haines et al., 2003; Feeney et al, 1999). Madill et al. (2005) has taken a different approach and found that BAs are likely to consider how they can contribute to the business.

Additionally, a number of studies have highlighted the importance of financial criteria (Hindle & Wenban, 1999; Haines et al, 2003; Prasad et al. 2000; Sudek, 2006). Top financial criteria in previous literature are the capacity to grow (Haines et al, 2003), potential rate of return (Hindle & Wenban, 1999; Hsu et al., 2014), initial wealth invested in the project by the entrepreneur (Prasad et al., 2000), and exit opportunities (Sudek, 2006). Haines et al. (2003) mainly looked at financial criteria in the decision-making process and highlight inappropriate views of the value of the firm as a top criterion in negotiations. However, a BAs motivation to invest goes far beyond purely financial criteria (Haines et al., 2003), and several researchers therefore find both financial and non-financial criteria in their research (Hsu et al., 2014; Hindle & Wenban, 1999). Prasad et al. (2000) took a different approach and focused on how the value of the project and the entrepreneur's commitment can be signaled to potential BAs and found that an appropriate way to signal commitment is the proportion of the entrepreneur's initial wealth invested in the project. Sudek (2007) had exit opportunities as top criteria in the decision-making process, but also mention non-financial criteria such as trustworthiness and the importance of the management team.

The literature on decision-making criteria highlight the importance of the entrepreneur in making the investment decision, such as passion, abilities, trustworthiness, and commitment. Financial criteria are also of importance, but the BAs motivation to invest goes beyond the criteria. A number of weaknesses in the BA decision-making process are pointed out. Edelman et al. (2017) highlight that a natural extension of the BA literature is to study the process through which BAs make their investment decision.

Becoming investment ready

Following the decision-making process, the topic of making entrepreneurs investment ready by building a viable investment case has been examined by a number of authors (e.g. Douglas and Shepherd, 2002; Brush et al., 2012). Douglas and Shepherd (2002) investigated the phenomena through VCs, while Brush et al. (2012) looked at BAs. Douglas and Shepherd (2002) introduced three sub-areas of readiness that define whether a startup is ready for investment, namely technology readiness, market readiness and management readiness. Brush et al. (2012) built on the work by Douglas and Shepherd (2002) by looking at how BAs examine a startup's readiness for funding. Drawing on literature from organizational behavior, strategic change and management of technology, they proposed three sub-areas of readiness (see Table 7), namely organizational readiness, strategy readiness and technology readiness.

Table 7: *Investor readiness decomposed in sub-areas. Source: Brush et al. (2012)*

Sub-areas	Definition
Organizational readiness	To what extent has the startup's members the attitudes, experience, perceptions and confidence to move forward with a change.
Strategic readiness	To what extent is the startup's structure and systems built for strategic change, growth or movement into new product/markets.
Technology readiness	To what extent has the startup's proof of concept and the innovation been accepted by a particular group.

The three sub-categories defined by Brush et al. (2012) argue that the readiness change throughout the investment process, and that tangible criteria are of most importance in the first stages, and intangible criteria in the later stages. Compared to Douglas and Shepherd (2002), which focus more on the risk associated with the investment and the differing perceptions between the entrepreneur and VC, Brush et al. (2012) also highlights the importance of building and preparing the structure and systems within the organization for growth through strategy readiness. Similar to Douglas and Shepherd (2002), the authors found that investors and entrepreneurs have different perceptions of investment readiness, and that entrepreneurs often believe they are ready earlier than the investors. For entrepreneurs, it may be driven more by a sense of urgency rather than readiness (Brush et al, 2012) Thus, to save entrepreneurs time, effort and money, it is important for startups to recognize when they are investment ready, because this can decide whether they should start looking for investors (Douglas & Shepherd, 2002). Given the importance of objective criteria in the early stages, the three sub-categories of readiness may supplement the traditional list of decision-making criteria.

Several studies have focused on government programs preparing entrepreneurs for investment readiness (Mason & Harrison, 2004a; Aernoudt, 2005; Mason & Kwok, 2010; Silver et al, 2010). Research on governmental programs highlights that programs can facilitate investment readiness among startups seeking funding (Mason & Harrison, 2004a) and fill the information gap between the demand and supply for funding (Aernoudt, 2005a). Mason and Harrison (2004a) investigated the policy in Scotland, which is based on investment facilitation, and argue the policy program facilitates investment readiness among startups seeking funding. Weaknesses among startups include unrealistic business plans, insufficient information, information asymmetry and limited growth prospects. This is confirmed by Aernoudt (2005), who recognized the need for financial institutions to fill the information gap by bringing the entrepreneurs to a point where they recognize how and when to pitch for BAs. When seeking external funding, a certain amount of luck seems to be involved (Aernoudt, 2005). However, with the appropriate support from the government, industries, financial institutions and research facilities, startups have the potential to become investment ready (Mason & Harrison, 2004a). Some authors have highlighted the weaknesses of such programs (Mason & Kwok, 2010; Silver et al., 2010). Silver et al. (2010) criticized the overall design of the programs and explored strategies for promoting the growth of startups in Europe, while Mason & Kwok (2010) focused on how the weaknesses affect the investment readiness among startups. Factors negatively influencing investor readiness include information failure, lack of knowledge about the investment process and lack of knowledge on what is required to be attractive to investors (Mason & Kwok, 2010). It is argued that the policy programs should focus on mature entrepreneurs, and that these programs can increase the level of investment readiness, higher level of investor commitment, and thus greater market accessibility for startup (Silver et al., 2010). Overall, the findings suggest that entrepreneurs can improve their investment readiness with the appropriate support, and cope with information asymmetry by understanding what is expected when reaching out to potential BAs.

Entrepreneur's criteria of choice of financier

Later research from the demand-side perspective has looked at the entrepreneur's choice of financier (Schwienbacher, 2007; Fairchild, 2011; Sætre, 2003). Schwienbacher (2007) suggested two financing strategies of capital constrained entrepreneurs; wait until they have raised enough money to complete the project (wait-and-see strategy) or use limited resources to achieve milestones before contacting investors (just-do-it strategy). The author argue that the financing strategy influences the choice of financier. An important finding is that the most promising ventures choose the just-do-it strategy, and that they tend to seek financing from BAs before contacting VCs. Continuing this, Fairchild (2011) developed a game-theory model for the choice of financier by analyzing the effects of behavioral characteristics and economics. The author found that entrepreneurs should consider both economic and behavioral factors when making the choice of financier. The entrepreneurs anticipate a more empathic and closer relationship with BAs (Fairchild, 2011). Both studies look at the choice of financier, but in contrast to Schwienbacher (2007), Fairchild (2011) propose that VCs add more value to the venture than BAs. Still, BAs are argued to be more personally involved in the relationship (Schwienbacher, 2007; Fairchild, 2011), and trust is said to improve the chance of success (Fairchild, 2011). Sætre (2003) also looked at the BA-entrepreneur relationship and found that investors with relevant industry-related knowledge provide more valuable insights to their startups and that the entrepreneurs also seek BAs with relevant experience throughout the process. The different strategies of pursuing external BA capital rely on the type of startup but also the entrepreneur itself, as it differs what type of relationship both the entrepreneur and BA are looking for (Schwienbacher, 2007; Fairchild, 2011; Sætre, 2003).

There have also been a few studies that have focused on the difficulty of raising external BA capital (Knyphausen-Aufseß & Westphal, 2008; Rasmussen & Sørheim, 2012; Mason & Harrison, 2004b; Carpenter & Petersen, 2002). Knyphausen-Aufseß and Westphal (2008) examined BA networks and argue that there are large amounts of early stage capital available, but that investors and entrepreneurs have difficulties connecting to each other. They call this the matching problem, suggesting that there is a capital and knowledge gap in the BA market (Knyphausen-Aufseß & Westphal, 2008). An important finding is that BA networks may help connect BAs and entrepreneurs. Continuing this line of research, Mason and Harrison (2004b) focused on the performance of investment made by BAs and the risks involved in investing in high-technology startups. They argue that the reluctance of investing in high-technology startups is connected to the several risks involved, such as the requirement to invest large sums up-front, long time-to-exit, and the possibility of being diluted if significant additional funding is required. Interestingly, they found no significant difference in the performance of non-technology and technology-based startups (Mason & Harrison, 2004b). Carpenter and Petersen (2002) argue the difficulty of raising funding is due to the uncertainty involved in the investments, asymmetry of information within the BA-entrepreneur relationship, and the high research and development costs involved. While Knyphausen-Aufseß and Westphal (2008) mainly focus on how to connect and the benefit of BA networks, Mason and Harrison (2004b) suggest that connecting and accessing is not the main issue, but the risk factors involved in investing in startups. Rather than looking at the difficulty connecting (Knyphausen-Aufseß & Westphal, 2008), the risk factors involved in raising BA financing (Mason & Harrison, 2004b) and public policy decisions (Carpenter & Petersen, 2002), Rasmussen and Sørheim (2012) introduced four issues regarding access to BA financing from the demand-side perspective; 1) the perceptions and preferences of the entrepreneur, 2) the interactions and network relationship of the entrepreneur 3) the content and presentation of the investment case, and 4) the process of obtaining financing. They suggest that the interaction and network relationships of entrepreneurs play an important role in the process of obtaining financing from BAs as relationships affect the type and amount of capital the startups can acquire (Atherton, 2009), and networks are important to gain information about the various financing alternatives and resources that can bring value to the startups (Delmar & Shane, 2004; Rasmussen & Sørheim, 2012). Moreover, the ability of entrepreneurs to present and communicate their investment case is an important skill, and later studies show that intangible factors are often more important in the process of receiving funding than objective criteria (Rasmussen & Sørheim, 2012). Lastly, several gaps and inconsistencies in BA literature can be solved by looking into the overall process from the demand-side perspective with a more theory driven research (Rasmussen & Sørheim, 2012). From the studies reviewed, it is evident that BAs and entrepreneurs have difficulty connecting to each other and that there are several risk factors involved with the financing of startups (Knyphausen-Aufseß & Westphal, 2008; Rasmussen & Sørheim, 2012; Mason & Harrison, 2004b; Carpenter & Petersen, 2002). Yet, despite the fact that relationships and networks play crucial roles in the process, surprisingly little attention is given to the process of accessing BA financing from the demand-side perspective (Rasmussen & Sørheim, 2012).

4.4 Forces in the pre-investment process

Trust and network are mentioned as important factors by several authors in the BA-entrepreneur relationship (Edelman et al., 2017). Following is a short introduction to what the literature says about these forces.

Personal network - prior relations and referrals

Early BA research has focused on the role of informal networks within startups securing early-stage financing (Birley, 1985; Gartner, 1900; Steier & Greenwood, 1999). While Birley (1985) researched how startups choose and approach their network, Steier and Greenwood (1999) focused on the evolution of the financial network within a startup. Birley (1985) argue that informal networks are effective, not only when securing funding and resources, but also for advice, information, and reassurance. In his study, sources of help when seeking funding were mostly personal contacts and cold contacts. Instead of describing the network environment surrounding the startup, Steier and Greenwood (1999) examined how an entrepreneur's network evolves over time. The authors found four stages of network formation with BAs; 1) initial navigation, where the entrepreneur locates new contacts and tries to build a network consisting of old and new relationships, 2) consolidation, where the entrepreneur mobilizes the resources needed, 3) enrichment, where the entrepreneur optimizes resources available within the network, and 4) reconfiguration, where the entrepreneur manages a larger and more complex network while at the same time establishing new relationships. Later research by Steier and Greenwood (2000) identified strategies for entrepreneurs to build networks and leverage social capital to better tap investors' interest. They argue that personal relationships are important to BAs (Steier & Greenwood, 2000).

Later research has focused more on the role of social capital and referrals (Murnieks, 2015; Mason & Rogers, 1997; Prowse, 1998; Fried & Hirsch, 1994). Murnieks (2015) found that BAs place great emphasis in knowing the entrepreneur personally or having a trusted referrer that recommend the startup or entrepreneur. The primary criterion BAs use to screen proposals is argued to be whether they previously know the entrepreneur or known by a common contact they trust (Mason & Rogers, 1997; Prowse, 1998). While Murnieks (2015) focus more on the personality of the entrepreneur, Fried and Hisrich (1994) researched the effect of referrals at the first stage, namely the origination, of the decision-making process. The authors argue that most funded startups come by referral because referred deals are more likely to pass through the first screening done by investors if the investor trust the referrer's judgment. Moreover, referred deals lower risk because the referrer wants to maintain his/her relationship with the investor, and is thus not interested in giving references for startups they do not believe in. Hence, an entrepreneur's network is important in searching for appropriate BAs, where personal relationships and references are ways to enhance trust and reduce uncertainty and risk in the relationship. Further research is called for in the investigation of entrepreneurs' trustworthiness in attracting investment and growing their startups, as little research has focused on this specifically (Maxwell & Lévesque, 2014). Similarly, among uninvestigated topics, Edelman et al. (2017) call for more research on the impact of referrals. Networks are particularly important for startups because they provide resources, legitimacy, and act as conduits for information (Steier & Greenwood, 1999). For entrepreneurs to become legitimate actors, their startups have to develop relations and form a network to the resource providers that will provide their startup with this credibility (Lindström & Olofsson, 2001).

Trust

BAs tend to emphasize having a more empathic and trusting relationship to entrepreneurs (Fairchild, 2011). Trust is highly important in the investment process and is considered a key factor for developing a cooperative relationship. Further, both the level and radius of trust are important for affecting the investment process (Ding et al., 2015). Studies on trust have emphasized factors that underline trustworthiness and trust in relationships (Mayer, 1995; Serva et al., 2005; Amatucci & Sohl, 2004; Whitener et al., 1998, Lewicki et al., 2015), namely willingness to be vulnerable (Mayer, 1995), reciprocal trust (Serva et al., 2005) and communication (Amatucci & Sohl, 2004). Mayer (1995) developed a model showing how the propensity of trust is based on the abilities, benevolence and integrity between the trustor and trustee, and the risk taking in relationships when engaging in trusting actions. Following the work by Mayer (1995), Serva et al. (2005) elaborated on the risk-taking actions, and found that when exhibiting these actions, it predicted the other team's perception of trust. While Whitener et al. (1998) studied the pre-existing trust-behavior in organizations, Amatucci and Sohl (2004) examined how trust affects the relationship between BAs and women seeking external funding. Both Whitener et al. (1998) and Amatucci and Sohl (2004) looked at trust in the initiation phase of a relationship and found communication and integrity as important factors in the relationship. Amatucci and Sohl (2004) mentioned trust as one of many factors, while Whitener et al. (1998), along with Lewicki et al. (2015) and Serva et al. (2005) based their research on the trustworthiness process between two parties. Both Lewicki et al. (2015) and Serva et al. (2005) found expectations and assumptions on behavior as important factors. The authors argue that trust is first built by trusting the other party, followed by an expected matching display of trustworthiness from the other party.

Trust seems to be important in the BA-entrepreneur relationship but despite the many positive effects of trust, previous research has also sought to investigate the darker sides of trust (Maxwell et al., 2011, Maxwell & Lévesque, 2014; Bammens & Collewaert, 2014). The literature highlights how trust can be damaging in the initiation of a relationship (Maxwell et al., 2011), but also as the relationship evolves over time (Maxwell & Lévesque, 2014). While Maxwell et al. (2011) investigated the entrepreneur's behavior in the initial interaction with BAs, Maxwell and Lévesque (2014) focused on the evolvement of trust over time. Maxwell et al. (2011) found that the entrepreneur can build, damage or violate trust, and potentially affect the investment process. Moreover, they found that the startups receiving an offer exhibit several trust building behaviors rather than trust-damaging behaviors. Later research by Maxwell and Lévesque (2014) elaborated on their previous research by introducing three ways trust evolves; 1) trust building, 2) trust damaging, and 3) trust violating. Examples of trust building behaviors are consistency in behavior, shared values, concern about others' well-being, relevant experience, willingness to change, transparent communication, and openness. As entrepreneurs show trust building behaviors, the BA's confidence in the entrepreneur increases and the amount of risk is reduced. Trust damaging behaviors increase the perceived risk and uncertainty within the relationship, and while trust damaging behaviors are unintended mistakes, trust violating behaviors are intended (Maxwell & Lévesque, 2014). Bammens and Collewaert (2014) argue that trust is important, but too much can affect the decision-making process and lock decision makers into rigid behavioral patterns. Moreover, trust within the relationship evolves over time, and can both build and damage along the way. Further research is called for in the investigation of the entrepreneurs' trustworthiness in attracting investment and growing their startups, as little research has focused on this topic specifically (Maxwell & Lévesque, 2014).

5. Business relationship initiation literature

Business relationships are important for firms in terms of obtained benefits, such as cost reduction or increased revenue (Ford, 1980). All firms need to develop new relationships, both to replace old 'dying' relationships and to develop their business (La Rocca et al., 2013). Mature firms can do this on the basis of previous experience, existing resources and network relationships. Startups on the other hand, lack important resources and will most likely not have a large network to utilize. Rather, startups have to embed themselves into a pre-existing network of established relationships, and is therefore dependent on the skills, resources, actions, and intentions of other organizations (Håkansson & Snehota, 1995; Håkansson et al., 2009; La Rocca et al., 2013; Oukes & von Raesfeld, 2016). Within the Industrial Marketing and Purchasing (IMP) perspective, there is an increasing interest in how startups develop new business relationships and interact with partners in their network (Aaboen et al., 2011, 2017; Aaboen & Aarikka-Stenroos, 2017; La Rocca et al., 2013; Oukes & von Raesfeld, 2015; Snehota, 2011). A basic theoretical assumption within the IMP perspective is that 'the value of a resource is not given but depends on how it is used and related to other resources' (Aaboen et al., 2011, p. 44). Building on such a framework of resource interaction, Aaboen et al. (2011) studied how startups develop their initial customer relationships and La Rocca et al. (2013) examined challenges encountered by established firms when initiating relationships with startups. Going beyond the initiation phase, Oukes and von Raesfeld (2015) studied how startups interacts with its partners over time and become embedded in a pre-existing network. Despite the recent interest in startups within the IMP approach, the greater part deals with how mature firms initiate and develop new business relationships within their established networks. In comparison, only a few studies have investigated the initiation of relationships by startups (Aaboen & Aarikka-Stenroos, 2017; Aaboen et al., 2017). For a startup, however, it may be particularly critical to understand its relationships and how they develop, because their offerings are less developed, and they lack important resources compared to mature firms (La Rocca et al., 2013). Thus, the research on networks and interaction theories (Håkansson & Snehota, 1995; La Rocca et al., 2013; Aaboen & Aarikka-Stenroos, 2017), and business relationship development theories (Batonda & Perry, 2003; Dwyer et al., 1987; Edvardsson et al., 2008; Ford, 1980) tend to focus on relationships between established firms. Furthermore, only a small amount of research has analyzed the relationship initiation as a process of its own (Aaboen & Aarikka-Stenroos, 2017). Holmen et al. (2005) argue that little attention is paid to the initiation of relationships because it is assumed that what happens in a relationship over time is more important. Aarikka-Stenroos (2008) argues that the initiation phase is a difficult phase to study because it is a blurred phase involving many actors. Aaboen & Aarikka-Stenroos (2017) stated that another reason could be that long-lasting relationships were deemed more important. Therefore, this chapter will review the relationship initiation and development theories to shed light into the initiation process. Since only a few startup-related studies are available, we will review literature for all types of firms and situations where the literature specifically addresses the initiation and development of new relationships. We start by presenting various perspectives in the literature on what is defined as relationship initiation. Second, we will go deeper into initiation as the first phase of relationship development, and end with third actors as references and the relevance of trust.

5.1 When do relationships begin?

The beginning of a relationship between two exchange partners has been defined by several authors in the relationship development literature (Ford, 1980; Frazier, 1983; Dwyer et al., 1987; Batonda & Perry, 2003; Edvardsson et al., 2008). Some authors see the starting point as when two potential partners have had no prior contact nor considered each other as potential partners

(Mandják et al., 2015). Others define the starting point as when two parties interact or evaluate each other (Ford, 1980), when two parties recognize each other (Edvardsson et al., 2008; Dwyer et al., 1987; Frazier, 1983), or when initial contact is made (Batonda & Perry, 2003). Aarikka-Stenroos (2008) argue that the lack of a concise definition for when relationships begin may be because some relationships are short-term and comprise of only a few episodes. Additionally, the variety of relationships is large, both in terms of length and number of interactions (Ford, 1980). Edvardsson et al. (2008, p. 3) presented a clear definition of initiation, stating that "initiation starts when the companies in a potential relationship recognize each other and ideally ends when a business agreement is reached." This definition defines the relationship initiation as a dyadic process that starts with awareness and ends with an agreement and may lead to a business relationship. In this paper, the initiation of a business relationship undertakes the definition provided by Edvardsson et al. (2008), which starts by recognizing awareness about a need, and ends with an agreement, order or assignment that may lead to a business relationship. In sum, the initiation of a business relationship is considered the beginning or birth of a relationship, but the initiation phase lacks a concise definition, and it is not agreed upon when the initiation phase begins.

5.2 Initiation as the first phase of relationship development

Several studies have structured the relationship development process into conceptual frameworks where the initiation process is described as the first part of the relationship development process, either as stages (Ford, 1980; Dwyer et al., 1987; Mandják et al., 2015) or as states, phases and statuses (Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010; Edvardsson et al., 2008; Aaboen & Aarikka-Stenroos, 2017). The stage models by Ford (1980) and Dwyer et al. (1987) conceptualize the relationship development process as a gradual development that occur in a sequential and irreversible manner. An important assumption is that the development process consists of two active partners in a dyad who interact in a change process where adaptation takes place. Ford (1980) suggest two initiation stages; 1) pre-relationship and 2) early stage. The initiation begins when a firm evaluate potential suppliers. Initially, the evaluation is initiated by a need, particular episode, performance or other information sources, and the evaluation itself is conditioned by experience with previous supplier, uncertainty about potential relationship, and distance from potential supplier. Dwyer et al. (1987) built on the model by Ford (1980) and suggested 1) awareness and 2) exploration as stages of initiation. They argue that the initiation process begins when one firm recognize the other party as a potential exchange partner, followed by a dyadic interaction that consists of attraction, communication and bargaining, development and exercise of power, norm development, and expectation development (Dwyer et al., 1987). Distance is emphasized as a critical factor for initiation in the stage models, as buyers are more likely to be more aware of local firms (Dwyer et al., 1987), and because lack of relation can result in a reduced level of trust (Ford, 1980). Both models (Ford, 1980; Dwyer et al, 1980) provide rich theoretical description to the buyer-seller relationship. However, the study by Dwyer et al. (1987) is not built on conceptual foundations and empirical evidence from business relationships, but on romantic relations. A recent contribution building on the stage models by Mandják et al. (2015) focused specifically on the trust-building conditions for initiating new relationships. Their framework introduced the concept of whole-bonding trust and trigger issues and contribute to the present stage models by incorporating trigger issues that play a catalytic role in the initiation process. An important finding is that the whole-bonding trust occurs both at the personal and organizational level (Mandják et al., 2015). A general characteristic of initiation in the stage models is that partners begin to recognize each other (Dwyer et al., 1987), but that there is no interaction as they evaluate their potential partners (Ford, 1980). Further, the relationship initiation is assumed to consist of two active parties who interact in fragile episodes where the risk of termination is high (Ford, 1980; Dwyer et al., 1987; Mandják et al., 2015). The stage models have the potential to provide insight into interfirm network development. However, they are criticized for not considering the complexity of relationships and for the assumption that the development process occurs in a sequential and irreversible manner (Batonda & Perry, 2003). Similarly, the stage theories do not consider the uncertainty of the development process. In response to the criticism, the state theories emerged.

Rather than viewing the relationship development as a life-cycle process where the stages are sequential and irreversible, some researchers see them as more blurred states (Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010). Halinen (1997) studied the dynamics of agency-client relationships and identified preconditions for developing new business relationships, namely mutual attraction, awareness of other party's goals, needs and resources, and common interest in building a relationship. The author argues that interpersonal relationships and human factors play an important role in the development process (Halinen, 1997). Batonda and Perry (2003) examined how interorganizational networks grow and decline and developed a model for interfirm network development. They introduced two stages of initiation; 1) the searching process and 2) the starting process. Initially, the process begins when a need is recognized, followed by interactions when initial contact is made. They also argue that the relationship can be inactive for a period of time and introduced a dormant state that can be accessed at any point in the process. This contributes to the literature by adding responsive inactivity in the equation, as many relationships are developed from older ones (Batonda & Perry, 2003). Building on the model by Batonda and Perry (2003) and the concept of inactivity, Polonsky et al. (2010) added a second element to the process, namely a de-actualization phase. This model allows for simultaneous investigation of both active and inactive relationships (Polonsky et al., 2010). Like the inactivity state proposed by Batonda and Perry (2003), a relationship in the de-actualization phase can be maintained if it is viewed as a potential future asset (Polonsky et al., 2010). Similarly, the relationship development process in the state models can be described as an evolutionary phenomenon without deterministic phases (Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010). An important assumption is that activities may occur simultaneously within various functional areas (Polonsky et al., 2010). Rather than simply describing the different phases and activities of the initiation process, Edvardsson et al. (2008) developed a model for investigating *why* the relationship moves from one status to another. The dynamics in the process were explained by converters, forces causing the relationship to move between statuses; and inhibitors, forces preventing the relationship from changing status. An important finding is that several different convertors and inhibitors may contribute to the initiation simultaneously.

The initiation of relationships undertaken by startups are also studied within the field of relationship initiation and development (Aaboen & Aarikka-Stenroos, 2017). Aaboen & Aarikka-

Stenroos (2017) built on the previous development models and proposed a framework for investigating the initiation of customer-startup relationships comprised in six subprocesses; 1) need identification, 2) matching, attraction 3) accessing, 4) defining exchange, 5) building conditions and trust, and 6) forming the future. This model underlines the complex features of the initiation process and argue that the sequence varies as the subprocesses can interact and co-exist. Moreover, the models allow for the investigation of the asymmetry between the two initiating parties (Aaboen & Aarikka-Stenroos, 2017).

All of these models, despite the varied emphasis and context, assume that an initiation is the beginning of a relationship and is then developed further. Additionally, they all discuss mutual activities and processes between the initiating dyad. However, most business relationship development models only investigate the relationship development between mature firms. Similarly, despite substantial work on established relationships and how they end, research has seldom analyzed the initiation process in detail (Aaboen & Aarikka-Stenroos, 2017). Rather, the initiation of a relationship is described as the first phase in the development of business relationships (Batonda & Perry, 2003; Dwyer et al., 1987; Edvardsson et al., 2008; Ford, 1980). More literature on relationship initiation as a process of its own is called for (Aaboen & Aarikka-Stenroos, 2017, Aaboen et al., 2017; La Rocca et al., 2013). Additionally, relationship development studies are mostly limited to buyer-seller relationships, and there is no research on the initiation of relationships between BAs and startups. For startups, it is especially important to have knowledge about the activities and forces that can reduce the amount of uncertainty in the relationship. As the literature is mainly theoretical, there is a lack of empirical testing on startup relationships. The business relationship initiation process models are summarized in Table 8.

The development of new business relationships is also a question of buying and selling. Therefore, several contributions to the relationship initiation literature can be found in the selling and organizational buying literature. A few studies have looked primarily at the selling parties of the relational exchange dyad (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004; Waller et al., 2001), and suggest that the initiation process can be related to the seven steps of selling (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004) by Dubinsky (1980). These steps are 1) defining and prospect potential customers, 2) pre-approach the customer by doing research, 3) approach the customer, 4) presenting the firm and offering through a sales presentation, 5) handling objections and resistance, 6) closing the deal, and 7) post-sale follow up and maintaining long-term customer relationships (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004). Other studies have looked at the buying party of the dyad and explains the buying process as a complex process that include activities such as identifying a need and motive for exchange, determine characteristics and establish specifications, search and identify potential sources, request and evaluate proposals, select supplier, and post-purchase evaluation (Johnston & Lewin, 1996; Frazier, 1983; Aarikka-Stenroos & Makkonen, 2014). Frazier (1983) built a framework for interorganizational exchange behavior for marketing channel relationships that focus on the structural aspects of business relationships more than the process itself. Further, he argues that the alternative choice or opportunity cost plays a critical role in the development of the belief structure, such as beliefs of expected rewards, required investment in time, effort and money, and desired rewards (Frazier, 1983). Johnston and Lewin (1996) identified four risk factors that can hinder relationship initiation, namely importance, complexity, uncertainty and time pressure,

Table 8: *Relationship initiation phases in the development literature*

Author/model	Initiation phase stages	Identified subprocesses
Stage models		
Ford (1980) buyer/seller	1. Pre-relationship stage 2. Early stage	Evaluation and reducing distance Negotiation
Dwyer et al. (1987) seller-buyer	1. Awareness phase 2. Exploration phase	Building awareness, one-way communication Attraction, bargaining, building expectations and testing future goals
Mandják et al. (2015) business relationships	1. Starting situation 2. Awareness → Initiation	The parties do not know each other Personal reputation, prior relations, referral, network position, attractiveness, goodwill and initiation
State models		
Halinen (1997) buyer-seller	Preconditions	Attraction; awareness of other party's goals, needs and resources; common interest in building a relationship
Batonda & Perry (2003) interfirm network relationships	1. Searching process 2. Starting process	Identify need to enter relationship, search for potential partners, evaluation and selection of partners Initial contact, present opportunities, test personalities, goals and compatibility of partner
Status models		
Edvardsson et al. (2008) buyer-seller	1. Unrecognized status 2. Recognized status 3. Considered status	The parties do not know each other One or two-sided awareness, build social relations Negotiations
Polonsky et al. (2010) buyer-seller	1. Exploration phase 2. Actualization phase 3. Dormant phase 4. De-actualization phase	Pre-initiation activities, become aware of one another, investigate the potential, analyze actions Approach one another, learn about and understand responsibilities End of active engagement, progressive and regressive energy Low perceived value and regressive energy prevails
Aaboen et al. (2017a) business relationships	1. Need identification 2. Matching, attraction 3. Accessing 4. Defining exchange 5. Building conditions and trust 6. Forming the future	Identify need and recognize opportunity for mutual business, search process Scan for opportunities, send out messages, become aware of one another, attract one another Meet one another Closer interactions, mutual negotiations, evaluations of intendent content and type of exchange Building conditions for operating, create trust, reduce distance, create mutual understanding Form long-term relational expectations and combability, long-term benefits of relationship

where interfirm communication is emphasized as a way for buyers to reduce risk throughout the process. Most research on buyer-seller relationships focus on only one side of the dyad, where the other party is more or less unknown. This is especially prevalent in the sales literature (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004; Dubinsky, 1980; Waller et al., 2001), where sales happen rapidly, and the primary focus is on meeting the buyer's need.

Rather than looking at the seller and buyer process, a few studies have focused on the organizational and environmental factors that affect the buyer-seller relationships (Wilson, 1995; Morgan & Hunt, 1994; Andersen, 2001). Wilson (1995) integrated variables with the stages of relationship development in his investigation of buyer-seller relationships. He developed a framework that identify the initiation as 1) partner selection and 2) defining purpose. The most important finding is that variables may be present in some stages and absent in others. Furthermore, he found reputation, performance satisfaction, trust, comparison level of the alternative, shared technology, social bonds, and mutual goals as the most important variables in the initiation stages, and non-retrievable investment, adaptations, structural bonds, cooperation, and commitment as most important in the latter (Wilson, 1995). Following on the importance of commitment, Morgan and Hunt (1994) introduced a model on commitment-trust and propose that relationship commitment and trust develop when firms provide resources, opportunities, and benefits superior to the offerings of others; maintain high standards of corporate and shared values; and communicate valuable information and avoid taking advantage of their exchange party. Following the relationship marketing research, Andersen (2001) focused on the role of communication in relationship development and proposed a model that combine the relationship development process with marketing communication practices. In his study, he found that communication form the groundwork for relationship development, and that it can be used as a prerequisite to enhance attractiveness toward the other party, reduce distance, build expectations and trust between exchange partners (Andersen 2001; Anderson & Narus, 1990). Yet, the type and task of communication change throughout the relationship development process, and thus the strategy has to change as well. Andersen (2001) propose that the aim of communication in the pre-relationship phase is to create awareness, and thus media, reputation and referrals are effective in getting the attention of potential buyers. As the process moves forward, persuasion is the aim of the communication, and the communication type change from one-way to bidirectional (Andersen, 2001). Communication is closely related to trust in previous literature, where it is argued that trust causes communication (Dwyer et al., 1987) or that communication leads to trust (Andersen & Narus, 1990). This literature has proposed several factors that are prevalent during the initiation process, where specifically communication (Andersen, 2001; Edvardsson et al., 2008), commitment (Morgan & Hunt, 1994; Wilson, 1995; Dwyer et al., 1987; Ford, 1980), and recommendations (Waller et al., 2001; Aarikka-Stenroos, 2008) are viewed as critical.

5.3 Third actors in the relationship initiation process

As business relationship initiation happens in a network, the initiation literature comprises of a network perspective (Aarikka-Stenroos et al., 2014). Several studies within the IMP approach have looked into how businesses impact network dynamics and how business networks affect the development of single businesses (Snehota, 2011). It is indicated that prior relations, referrals, references and introductions by third parties in the relationship initiation process matter (Aarikka-Stenroos & Makkonen, 2014; Aarikka-Stenroos & Halinen, 2007; Batonda & Perry, 2003; Mandják et al., 2015). Ritter (2000) identified a mediation effect of how third actors can trigger or facilitate the initiation through referrals and introductions. Further, Aarikka-Stenroos and Halinen (2007) introduced 12 roles of personal and organizational third actors that can facilitate initiation; scouter, awareness builder, need creator, access provider, accelerator, advocate seller, matchmaker, trust builder, evaluation assistant, expectations builder, risk reducer, and provider of concrete evidence. The third actors may actively or passively facilitate the initiation process at the dyad or network level (Aarikka-Stenroos & Halinen, 2007). Mainela (2007) focused on how personal and organizational third actors affect the process, and found that social contacts reduce distance, enhance commitment and credibility, and enable assessment of the counterpart's competence. Most importantly, third actors function as "gate-openers" (Mainela, 2007). Similarly, Edvardsson et al. (2008) and Valtakoski (2015) emphasized personal references as trust-building factors to improve customer relationships. From a broader perspective, Aarikka-Stenroos et al. (2018) investigated the role of initiation contributors in business relationship development, and proposed three main initiation contributors that facilitate the process by both pushing the process forward and mediate for future initiations, namely 1) contact contributors, including social, organizational, and sleeping/dormant relationships, 2) artefact contacts, including references, agreements, standards, and rituals, and 3) ritual contributors, including dinners, parties, and visits. The importance of references and third parties is also seen in the sales and organizational buying literature (Jaramillo & Marshall, 2004; Moncrief & Marshall, 2005; Waller et al., 2001; Aarikka-Stenroos & Makkonen, 2014). Jaramillo and Marshall (2004) and Moncrief and Marshall (2005) introduced an evolved selling process and effective sales techniques in the selling stages, and both studies argue that referrals and networking at events directed at potential prospects are effective in the prospecting of potential customers and approaching the customer (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004). Further, in their study of how advertising agencies can successfully promote themselves to attract new customers, Waller et al. (2001) found personal contacts and positive recommendations as most effective. Referrals, networking, personal contacts, and recommendations emphasize the importance of relationships in the selling process. This is in line with the findings of Aarikka-Stenroos and Makkonen (2014) on how buyers gather and use experience-based information to solve complex problems in the buying process. Their study found references, word-of-mouth, reputation and collegial social networks as effective ways to gather information. Thus, previous relationship initiation literature acknowledges the critical role of third actor involvement to facilitate and trigger the process, improve the level of trust, reduce risk, and to attract new customers.

5.4 Trust in the relationship initiation process

Several studies have investigated the dynamic phenomenon of trust and trust creation in the relationship development process (Ford, 1980; Dwyer et al., 1987; Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010; Frazier, 1983; Wilson, 1995) and the relationship initiation process (Edvardsson et al., 2008; Valtakoski, 2015; Mandják et al., 2015; Aaboen & Aarikka-Stenroos, 2017; Aarikka-Stenroos & Halinen, 2007). Dwyer et al. (1987) argue that building trust is crucial in relationship development, and that it can counterbalance conflict and uncertainty.

Thus, as trust between the relationships develop, the risk taking is increased among the partners, and the amount of uncertainty is decreased (Dwyer et al., 1987). Wilson (1995) argue that trust starts to build when one firm earns the respect and trust of the other, and the initial interaction may begin the development of mutual trust. Moreover, he emphasized trust as an important building block to a successful relationship initiation. Both studies (Dwyer et al., 1987; Wilson, 1995) emphasize the role of social bonds since trust and personal relations are important variables for successful relationships. Building expectations and trust (Aaboen & Aarikka-Stenroos, 2017; Aarikka-Stenroos & Halinen, 2007) is also highlighted as a phase of its own due to its importance in relationship initiation. Similar to Wilson (1995), Edvardsson et al. (2008) identified trust as a force that mediate the relationship initiation. Rather than simply stating the importance of trust and trust-building behaviors, the authors proposed trust as a converter that causes the relationship to move between statuses. The converters can be recognized as moving mechanisms that are based on consistency over time, where the key persons in the process are important contact points and bearers of trust and competence (Edvardsson et al., 2008). Wilson (1995) pointed out that time is one of many elements that researchers need to account for when using trust as a variable in relationship-related research.

A few studies have developed strategies and models for developing trust within a relationship (Valtakoski, 2015; Mandják et al., 2015). Valtakoski (2015) explored the relevance of trust and trust creation in the initiation of new buyer-seller relationships and argues that the selling party can increase cognitive trust (credibility) with compensating mitigation strategies, namely customer references, expert recognition, expertise, market share, and continuity; and affective trust (benevolence) with personal relationships, brand name, sacrifices made, and local presence. Rather than focusing on increasing trust, Mandják et al. (2015) focused on the development of trust within relationship initiation. They developed a four-stage framework for explaining the birth of a new relationship with focus on the trust-building scenarios that play out during the initiation process. They argue that dimensions of trust, credibility, and benevolence develop to create whole-bonding-trust at the personal and organizational level in the process. In the starting phase, there is no interaction between the two parties. Trigger issues then draw their attention toward each other and opens the door for interaction, followed by trust-building scenarios to develop credibility and benevolence (Mandják et al., 2015). Valtakoski (2015) suggests that benevolence builds on emotional bonds between the initiating parties and is further affected by interactions over time, and credibility from the rational evaluation of the information available about the other party. From the literature reviewed, it is evident that trust is fundamental in the relationship initiation and development process, and therefore included in most relationship models.

6. Summary of literature review

In this literature analysis, we have identified three main issues with the present BA literature. First, there is a lack of knowledge on how to become attractive to investors (Mason & Kwok, 2010). Entrepreneurs and investors have different opinions of investment readiness (Proimos & Murray, 2006), and there is a need for more research explaining how to become attractive investment objects (Rasmussen & Sørheim, 2012). It is necessary to further explore how successful relationships between entrepreneurs and BAs can be initiated at an early stage to make the startup investment ready (Lauvås et al., 2013). Second, attempts on developing robust BA investment process models have failed due to lack of rigid structures, and it is called for alternative ways to describe the process (Maxwell, 2016) and the affecting forces that can drive the process forward or backward. Third, building relationships are of great importance in the BA investment process, and understanding *how* and *when* to build successful relationships are essential. It is particularly critical for startups to increase their knowledge about these processes to be prepared for future relationships and improve performance (Aaboen & Aarikka-Stenroos, 2017). However, no previous research has looked at the relationship building process between BAs and entrepreneurs, nor the factors affecting this process. In sum, the pre-investment process and the development of relationships have not been fully addressed in the BA literature. This is an important research area, given the importance of startups for both the growth and renewal of new industries (Bjørgum & Sørheim, 2015). Across the BA literature, shared theoretical structures and methodological approaches have been used, and this consensus over fundamental assumptions have led to a slow accumulation of knowledge in the field.

Additional issues are found in the relationship initiation literature. First, most relationship development models have looked at mature firms, and little research has investigated the relationship initiation and development of startups (Aaboen & Aarikka-Stenroos, 2017, 2017b). It is important for startups to understand how new business relationships are initiated and developed due to their scarce resources and underdeveloped offerings (La Rocca et al., 2013). More research is called for in regards of how startups initiate new relationships in order to gain a greater competitive advantage. Second, most literature focus on the development of new business relationships rather than the initiation as a process of its own (Aaboen & Aarikka-Stenroos, 2017). It is argued that the initiation process is under-investigated because what happens in a relationship over time is more critical (Holmen et al., 2005) and long-lasting relationships are deemed as more important (Aaboen & Aarikka-Stenroos, 2017). Further, the process is difficult to study due to many blurred phases involving many actors (Aarikka-Stenroos, 2008). Regardless, there is a need for more empirical studies of the activities and process factors within the initiation process.

7. Analysis and discussion

It is evident from the previous section that the BA investment process is difficult to illustrate, yet alone analyze due to its lack of rigid structures. Similarly, as most previous literature focus on the screening of investment opportunities and decision-making criteria of BAs, there is a call for new ways to analyze the process. The BA pre-investment process has not yet been looked at through the lens of relationship initiation theory. While the BA literature explains how the financing process occur, the initiation literature explains how a relationship begins and develops over time. Thus, it is interesting to see how the BA literature and business relationship initiation literature can be combined, and how they contribute to each other in order to further investigate the initiation of relationships between startups and BAs.

7.1 Comparison of literature streams

This section presents a comparison of the BA literature and business relationship initiation literature with the key words *perspectives, initiation, personal network and trust*. The comparison is summarized in Table 9.

Perspectives

As seen in Table 9, the literature streams do not share the same view on resources. The relationship initiation research emphasizes the combination of resources. As a startup initiate a new business relationship, it leads to the adoption and development of the activities and resources of both parties and will consequently affect the ways in which the firms relate to each other and to the surrounding network (Håkansson et al., 2009). Similarly, the value of a firm's resources depends on their connections to the resources of their network (Oukes & von Raesfeld, 2016). Thus, this view enables the investigation of relationship initiation and development, as no startups emerge in a vacuum (Oukes & von Raesfeld, 2016). The BA literature on the other hand, view resources as valuable if they are heterogeneous from firm to firm. In other words, the resources are more valuable if they are rare, difficult to imitate and non-substitutional (Landström, 2017). More importantly, they are not to be shared between firms within a network. As the resource-based view can be used to analyze the acquisition of resources, it is not adequate to analyze the initiation and development of new business relationships.

In regard to the point of view taken, the BA research either take the perspective of the investor or the entrepreneur, namely the supply-side or demand-side perspective. The literature investigating the supply for capital has mostly researched the investment decision-making process of BAs to understand how BAs screen and select investment opportunities. Comparatively little research has explored the demand for capital. This line of research has mostly looked at the choice of financier and the phenomenon investment readiness. However, there is a need for more research from the demand-side to fully understand the dyadic relationship and the individual actions in the pre-investment process. In the business relationship initiation literature, various business relationships have been investigated, such as buyer-seller-, interorganizational- and interfirm relationships. However, no studies have yet looked at the BA-entrepreneur relationship. Despite this, the literature has several contributions to the research on BA-entrepreneur relationships. First, models that describe the activities and factors in a business relationship initiation process can be used to analyze any relationship initiated by startups. Second, the buyer-seller literature can be similar to the investment process in that the investor is the buyer and the entrepreneur is the seller. Finally, a recent stream of startup-related literature is helpful in understanding the challenges of initiating a relationship where for example asymmetry and uncertainty is present.

Initiation

Both literature streams have developed frameworks to explain and describe the process; the pre-investment process and the business relationship initiation process. The relationship initiation literature does not agree upon when the initiation begins. There is a vast amount of perspectives on the beginning of relationships, and whether it starts when the two firms have had no contact,

Table 9: *Comparison of BA literature and relationship initiation literature*

	Business Angel	Relationship initiation	Comparison
Perspectives	View resources as valuable if they are heterogenous. Supply and demand for capital are viewed as separate entities, even though they in reality are regarded as interdependent. Most of the literature has taken the supply-side perspective, namely the perspective of the investor.	View resources as valuable if they are combined with the resources of other firms. Most of the literature reviewed has used the IMP approach, looking at interactions and networks. The most common relationships researched are buyer-seller relationships.	The relationship initiation literature assumes that the resource heterogeneity extends the boundaries of the firm and see resources as valuable as when combined. Thus, the relationship initiation literature integrates the importance of combining resources, which is neglected in present BA literature.
Initiation	The beginning of the BA-entrepreneur relationship is when investors see a need in finding new investment objectives, and when the entrepreneurs see themselves as investment ready. The most recent contribution includes 1) learning about the opportunity, 2) meeting the entrepreneur, 3) initial screening, 4) detailed screening, 5) deal structuring and 6) agreement.	Initiation is a dynamic process, starting with recognition and ends in a potential agreement. The process allows for inactivity, uncertainty and asymmetry. The most recent contribution includes six subprocesses; 1) need identification, 2) matching, attraction, 3) accessing, 4) defining exchange, 5) building conditions and trust, and 6) forming the future.	The relationship initiation literature describes the initiation process more in detail than the BA literature. The BA-literature's 3 stage process can be compared to the 6-stage relationship initiation process where identification of needs and building a relationship is important steps. In both literature streams trust building behavior and relations are important.
Personal network	Personal relations and referrals are seen as important for building trust, credibility and to reduce uncertainty. Most of the focus on network is descriptive studies on BA networks.	Personal relations and referrals are seen as important for building trust and reduce uncertainty and risk. Most of the focus on network is on network dynamics, and how networks affect the development of startups. Third actors are facilitators in the process.	Personal network and relations is highlighted as important in both literature streams to reduce uncertainty and build trust. The BA literature has focused less on network dynamics and more on how BA networks work and affect the market.
Trust	Trust is important in the BA-entrepreneur relationship. Focus has been on the behavior and the communication by the entrepreneur in the initial interaction with BAs, how trust evolves over time, and the complexity of trust involving integrity, benevolence and ability. Building trust in the early phase is an important step in order to secure BA funding.	Trust is viewed as an antecedent of a successful relationship initiation, and the importance of trust, credibility and benevolence are discussed to create a whole-bonding trust. Risk-taking increase along with trust. Focus has been on different types of trust, such as cognitive and affective trust, and trust as a factor.	Trust is important in both literature streams for successful relationships, and it is important to build trust early. The level of trust can change throughout the relationship, and trust-building scenarios are vital.

when they recognize each other, or when initial contact is made. This study adapted the definition by Edvardsson et al. (2008) where initiation starts with awareness and ends in an agreement. In contrast, the pre-investment process assumes the process begins when BAs are motivated to invest in new firms, learn about or screen new investment opportunities. As neither the BA literature or the relationship initiation literature have agreed upon when the initiation begins, it can be assumed that the initiation is vague and difficult to define. As little is written from the entrepreneur's perspective, the initiation for the entrepreneur is said to start when the entrepreneur's see themselves as investment ready. Both literature streams emphasize uncertainty and asymmetry as present, especially when the initiation is between a startup and a more mature firm. Moreover, the BA research propose information asymmetry as a reason for the low number of attractive investment opportunities in the early phase of initiation. In terms of the process models developed, the pre-investment models merely describe the investor activities that take place within the process, where the decision-making criteria and the screening of investment proposals have had most of the attention throughout the past four decades. The initiation process describes the dynamics in the process as well as the activities that take place. In other words, the latest contributions also take into account the potential for inactive relationships, the asymmetry between initiating parties and the dynamics in the process in the form of moving mechanisms that trigger the relationship to move back and forth. Thus, the relationship initiation models are more developed than the BA pre-investment models in terms of describing the dynamics and complexity of the relational process.

Personal network

The personal network is viewed as highly important in both the BA pre-investment and relationship initiation literature. The formation of relations is pointed out as important for the entrepreneur to provide credibility and reduce risk to gain trust toward the BA. In the initiation of new business relationships, a firm's network is vital since it is argued that no firm exist in a vacuum (Oukes & von Raesfeld, 2014; (Holmen & Pedersen, 2003). Similarly, to the BA research, relationship initiation research refers to the literature on social relationships, such as personal references and personal connections as a way to reduce risk, uncertainty, and to promote trust within the relationship. Thus, it is indicated that individual relationships contribute to the initiation of business relationships. Several comparisons can be made to the literature on personal networks. First, both literature streams have developed models for how personal networks evolve over time and how they are developed. Second, both literature streams have focused on how networks can provide valuable information, and the important role referrals play in the formation of a network. In BA research, the network theory emphasizes the role of referrals as way of getting past the first stage in the decision-making process. Moreover, an entrepreneur's network is highlighted as an important source of resources through advice, information, and funding. In contrast, referrals in the relationship initiation literature focus on how the referral can work as a facilitator through the initiation phase to move the process forward and for future initiations. Information is also mentioned in the initiation literature as an important resource, but it also highlights higher commitment, reputation and collegial social networks. Both literature streams mention personal references as a trust-building factor that can improve the relationship. However, the relationship initiation literature places more emphasis on how this can enhance commitment and enable assessment of the counterpart's competence, whereas the BA literature looks at personal references as a recommender to reduce the uncertainty and risk the BA feels toward the potential investment proposal. Thus, it can be argued that more research is needed in the BA literature on networks, specifically in terms of how entrepreneurs can enter the pre-existing network of established relationships. Lastly, neither of the literature streams have investigated the impact of referrals specifically, despite the widespread interest in networks and personal relationships. Notwithstanding, the personal network, references and prior relationships are emphasized as important in both literature streams.

Trust

As BAs tend to have more informal relationships with entrepreneurs, trust is argued to be an important factor in the BA-entrepreneur relationship. Trust in relationship initiation can counterbalance conflict and uncertainty, and therefore reduce the perceived risk for both parties initiating the relationship. Trust is emphasized as vital in both literature streams, and so is building trust early in the relationships initiation and the BA pre-investment process. The relationship initiation literature has explored more in-depth the different types of trust, specifically cognitive and affective trust. Additionally, the importance of social bonds is emphasized in relationship initiation as trust and personal contacts are building blocks of the process. In contrast, the BA literature has mainly focused on the effect of trust on the investment process and trust as a factor to build stronger BA-entrepreneur relationships. Trust-building models are introduced in both literature streams to explain how trust is built and how it evolves throughout the initiation and pre-investment process. Nevertheless, both literature streams argue that trust evolves over time, and can be damaged throughout the process. Thus, the relationships described are dynamic where trust develops over time.

7.2 Discussion: combining the literature streams

Raising capital is a challenging and complex process for entrepreneurs, and there is an uneven distribution of the amount of available financing and number of funded startups due to a low number of attractive investment proposals (Landström, 2017; Rasmussen & Sørheim, 2003; van Osnabrugge & Robinson, 2000). Most of the literature on the BA pre-investment process has primarily investigated the supply of capital, and more specifically the decision-making criteria of investors. This line of research focuses on the criteria used by investors to screen potential investment objectives and is considered to be the beginning of the BA-entrepreneur relationship from the perspective of the investor. The process models suggest that the pre-investment process is non-linear and occur in blurred stages. The initial meeting and relational factors is emphasized in the BA literature, and thus also the mitigating effect of referrals and prior relations. Within the decision-making criteria research, the characteristics of the entrepreneur is highlighted. That is to say, when investors screen potential investment objectives, they look for entrepreneurs with a high degree of experience, trustworthiness and perceived passion (Sudek, 2006; Mitteness et al., 2012b; Mayer, 1995; Serva et al., 2005). Moreover, although non-financial and financial criteria are of similar importance, tangible criteria are more important in the early stages and intangible criteria in the later stages. During the due diligence, tangible factors such as a prototype, customer acceptance and intellectual property are of most importance, and as the process moves toward negotiations, the investors place more attention on intangible factors, such as execution capabilities, the teams' passion and the entrepreneur-investor fit.

The line of research investigating the demand for capital has focused mainly on the difficulties of raising funding, especially in regards of becoming investment ready. A reason for the large amount of capital available from BAs compared to the small amount of funding received by startups is argued to be caused by the difficulty of connecting to each other, difficulty developing a strong relationship and information asymmetry. Investment readiness is said to result in a higher investor commitment, and thus greater market accessibility for startups. However, despite the widespread knowledge that startups are important to the economy, that startups need external financing and other resources to survive and grow, and that there are major challenges connected to the process of raising funding, surprisingly little research has investigated the process from the entrepreneur's perspective.

We introduce a new way of looking at the BA pre-investment process through the lens of relationship initiation theory. We summarize the key aspects covered in the initiation literature, followed by an introduction of a new conceptual model.

BA pre-investment process through the lens of relationship initiation

The business relationship initiation literature highlights the importance for startups to understand their own relationships and how they develop. As startups increase their knowledge about these processes, they can analyze their own relationships and be more prepared for future initiations. It is important to understand that a startup does not develop in a vacuum but are connected in a large network of direct and indirect relationships (Holmen & Pedersen, 2003). The relational perspective on resources as valuable when combined with those of others can be used in the investigation of BA-entrepreneur relationships. The BA literature has not yet fully examined the effect or roles of third actors, nor the effect of the entrepreneur's network. As this is researched within other business relationships, the BA literature will benefit by utilizing the relational perspective on resources. Further, the relationship initiation literature has investigated the development of various buyer-seller relationships. These buyer-seller relationships are similar to the BA-entrepreneur relationship in that the entrepreneur is perceived as selling parts of their company shares to the BA, and thus similar activities take place, such as getting in touch, first meeting, evaluation of deal and agreement. Therefore, the previous models on the initiation of customer relationships can provide great insight into the activities, as well as the dynamics and forces, that contribute to building successful relationships. As no BA literature have developed models for investigating the pre-investment process from the demand-side perspective, the relationship initiation process literature on customer relationships can bring relevant information about the process of initiating new relationships and the dynamics in the process to researchers. As illustrated in Table 9, trust and personal networks are important in both literature streams. This indicates that the relational factors and relationship development mediators are similar, and thus the combining of literature streams is possible.

We implicate that future researchers can use the relational perspective from the relationship initiation literature to investigate the initiation of BA-entrepreneur relationships. This can contribute to the lack of literature from the entrepreneur's perspective; how entrepreneurs build relationships with financial resource providers, and how startups initiate and develop new relationships to embed themselves in the pre-existing network of established relationships. The initiation of relationships between BAs and entrepreneurs allow for investigation in a new context, namely the initiation and development of relationships between entrepreneurs and BAs within the pre-investment process.

A new conceptual framework

Based on the literature review, a new conceptual framework is developed to investigate the phenomena of relationship initiation between BAs and entrepreneurs. On the basis of the literature review, several key subprocesses of initiation can be found; identification of need, problem or motivation to enter a relationship; build awareness and learn about opportunities through seeking and gathering information; attract and access one another; gather information, bargaining, evaluation, information sharing and mutual communication; closer interactions, mutual negotiations, decision making, forming strategic dimensions, evaluate content and type of exchange, deal structuring, build trust and long-term expectations; and agreement.

The new conceptual framework comprises of three pre-investment stages with several activities (see Figure 1) that ends in an agreement. The framework builds on previous BA literature and business relationship initiation literature and includes thereby elements from the BA pre-investment process and subprocesses from business relationship initiation. The model recognizes that relationship initiation in the pre-investment process is a non-linear and dynamic process consisting of blurred subprocesses that may occur simultaneously. Therefore, backward steps and overlapping activities and subprocesses are acknowledged by this model, as no relationships develop smoothly (Edvardsson et al., 2008; Paul et al., 2007). Similarly, the model recognizes that relationships can be inactive for a period of time and then re-initiated at another point in time, such as a dormant state and de-actualization phase as proposed by Batonda and Perry (2003) and Polonsky et al. (2010). Further, it allows for simultaneous investigation of both inactive and active relationships (Polonsky et al., 2010). Each of the three stages is discussed below.

The familiarization stage comprises of three subprocesses; 1) identifying a need for investment, 2) identifying a matching and attractive partner, and 3) first meeting. Identifying a need for investment is the first step where the entrepreneurs realize the need for funding. From there, the entrepreneurs have to identify attractive BAs that match their investor criteria. For the attraction to take place, trigger issues play a catalytic role for the two parties to meet, such as reputation, references, visibility and attractiveness. Lastly, the entrepreneur has to meet the investor. Aaboen & Aarikka-Stenroos (2017) argue that only after accessing each other can the relationship move forward. The first meeting with the investor is usually when the entrepreneurs present their business idea as well as themselves.

The screening stage includes the subprocess 4) defining exchange. This stage involves a more structured screening and due diligence process from the BAs and is where the entrepreneur should share all available information about their startups that are relevant for the BA. Information asymmetry is a challenge in the screening stage, as it is difficult for the entrepreneur to share all relevant information as well as to know what information the investors want to see. According to Edvardsson et al. (2008), the lack of mutual understanding or deep familiarity with one another can make this stage especially fragile, and thus, it can be terminated more easily. Therefore, building trust is especially important, such as developing benevolence and credibility. During the information sharing, the entrepreneur and BA engage in a mutual dialogue in which they communicate their perceptions and requirements for the relationship and the potential exchange. In other words, the entrepreneur and BA discuss what they want from the relationship and what commitments they are willing to make. When the content of their exchange, type of exchange and relationship are discussed and agreed upon, the operating conditions are established. In the BA pre-investment literature, this is referred to as due diligence.

Finally, the bargaining stage involve 5) forming the future of the potential relationship that may end in a 6) formal agreement between the entrepreneurs and BA. Forming the future means deciding upon the last points of the agreement on the basis of common goals and long-term benefits of the relationships, such as for example expectations for monetary gains and involvement. In the pre-investment process, this subprocess is referred to as negotiations. The conclusion of the bargaining stage is a formal agreement setting out the detail of the agreement reached between the BA and entrepreneurs.

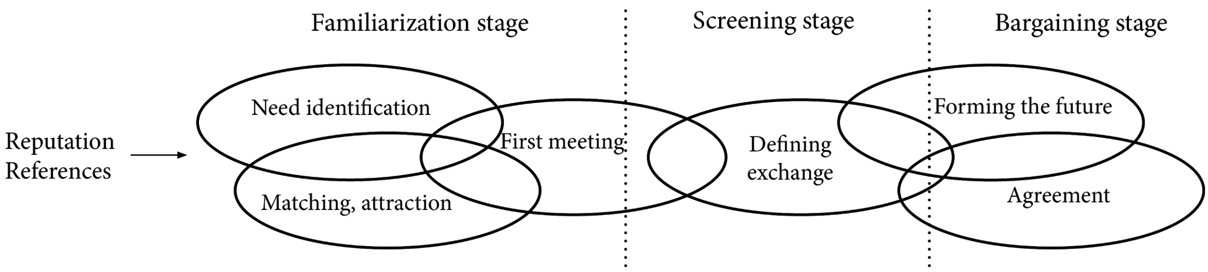

Figure 1: *Subprocesses of initiation between a startup and a business angel.*

The suggested framework (Figure 1) allows for a structured investigation of the initiation of BA-entrepreneur relationships by startups. The model acknowledges the relational aspects of the pre-investment process as introduced in the relationship initiation literature, such as asymmetry, inactivity, trust, network effects and the dynamics in the process. This allows for a closer investigation on the dynamics and moving mechanisms in the process, and consequently what makes the process move from one state to another.

Taking the relational perspective, the model views relationships as connected and resources as valuable when combined with the ones of others (Aaboen et al., 2011; Oukes & von Raesfeld, 2015). The present pre-investment models have neglected the importance of networks and view investment opportunities as good based on criteria and competitiveness. That is to say, rather than focusing on the combination of resources, the focus is on competitive advantage and uniqueness. As network and personal contacts are important mediators in the initiation and development of new relationships, this model will account for the relational aspects of the process. Consequently, the new framework will introduce a new perspective to the BA process literature. Because the framework also acknowledges forces that affect the process, it simultaneously allows the data to provide more information about the moving mechanisms between the subprocesses. Furthermore, the model allows for a structured investigation of the BA-entrepreneur relationship initiation by startups. In our literature search, we did not identify any process models that examined the pre-investment process from the entrepreneur's perspective nor any relationship initiation process models that examined the initiation and development of relationships between entrepreneurs and BAs. Hence, based on our current knowledge, this model allows for investigation of relationship initiation within a new context, namely BA-entrepreneur relationships in the application of obtaining funding. Moreover, it acknowledges the initiation by startups and the apparent asymmetry between the initiating firms. Several of the present initiation models tend to use only the viewpoint of one of the two actors and thereby fail to take into account the interactive dimension of the relationship initiation Mandják et al. (2015). This model allows for a more interactive examination of initiation from both viewpoints. Hence, the proposed framework considers both the focal firm and the customer in the initiation process.

7.3 Contribution

This review contributes by looking at the informal investment process from the perspective of the entrepreneur by adding a new conceptual framework, which includes BA investment process, relationship initiation subprocesses and elements for connecting and accessing. To highlight how the two literatures streams used in this paper contribute to each, we will first present the role of initiation in the BA investment literature, and thereupon present the role of BA investment in relationship initiation literature.

The role of initiation in business angel investment literature

From the analysis, we see that the BA phenomenon will benefit from cross-fertilization with the literature on relationship initiation in several ways. First, the initiation process can shed light on the initiation of the BA-entrepreneur relationship in the pre-investment process. Despite the fact that several studies in previous literature mention pre-initiation in their research, only a small amount has investigated this process in detail. Moreover, the beginning of the investment process is regarded as the decision-making process where investors select and screen potential investment objects and when entrepreneurs see themselves as investment ready. Through a new conceptual framework, we introduce an even earlier phase into the investment process, namely the initiation of the focal relationship where the entrepreneurs identify a need for financing and access BAs. This can contribute to the stream of BA process literature in terms of when the BA-entrepreneur relationship begins (Haines et al., 2003; Paul et al., 2007; van Osnabrugge & Robinson, 2000). Despite the widespread interest in startups and the financing process, the literature has yet to investigate how startups develop successful relationships with BAs with the aim of raising funding. Second, new ways of analyzing the BA investment process have been called for, as well as investigating the factors that impact the different stages of the investment process (Haines et al., 2003; Feeney et al., 1999; Maxwell, 2016). Although BAs place more emphasis on soft factors and the entrepreneur-BA fit where the relationship itself is of great importance, present BA process models are based on VC models that are more transactional. As the initiation process models focus on the development of dual relationships and the affecting factors and forces, the BA process models will benefit from the relationship development aspect of the initiation process. Especially the subprocesses and the facilitating factors will contribute to previous BA literature. As entrepreneurs gain more insight into the how's and when's of developing new relationships, as well as how to become more attractive to investors, they can put themselves in a better position and be more equipped for future investment processes and relationships. This can potentially result in a higher number of successful investment relationships and thus more successful outcomes. Hence, incorporating relationship-building factors and subprocesses is beneficial to the BA phenomenon.

The role of business angel investment in relationship initiation literature

In the relationship initiation literature, the main academic disciplines studied are network and interaction theories and business relationship development theories (Håkansson et al., 2009; Snehota & Håkansson, 1995; La Rocca et al., 2013; Aaboen & Aarikka-Stenroos, 2017; Batonda & Perry, 2003; Dwyer et al., 1987; Edvardsson et al., 2008; Ford, 1980). The relationship development theories have developed process models for the relationship development and initiation process, mostly within buyer-seller relationships. The BA literature can contribute by expanding knowledge within relationship initiation literature by looking at how entrepreneurs and BAs initiate relationships, and how they develop. An increasing amount of the literature within the BA investment process has focused on the relationship between entrepreneurs and BAs by looking at the importance of trust (Bammens & Collewaert, 2012; Pollack & Bosse, 2014). These findings could complement existing literature within relationship initiation literature, especially dyadic relationships, by looking at trust from the entrepreneur's perspective. Through the new conceptual framework, the relationship initiation literature will get a new dimension of how initiation can occur and what challenges and issues complicate this process. The different forces, which drives the BA-entrepreneur relationship, would also add to existing relationship initiation theory by introducing a new perspective on what could cause a relationship to move between statuses and phases. The two literature streams highlight a few similar moving mechanisms when initiating relationships, but the perspective of the BA and entrepreneur could add additional insights on how mechanisms trigger and affect the relationship, and at which points in the process the relationship. It is important to look at initiation in other domains, and the BA initiation process will add to existing literature by getting a new perspective, especially from the entrepreneur's point of view.

8. Conclusion

This paper has provided a review of the BA literature and the relationship initiation literature. In doing so, we have introduced an alternative way of analyzing the initiation process between BAs and entrepreneurs by cross-fertilizing theory from the BA literature with literature on relationship initiation. The literature review shows that there is a lack of research on BA financing from the perspective of the entrepreneur, and especially on the pre-investment process. More research can help entrepreneurs become more attractive to investors and thus investment ready. The initiation literature review highlights subprocesses in the relationship development process and factors that contribute and inhibit further development. The result was a new conceptual framework that can be used to investigate the initiation of BA-entrepreneur relationships. This can guide future research in investigating the initiation process from the perspective of the entrepreneurs, and thus shed light on the pre-investment phase of the process.

9. Implications for the business angel and entrepreneur

This section identifies the implications for our literature review for BAs and entrepreneurs. Our analysis and discussion indicate the BA-entrepreneur relationship as dynamic and fragile, with trust as an important factor to establish a relationship in the initiation phase. Based on our analysis, we suggest implications for both the entrepreneur and BAs.

Table 10: *Implications for entrepreneurs and business angels*

Entrepreneur's implications	
Entrepreneurs should start the process of becoming investment ready early, without the sense of urgency to raise external capital.	It is evident that BAs and entrepreneurs differ in the perception of investment readiness. For entrepreneurs to understand what is expected, they should understand what the term investment readiness means, as well as the three subcategories of readiness. Communication skills, knowing investor's criteria, sharpening the business plan according to the sub-categories, preparedness, and confidence can reflect more readiness. By starting this process early, entrepreneurs can enter the investment process without the sense of urgency to raise external capital.
Entrepreneurs should not only focus on the decision-making criteria of investors, but also industry-BA fit, entrepreneur-BA fit and new technology development.	In order to find the right BA, entrepreneurs should perform due diligence on their prospective BAs. Entrepreneurs can start the process with a list of potential BAs that match their goals, needs and management team. Entrepreneurs should carefully weigh the pros and cons of each potential BA before initiating the search and establish contact. This could enhance the relationship by showing interest in relevant BAs, and also shorten the time spent communicating with BAs, and increase the possibilities for a successful investment and a long-term relationship.
Entrepreneurs should build a relationship with the BA early.	The review unveils personal relationship and references as a way to enhance trust and thereby reduce uncertainty in business relationships. Long before funding is needed, entrepreneurs should start the communication with BAs, for example as deploying the potential BA as a mentor. By doing this, entrepreneurs learn as much as possible about the BA and show interest in their knowledge and criteria. This may enable the entrepreneurs to both find a helpful mentor and an investor in the same process.
Entrepreneurs should signal confidence, passion and the ability to execute in the later stages of the relationship.	As the relationship develops, intangible criteria become more important. Entrepreneurs should therefore exhibit confidence, passion and ability to execute in the later stage of the relationship. This is especially important in the screening stage, where the investors cut a large portion of their potential investment objectives.

Entrepreneurs should exploit their personal network when getting in contact with BAs.	Prior relations and personal referrals are important factors in the initiation process. By exploiting their contacts and networks, entrepreneurs can benefit from network effects and hence be in a better position to get in touch with potential BAs.
BAs implications	
BAs should be familiar with their own decision-making criteria and transparent about them to potential investment objectives.	The decision-making process is dynamic and change throughout the process for BAs. BAs should be familiar with their own criteria to judge investment opportunities better, especially on the merits of unbiased grounds. Considering the perception of readiness differ between BAs and entrepreneurs, the BAs could enhance the entrepreneur's understanding of that is expected from their point of view by being clear on their criteria. Thus, transparency in the communication is key.
BAs should understand and communicate how they can contribute to startups in which they invest in.	As BAs tend to have more informal relationships with entrepreneurs, they should be self-aware of the ways they can contribute to different startups in order to find a good industry-BA and entrepreneur-BA fit. By determining which industry sector they have knowledge within, they will be better able to judge the risk of the investment but also assist the startup.
BAs should leverage their personal networks to find potential investment cases.	Most funded proposals come from trusted referrers, as it lowers the risk and promotes trust. Thus, references should be used more frequently by the BAs that are unfamiliar with this.

10. Implications for further research

This literature review has expanded on the previous knowledge of the initiation process between BAs and entrepreneurs in the acquisition of BA financing. Our research suggests several possibilities for future research.

First, the review indicates that insights from the relationship initiation theory seem to be applicable when examining the investment process between BAs and entrepreneurs. The framework presented (Figure 1) is meant as a starting point for further research within this field. An implication for future researchers is therefore to explore the BA investment process using insights from relationship initiation theory. For example, by investigating the BA investment process through the lens of relationship initiation and development, future research can further investigate the demand for capital, specifically the process of obtaining funding and the factors that facilitate the process. Furthermore, how entrepreneurs can make themselves more attractive to BAs and the importance of the entrepreneur's network in this process are also areas of further research. By doing so, the literature will get a broader picture of the overall BA pre-investment process and the moving mechanisms that influence the relationship to move forward and backwards. These studies will contribute to the highly unexplored literature stream, namely BA financing from the demand-side perspective.

Second, another implication is to explore the initiation of new relationships or the initiation from the entrepreneur's perspective with emphasis on trust. The lack of research on this process can be explained by the complexity of the phenomenon. Trust and network has been highlighted as important elements in the BA pre-investment process and in relationship initiation. The question of trust in the BA-entrepreneur relationship is somewhat unexplored. The authors call for more research on how trust is built early on in the process. Hence, a more detailed investigation on how trust affects the pre-investment and initiation is a welcomed addition to the BA literature and relationship initiation literature.

Third, exploring the demand-side perspective and the supply-side perspective simultaneously will capture the dynamics and the different views of the process. By building on the proposed model, researchers can investigate the process from both sides, and thus contribute highly to the stream of BA and relationship initiation literature, as most studies have looked at only one side of the dyad. Another interesting addition is to study the effects of all kinds of interactions, for example the interactions between the referrer and BA, BA and entrepreneur and entrepreneur and referrer. This would also contribute to the growing stream of network literature and highlight the fact that startups are embedded in a pre-existing web of networks and the established relationships.

11. Limitations

The authors have performed this literature screening through databases such as ProQuest, WoS and Oria. These databases have been approved by NTNU, and hence been the only databases available for our screening. Relevant articles outside these databases have therefore been excluded, which may affect the outcome. The selected articles have been written in English and Norwegian, which cause limitations for the search scope. The limited research into the pre-investment process and the BA investment process from the entrepreneur's perspective has caused the scope to be narrow. Further search strings could have led to more articles of relevance. It is impossible to know if a subject is covered completely or adequately. Hence, it cannot be excluded that there are other relevant articles that are not included in the review. The semi-structured literature search started with a preliminary search, followed by snowballing. The snowballing method is not without limitations. When snowballing is used, researchers have little control of the sampling method and the representativeness of the sample is not guaranteed. As the authors have based most of their findings on snowballing, previous understanding and knowledge, this method can lead to biased results.

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Startups initiating business relationships with angel investors - from the entrepreneur's perspective

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Abstract

Entrepreneurs have difficulty connecting and accessing to financial providers. Despite the importance of startups to industries, the demand for financing is still an under-investigated area of research. Drawing on literature from business relationship initiation and business angel financing, we examine the initiation of BA-entrepreneur relationships from the demand-side perspective, namely the perspective of the entrepreneurs. Based on a multiple-case study of six technology-based startups, we investigate facilitators for relationship initiation between BAs and entrepreneurs seeking early-stage financing. The findings indicate that entrepreneurs can access BAs both directly and through referrals by third actors. Furthermore, our findings identify the role of third actors and the importance of developing strong relationships through frequent contact. Lastly, findings suggest that establishing a sense of urgency and getting a lead investor will accelerate the process of bargaining toward an agreement. Based on our findings, we suggest implications for entrepreneurs and for further research.

Keywords: Business angels; Demand-side; Relationship initiation; Startups; Network; Third actors; Empirical; Referrals

1. INTRODUCTION

The creation of new technology-based startups has gained increasing interest in the research of entrepreneurship, and as it has progressed the research has become more specialized (Snehota, 2011). In the early stages of developing startups, entrepreneurs are often dependent on the skills and resources of other organizations (Cox et al., 2017). Particularly difficult is the process of acquiring interest from actors with financial resources (Lindström & Olofsson, 2001), and many startups never acquire the resources they need (Baker & Nelson, 2005). It is widely acknowledged that business angels (BAs) - defined as private individuals that provide early stage funding in unlisted startups - play an important role in the creation and growth of startups, as they contribute with early-stage capital, strategic mentoring and resource acquisition (Edelman et al., 2017; Mason & Harrison, 2000; Sætre, 2003; Sørheim, 2005). However, despite its importance, the process of raising early-stage capital is one of the greatest challenges for startups (Knyphausen-Aufseß & Westphal, 2008; Landström, 2017).

Previous research within the BA literature has primarily focused on the supply-side perspective of raising external BA capital, and it has been called for more literature on the process of raising funding from the demand-side perspective to chart the perceptions of the entrepreneur (Edelman et al., 2017; Paul et al., 2007). Several researchers have found that there exists an equity gap (Mason & Harrison, 2003) and that BAs can fill this gap by finding suitable investment cases (Freear et al., 1995; Sohl, 1999). However, the supply-side perspective is insufficient to solve the equity gap, and it is therefore necessary to understand both the supply and demand for capital to fully grasp the BA phenomenon and the pre-investment process (Mason & Harrison, 2003). It is argued that the inconsistencies in BA literature can be solved by looking into the overall process from the demand-side perspective with a more theory driven research (Rasmussen & Sørheim, 2012). Moreover, surprisingly little attention has been on the entrepreneur's perspective on how a successful BA-entrepreneur relationship can be initiated at an early stage of a funding process (Paul et al., 2007; Lauvås et al., 2013). The BA-entrepreneur relationship is emphasized as critical in terms of obtaining funding, and it is called for more research on how entrepreneurs can make themselves attractive to investors to obtain BA financing (Mason & Kwok, 2010; Mason & Harrison, 2004a; Rasmussen & Sørheim, 2012). In line with this, the role of trust in the relationship is still unexplored and it is called for more research on how trust is built early on and how social capital can provide the foundation of trust in the initiation of the BA-entrepreneur relationship (Edelman et al., 2017). As startups increase their knowledge about these processes, they can analyze their present relationships and be more prepared for future relationships to improve performance (Aaboen et al., 2017). Therefore, it may be particularly critical for startups to understand their relationships and how they develop (La Rocca et al., 2013).

Startups face a challenge in initiation and resource acquisition. One of the key underlying challenges to the resource acquisition is argued to be the process of matching with one another (Knyphausen-Aufseß & Westphal, 2008). When starting up, the lack of experience, reputation, resources, and an extensive network makes it more difficult for startups to identify and access resource providers (Oukes & von Raesfeld, 2016; Knyphausen-Aufseß & Westphal, 2008; Rasmussen & Sørheim, 2012; Heuven & Groen, 2012), and to know how to act in a relationship (Ariño et al., 2008). Previous literature within the business initiation literature has investigated the critical role of references to creating awareness, matching, evaluating, providing experience, and developing trust (Aarikka-Stenroos, 2008). However, the role of referrals in accessing BAs has received little attention in the literature (Batjargal, 2004; Steier and Greenwood 2000), and it is called for more research on the impact referrals have for entrepreneurs seeking external BA financing (Edelman et al., 2017). Previous relationship initiation models view the development in terms of changes in communication (Andersen, 2001; Edvardsson et al., 2008), commitment (Morgan & Hunt, 1994; Wilson, 1995; Dwyer et al., 1987; Ford, 1980), and recommendations (Waller et al., 2001; Aarikka-Stenroos, 2008). Previous research has analyzed these types of facilitators separately or generally. However, it has not yet generated a comprehensive view of how they can contribute to the various stages of the relationship initiation by triggering or accelerating the process (Aarikka-Stenroos et al., 2018), such as facilitators for accessing, further building the relationship and getting to an agreement. It is called for future research that shed light on the factors that impact the different stages of the investment decision-making process and how they influence the overall performance of obtaining capital (Haines et al., 2003; Feeney et al., 1999; Edelman et al., 2017), as well as the importance of network for entrepreneurs when seeking capital (Paul et al., 2007).

The aim of this paper is to examine facilitators for the relationship initiation between BAs and entrepreneurs seeking early-stage financing. We believe that it is important to understand both sides of the BA-entrepreneur relationship to fully understand the BA financing process. Combined with previous literature from the supply-side, we will provide a comprehensive view of the dynamic pre-investment process with emphasis on the perceptions of the entrepreneurs. This paper will shed light on the facilitators that trigger the process to move forward and emphasize on the important role of relationships and networks (Rasmussen & Sørheim, 2012). The outlined purpose was researched by investigating the following research questions:

(1) What are the facilitators in the three main stages of initiation?
(2) How do the facilitators contribute to the initiation process?

This paper will address these research questions by building on both the BA investment process and relationship initiation research through a multiple case study, investigating the relationship initiation undertaken by startups when seeking funding to identify the facilitators that affect the various stages of the process. The paper proceeds as follows. In the next section, we provide the theoretical framework on the BA pre-investment process and business relationship initiation process and a description of the research methodology adopted. Next is an analysis of relationship initiations by six startups; the method of accessing BAs, the process of sharing information, and defining the future. Narratives from the multiple cases are used to illustrate the subprocesses in the initiation process. Conclusions are then summarized about the experiences of the six entrepreneurs and implications are outlined.

2. Theoretical framework

2.1 Business angel pre-investment process

It is widely known that BAs play an important role in providing external capital for startups (Avdeitchikova & Landström, 2016). In addition to providing capital, BAs contribute with their expertise and knowledge, usually through coaching, mentoring, or in the role as advisors or board members (Mason & Harrison, 2000; Freear et al., 1994; Avdeitchikova, 2008; Edelman et al., 2017). Despite the fact that BAs are difficult to identify and locate due to being individual investors with no public track record or presence in public registers, (Avdeitchikova et al., 2008), they share a number of common traits; and the majority are characterized as wealthy self-made middle-aged men whom are ex-business owners that invest locally in startups or infant stage firms, and whom are generally not only motivated by financial factors (Wetzel, 1983; Prowse, 1998; Edelman et al., 2017).

The BA investment process has been investigated in limited scope and detail (Paul et al., 2007), and no studies have investigated the overall process from the perspective of the entrepreneur (Rasmussen & Sørheim, 2012; Paul et al., 2007). In line with limited research on the overall investment process, there is also a gap in the literature regarding the entrepreneur's perspective on the pre-investment stage (Rasmussen & Sørheim, 2012). Previous literature on the BA pre-investment process can be divided in three main categories; 1) pre-investment process studies (Haines et al., 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994; Van Osnabrugge & Robinson, 2000), 2) decision-making criteria of BAs (Landström, 1998; Mitteness et al., 2012a; Mitteness et al., 2012b; Smith et al., 2010; Mason, 2011; Maula et al., 2005; Murnieks et al., 2015; Sudek, 2006; Haines et al., 2003), and 3) comparative studies, where the BA investment process is compared to the VC investment process (Feeney et al., 1999; Wiltbank, 2005; Festel & De Cleyn, 2013; Ibrahim, 2008; Hsu et al., 2014; Mason & Stark, 2004; Paul et al., 2007).

The pre-investment process is described as a non-linear process that consists of blurred stages that may not progress smoothly (Haines et al., 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994; Van Osnabrugge & Robinson, 2000). Further, the activities and behaviors are argued to change as the process unfolds (Villanueva, 2012). The overall pre-investment process can be broken down to three main stages; 1) familiarization stage, 2) screening stage, and 3) bargaining stage (Paul et al., 2007). In the familiarization stage, the BAs learn about new investment opportunities, mostly through referrals from business associates and their social network (Haines et al., 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994), followed by a meeting and brief presentation (Clark, 2008). The first meeting is emphasized in the BA investment process as to whether the investor rejects the investment proposal prior to the due diligence (Paul et al., 2007). This is argued to be because BAs give more weight to soft factors than VCs, such as first impression and personal relationships, personal motivation, and competence of entrepreneurs (Paul et al., 2007; Clark, 2008; Feeney et al., 1999; Mason & Stark, 2004). If a given investment opportunity fits the investment profile of the BA, an informal screening and due diligence process follows (Paul et al., 2007; Haines et al., 2003; Van Osnabrugge & Robinson, 2000). During due diligence, the investors gather sufficient information about the investment opportunities through reading business plans, discussions, talking to external stakeholders, and most importantly, getting to know the entrepreneurs (Riding et al., 2007; Paul et al., 2007; Haines et al., 2003). Trust is emphasized as important as BAs often base their investment decisions on gut feel rather than simply relying on formal analysis and research (Haines et al., 2003; Paul et al., 2007; Riding et al., 2007; Kelly, 2007). After the due diligence is bargaining, where the shareholders' agreement and firm valuation are negotiated (Paul et al., 2007; Haines et al., 2003; Van Osnabrugge & Robinson, 2000; Amatucci & Sohl, 2004). The pre-investment process ends with either rejection or an agreement (Feeney et al., 1999; Van Osnabrugge & Robinson, 2000). Despite the differences between BAs and VCs in that BAs emphasize relational and subjective factors, previous BA investment process models have been adapted from models originally developed for the VC investment process (Fried & Hisrich, 1994; Tyebjee & Bruno, 1984), and therefore have a transactional perspective of the process rather than a relational perspective.

Most studies on the BA investment process have taken a disaggregated approach, focusing on stages from a supply-side perspective (Paul et al., 2007). More specifically, most studies examine the decision-making criteria of investors during the pre-investment process (Landström, 1998; Mitteness et al., 2012a, 2012b; Croce et al., 2017; Smith et al., 2010; Feeney et al., 1999; Maula et al., 2005; Haines et al., 2003; Van Osnabrugge, 2000; Madill et al., 2005; Prasad et al., 2000; Hindle & Wenban, 1999), which is highlighted as one of the most important topics in the BA literature (Edelman et al., 2017). The importance of the decision-making criteria varies throughout the process (Landström, 1998; Mitteness et al., 2012a; Mitteness et al., 2012b; Brush et al., 2012; Croce et al., 2017), as subjective characteristics of the entrepreneur and management team are most important in the screening stage, and the market potential of the investment opportunity during due diligence (Smith et al., 2010). When evaluating the characteristics and quality of the entrepreneur and management team, BAs do not restrict themselves to objective and measurable criteria, such as abilities, track record, attitude, experience and perceived skills (Feeney et al., 1999; Mason, 2011; Maula et al., 2005) but also evaluate more subjective human qualities, such as enthusiasm, honesty, trustworthiness, personality, perceived passion, work ethic and openness (Van Osnabrugge, 2000; Madill, et al., 2005; Murnieks et al., 2015; Sudek, 2006; Haines et al., 2003; Feeney et al., 1999; Mitteness et al., 2012b). Financial criteria are also of importance in the screening and due diligence, such as capacity to grow (Haines et al., 2003), potential rate of return (Hindle & Wenban, 1999; Hsu et al., 2014), the initial wealth invested in the project by the entrepreneur (Prasad et al., 2000) and exit opportunities (Sudek, 2006). These are, however, argued to be less significant for BAs than VCs (Smith et al., 2010).

Following the stream of research on the decision-making criteria, a few studies have examined why investment proposals are rejected based on the criteria (Maxwell et al., 2011; Feeney et al., 1999; Madill et al., 2005; Carpentier & Suret, 2015; Croce et al., 2017). An investment opportunity is said to be rejected if a critical weak point is found (Maxwell et al., 2011), the opportunity perceives to have a poor management team (Madill et al., 2005), or if the market risk and execution risk is high (Carpentier & Suret, 2015). This decision is made based on the initial meeting and the presentation or the business plan (Clark, 2008). Interestingly, what makes the BAs reject investment opportunities are not simply the opposite of what makes them invest (Feeney et al., 1999). Further, the reasons for rejection differ across the different stages of the process (Carpentier & Suret, 2015; Croce et al., 2017). Mason (2011) found that in the initial review stage, rejections are based on numerous reasons rather than a single one, such as no market potential, poor characteristics of the entrepreneurs, whether they can add value to the startup, and whether they feel they have experience from the industry, market, or technology in question. Inappropriate views by the entrepreneurs, such as proposing a too high valuation and information asymmetry are rejection reasons later in the process (Mason, 2011). High rejection rates prompt the need to understand both the process and criteria that private investors use to make their investment decisions.

2.2 Entrepreneurs seeking BA financing

For startups to grow and survive, they often depend on external capital. However, the process of raising external capital is one of the greatest challenges for startups (Landström, 2017). Despite the importance of raising external capital and the difficulties of doing so, surprisingly little attention is given to the process of accessing BA financing from the demand-side perspective (Rasmussen & Sørheim, 2012). The difficulty of raising funding has been investigated by several authors (Knyphausen-Aufseß & Westphal, 2008; Rasmussen & Sørheim, 2012; Mason & Harrison, 2004b; Carpenter & Petersen, 2002; Heuven & Groen, 2012). According to previous literature, the fundamental idea underlying the challenges entrepreneurs face are matching with one another (Knyphausen-Aufseß & Westphal, 2008), extraordinary levels of uncertainty and risk tied to the investment (Mason & Harrison, 2004b), information asymmetry (Carpenter & Petersen, 2002; Shane & Cable, 2002), and difficulty developing a strong relationship to each other (Rasmussen & Sørheim, 2012).

Knyphausen-Aufseß and Westphal (2008) argue that BAs and entrepreneurs have difficulty connecting to and accessing each other, an issue referred to as the matching problem. Mason and Harrison (2004b) argue that connecting and accessing is not the main issue, but the risk factors involved in investing in startups. This is the case for high-growth and high-technology startups, which have a high degree of uncertainty and a substantial need for resources (Parhankangas, 2007). This is connected to the lack of legitimacy and track record of inexperienced entrepreneurs (Lounsbury & Glynn, 2001; Avdeitchikova, 2008; Rasmussen & Sørheim, 2012; Heuven & Groen, 2012), as the investors have access to no or little information about the entrepreneur's past performance, also referred to as the entrepreneur's reputation. Because the entrepreneur's reputation provides information about execution abilities, investors are more likely to fund entrepreneurs with a positive reputation (Shane & Cable, 2002).

Several studies argue that the entrepreneur's ability to access BA financing depends on the entrepreneur's experience, status position and existing network (Hallen, 2008; Hsu, 2007; Zhang et al., 2008; Heuven & Groen, 2012). Seemingly, previous literature disagrees on the key reasons for the difficulty of raising funding. That said, it is evident that the role of an entrepreneur's informal network is effective, not only when securing funding and resources, but also for advice, information, and reassurance (Birley, 1985; Heuven & Groen, 2012; Shane & Cable, 2002, Steier & Greenwood, 1999, 2000). Moreover, the informal network can help reduce the uncertainty and information asymmetry (Heuven & Groen, 2012; Shane & Cable, 2002), and hence increase the probability of gaining access to external resources, and more specifically, access to external financing (Florin et al., 2003). The research on social relationships within the BA literature refer to the informal network connections as social ties (Shane & Cable, 2002; Jenssen & Koenig, 2002; Heuven & Groen, 2012), where a relational network property is the strength of ties between actors (Granovetter, 1985). How social ties influence the process of raising funding has been investigated by several authors in the literature (Jenssen, 2001; Shane & Cable, 2002; Jenssen & Koenig, 2002; Heuven & Groen, 2012), and findings suggest that strong ties are effective when generating trust between actors (Heuven & Groen, 2012) and for motivation issues (Jenssen & Koenig, 2002), while weak ties are important for channels of information (Heuven & Groen, 2012; Jenssen & Koenig, 2002). Jenssen and Koenig (2002) argue that to access BAs, entrepreneurs need a mix of strong and weak ties.

It is found to be a strong correlation between the characteristics of the entrepreneur and the most effective method of connecting and accessing with BAs (Heuven & Groen, 2012). Experienced entrepreneurs with legitimacy and credibility can directly access BAs, whilst inexperienced entrepreneurs need a trustworthy third actor, such as a referral, to access the financial resources (Heuven & Groen, 2012). The literature on network within the process of external BA financing highlights the importance of having a trusted third actor when seeking BA financing (Fried & Hisrich, 1994; Haar et al., 1988; Heuven & Groen, 2012). Fried and Hisrich (1994) found that most funded startups come by referral due to more likelihood of passing through the first screening and because it lowers the risk for the BA. Building on the study by Fried and Hisrich (1994), Shane and Cable (2002) found the reason most funded proposal come by referral is because the referral provides information. Moreover, they state that BAs exploit their social ties to gather information, and reputation mediates the effect of social ties. Heuven and Groen (2012) looked deeper into referrals and found that startups who use referrals to access BAs will be more effective if the entrepreneur and the referral source are strongly tied. In sum, the optimal social ties in the financing process are those ties that facilitate the identification of financial opportunities (Heuven & Groen, 2012).

2.3 Business relationship initiation as the first phase of relationship development

All firms need to develop new business relationships to survive (La Rocca et al., 2013). The development of new business relationships is a broadly studied phenomenon, but the initiation of relationships has been a neglected area of research (Holmen et al., 2005; Aarikka-Stenroos & Halinen, 2007; Aaboen & Aarikka-Stenroos, 2017; Aaboen et al., 2017). Previous research has proposed various perspectives of what is defined as the beginning of a relationship, such as when the parties do not know each other (Mandják et al., 2015), become aware and recognize each other (Edvardsson et al., 2008; Dwyer et al., 1987; Frazier, 1983; Polonsky et al., 2010), when initial contact is made (Batonda & Perry, 2003), or when the parties have started to evaluate each other (Ford, 1980; Ring & Van de Ven, 1994). This paper will adopt the definition by Edvardsson et al. (2008), where initiation begins with awareness about a need, and ends when a business agreement is reached.

A literature review of the relationship initiation and relationship development models of buyer-seller relationships and interfirm network relationships (Ford, 1980; Dwyer et al., 1987; Mandják et al., 2015; Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010; Edvardsson et al., 2008;

Aaboen & Aarikka-Stenroos, 2017; Polonsky et al., 2010) reveals that previous research have suggested different characteristics for initiation and the associated relationship development process. In particular, the models can be divided into two types; 1) the more conventional models suggesting that the relationship development is a linear process that occur in sequential stages (Ford, 1980; Dwyer et al., 1987; Mandják et al., 2015), and 2) the more recent studies suggesting that the relationship development is executed in random and unpredictable states or statuses (Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010; Edvardsson et al., 2008; Aaboen & Aarikka-Stenroos, 2017). Some models also propose a dormant state and a de-actualization phase (Batonda & Perry, 2003; Polonsky et al., 2010), suggesting that the relationship can be inactive for a period of time. All these models, despite their emphasis, assume that the initiation is the beginning of a long-term relationship development.

The initiation and development of new business relationships is also a question of buying and selling and can thus be understood in the light of selling and organizational buying literature. From the selling literature (Moncrief & Marshall, 2005; Jaramillo & Marshall, 2004; Waller et al., 2001; Dubinsky, 1981), the process can be related to screening potential customers, evaluate potential customers, build awareness, approach the customers, present their offering, handle objections and resistance, and close the deal. Conversely, from the buyer's perspective (Johnston & Lewin, 1996; Frazier, 1983; Aarikka-Stenroos & Makkonen, 2014) the buyer recognizes a need, determine characteristics, and establish specifications where opportunity cost play a critical role, search, and identify potential alternatives, request and evaluate proposals and select supplier. Several studies have also explored the organizational and environmental factors that affect the development process. As listed by Wilson (1995), reputation, trust, social bonds, power, and mutual goals are critical factors during the initiation of buyer-seller relationships. Further factors are communication (Andersen, 2001; Edvardsson et al., 2008), commitment (Morgan & Hunt, 1994; Wilson, 1995; Dwyer et al., 1987; Ford, 1980), and recommendations (Waller et al., 2001; Aarikka-Stenroos, 2008).

2.4 Third actors as facilitators of initiation

No firm exist in a vacuum but are connected in a large network of direct and indirect relationships (Holmen & Pedersen, 2003). Within the Industrial Marketing and Purchasing (IMP) perspective, firms are dependent on the skills, resources, and intentions of other firms (Håkansson & Snehota, 1995), and business markets are viewed as webs of interactive relationships (Aarikka-Stenroos & Halinen, 2007). Furthermore, a basic assumption within the IMP approach is that the value of a resource depends on how it is used and related to other resources (Aaboen et al., 2011). Previous literature on relationship initiation has emphasized the critical role of prior relations, referrals, references, word-of-mouth, and introduction by third parties (Aarikka-Stenroos & Makkonen, 2014; Aarikka-Stenroos & Halinen, 2007; Batonda & Perry, 2003; Mandják et al., 2015; Jaramillo & Marshall, 2004; Waller et al., 2001; Mainela, 2007; Edvardsson et al., 2008; Ritter, 2000). Third actors can be in the form of a person or an organization (Holmen et al., 2005), and may actively or passively facilitate the initiation process at the dyad level or network level (Aarikka-Stenroos, 2008). The sales literature and relationship development literature (Aarikka-Stenroos, 2008; Dwyer et al., 1987; Jaramillo & Marshall, 2004; Moncrief & Marshall, 2005; Mainela, 2007; Ford, 1980; Waller et al., 2001; Anderson & Narus, 1990; Morgan & Hunt, 1994; Wilson, 1995) have emphasized the relevance of third actors in building awareness, matching, evaluating, reducing uncertainty and distance, providing experience, enhancing commitment, and creating trust. Based on this, Aarikka-Stenroos (2008) introduced 12 roles of personal and organizational third actors; scouter, awareness builder, need creator, access provider, accelerator, advocate seller, matchmaker, trust builder, evaluation assistant, expectations builder, risk reducer, and provider of concrete evidence.

2.5 A new model of the BA-entrepreneur relationship initiation process

The outcome of the relationship initiation process can be defined as the result of the awareness, interactions, exchange and the actors involved. Startups enter initiation at different places in their life cycle and with various amounts of resources, and the process will therefore be different for each of them. Drawing on literature from the BA pre-investment process and business relationship initiation, we introduce a conceptual process model of initiation. This framework shows the subprocesses of relationship initiation as well as tools for accessing, such as references and reputation, and so incorporates the importance of a social network within B2B relationship initiations.

The conceptual framework comprises of three pre-investment stages with several activities that ends in an agreement (see Figure 1). The familiarization stage comprises of three subprocesses; 1) identifying a need for investment, 2) identifying a matching and attractive partner, and 3) first meeting; the screening stage includes; 4) defining exchange; and the bargaining stage includes; 5) forming the future of the potential relationship that may end in a 6) formal agreement between the entrepreneur and BA. The model also recognizes that relationship initiation in the pre-investment process is a non-linear and dynamic process consisting of blurred subprocesses that may occur simultaneously. Therefore, backward steps and overlapping activities and subprocesses are acknowledged by this model, as no relationships develop smoothly (Edvardsson et al., 2008; Paul et al., 2007). Similarly, the model recognizes that relationships can be inactive for a period and then re-initiated at another point in time, such as a dormant state and de-actualization phase as proposed by Batonda and Perry (2003) and Polonsky et al. (2010). Further, it allows for simultaneous investigation of both inactive and active relationships (Polonsky et al., 2010).

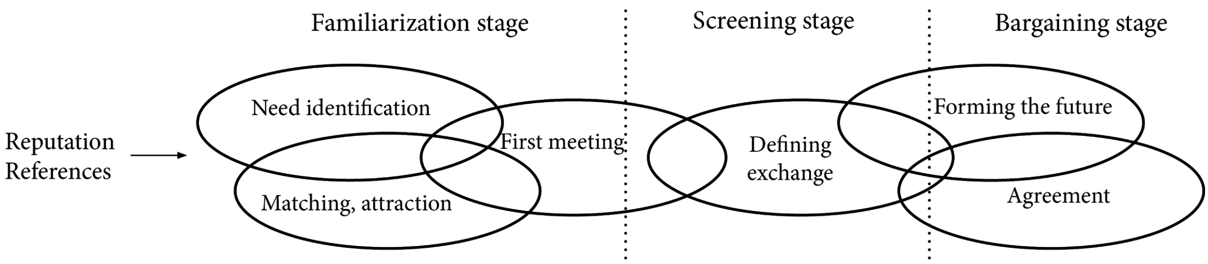

Figure 1: *Subprocesses of initiation between a startup and a business angel.*

This model includes six subprocesses of initiation between entrepreneurs and BAs. From the literature review, it is not clear which facilitators make the process move from one subprocess to another, and how the facilitators contribute to the relationship initiation between BAs and entrepreneurs. There is also a need to clarify the effect social relations and other factors have on the initiation process in a financial context. Thus, to fully understand the initiation process between startups and BAs, there is a need to take a closer look at the facilitators that trigger movement in the process. The aim of this paper is to examine the facilitators for relationship initiation between BAs and entrepreneurs. The outlined purpose was researched through the following research questions:

(1) What are the facilitators in the three main stages of initiation?
(2) How do the facilitators contribute to the initiation process?

3. Methodology

This paper explores how entrepreneurs initiate new relationships with BAs. While qualitative research is not widely used in the study of entrepreneurship (Gartner & Birley, 2002), it is suitable when researchers seek to establish the meaning of a phenomenon from the views of the participants (Creswell, 2014) or investigate how something takes place (Yin, 2003). To understand how a process works, it is necessary to use methods that allows the interviewee to talk about their perceptions and the process that emerges (Smircich & Stubbart, 1985; Gartner et al., 1992). A qualitative approach using a multiple-case strategy was therefore adopted for data collection and analysis due to the exploratory nature of the study (Yin, 2003). A research study using multiple cases allows for comparison of cases to identify patterns and factors that affect the initiation process between startups and BAs, as well as interpret experiences that are difficult to measure (Eisenhardt, 1989). Using more than one case results in more precise constructs and a strong bridge from the qualitative evidence to theory-testing research (Eisenhardt & Graebner, 2007).

3.1 Case selection

A purposeful and theoretical sampling of cases was conducted, which yielded six Norwegian entrepreneurs who met the following selection criteria to ensure data availability and richness: 1) they ran technology-based startups originated from the School of Entrepreneurship at the Norwegian University of Science and Technology (NSE), 2) they successfully secured BA financing within the last 12 months, and 3) they had less than 10 full-time employees. Since we wanted to investigate how entrepreneurs initiate relationships with BAs, we looked for technology-based startups that recently had managed to obtain BA financing. The time frame was set to 'within the previous year' to make sure the interviewees remembered most parts of the process and the factors that influenced the initiation process. To make sure we managed to obtain data that highlighted the different facilitators throughout the process, we chose startups that had different level of experience, size of network, and level of risk associated with the technology. To get different perspectives of the initiation process we also chose hardware and software startups, as they often differ in how much capital is needed in the initial stages of the startup's cycle. The relationship initiation process is difficult to analyze (Holmen et al., 2005), so to reduce the complexity of the process analysis we chose to reduce our selection to startups that originated from the same environment. Therefore, we selected startups that come from NSE. Hence, the starting point of the startups is a dependent variable in our analysis. These startups have access to similar resources from the university and the same alumni network when starting up and can therefore be viewed as a special group of entrepreneurs. However, we acknowledge that the selected cases may not apply to other contexts where the startups are not connected to a university and in the cases where no resources are available from the beginning.

Despite this, the selected cases extend the emergent theory to all types of startups (Eisenhardt, 1989), as they represent both the industrial and consumer market, and the sales of both software and hardware. Hence, our sample of six cases allows for findings to be theoretical generalized due to the strategic selection (Eisenhardt, 1989). Moreover, with one dependent variable, we were able to identify the similarities and differences in how the startups obtained BA financing and the facilitators that moved the process forward. The differences and similarities between the cases are presented in our analysis. As the focus of this research is to contribute to the emerging stream of entrepreneurial and startup research, the cases selected are small startups that are still in the early phase of development.

However, there are limitations to the case selection. Since the cases are from the same environment the findings may not be transferable to other contexts or informants in other groups (Lincoln & Guba, 1985). Moreover, only one of the cases is a software startup. Despite this, we believe the cases can shed light on the perspective of entrepreneurs in the process of initiating relationships with BAs. Moreover, the collected data from the case companies is based on self-reporting of data through the semi-structured interview and follow-up questions. This may limit the study in seeing the overall picture. Following this, the selected cases can only tell one side of the story. Hence, the study is limited due to not interviewing the BAs as well. Another limitation, which happen to be a coincidence, is the fact that all cases consists of male founders. For confidentiality reasons, all names have been withheld. The selected cases are listed in Table 1.

3.2 Data collection

Data was collected through six semi-structured interviews between January 2018 and February 2018. To identify the relationship initiation process between startups and BAs from the entrepreneur's perspective, the lead entrepreneur from each of the six cases were interviewed. Since initiation is a dyadic process between two parties, a limitation is to look at the process only from the perspective of the entrepreneur. However, as this perspective has been neglected in previous literature, we chose to focus solely on the process through the eyes of the entrepreneur. The semi-structured approach gives room for the informants to reflect on what they believe is important and their experiences (Flick, 2015). Moreover, it enabled us to steer the interview to make sure all relevant topics were covered. As the investment had happened within the previous year, one interview per case was sufficient to investigate the process. That said, the information collected is a momentary sample of the process and is a limitation to this study. Thus, we have used public information regarding the different startups which has confirmed some of the data points from our analysis. To remove biases inherent in retrospective accounts and ensure more accurate recollection, the interviewees were asked to focus on the most recent investment process (Paul et al., 2007). However, a limitation of this is the tendency of self-reporting bias as the informants know the outcome of the investment process at the time of the interview (Paul et al., 2007).

An interview guide (see Appendix A) was prepared in advance to ensure reliability and comparability. It also allowed for relevant information connected to our research questions to be obtained. The guide focused on open-ended questions to gain depth and personal context, as well as the informant's view and description of their situation (Flick, 2015). The informants were asked to describe how their relationships with BAs were initiated and developed, as well as their perceptions of the process. General questions were first asked to create an overall timeline of the relationship and the total funding raised, followed by more in-depth questions about the initiation process and lastly closing questions about lessons learned. Follow-up questions were also used to further pursue relevant topics emerging during the interviews and to fully understand what the informants thought were important factors in the relationship initiation process. A key question in all interviews was 'And then what happened?'. Four of the interviews were conducted in the offices of the startups, and two were interviewed using the video collaboration tool, Appear.in. Each interview lasted on average one hour, and follow-up questions were sent out to informants when all interviews had been conducted.

Table 1: *Context of cases*

Case	Business model	Product	Interviewee	Experience of founders*	Age
Alfa	B2C	Hardware	CEO/Co-founder	Low	5-7 yrs.
Bravo	B2C	Hardware	Co-founder	High	1-3 yrs.
Charlie	B2B	Hardware	CEO/Co-founder	Low	1-3 yrs.
Delta	B2B	Hardware	CEO/Co-founder	Medium	1-3 yrs.
Echo	B2B	Software	CEO/Co-founder	Low	1-3 yrs.
Foxtrot	B2C	Hardware	CEO/Co-founder	Low	3-5 yrs.

*High = Started several firms and been through several investment processes, Medium = Previous startup experience and been through one previous investment process, Low = No previous startup experience and has never been through an investment process.

3.3 Data analysis

The next step was to transform the interviews to useful data, which consisted of coding, within-case analysis, and cross-case analysis (Eisenhardt, 1989; Miles & Huberman, 1994). First, we transcribed the recorded interviews and sent them back to the informants for validation and confirmation (Lincoln & Guba, 1985). The interview transcripts were then coded using the NVivo software. The coding was based on the theoretical framework developed by linking concepts to tentative framework categories. This allowed us to measure the concepts more accurately by creating direct links from the codes and specific text passages, and therefore improved the research quality (Oukes & von Raesfeld, 2016). Each transcript was coded by the same author who transcribed the interview to ensure correct interpretation of the contextual information (Pratt, 2009). Additional themes emerged during the coding process whenever the informants mentioned dynamic forces that allowed the process to move between stages. These emerging themes were continuously compared to previously coded material to ensure validity. Second, the within-case analysis focused on generating an overview of each case to identify the activities in the initiation process. Process data can be difficult to analyze whereas the timing of events vary in terms of precision, duration and relevance, and process data can draw in relationships, thoughts, and feelings, despite a consistent focus on events (Langley, 1999). Therefore, the within-case analysis was useful in capturing the relationship initiations and patterns of events that occurred. The within-case analysis was sent to the informants for verification of the data. Third, the cross-case analysis focused on comparing cases and identifying emerging patterns regarding the initiation process and its subprocesses. The emergent part of this study, the forces that shaped the initiation process, was also interfered during this analysis.

4. Findings

This section provides a description of the relationship initiation between the startups and BAs. An overview of the initiation process is summarized in Table 2.

4.1 Alfa

(1) Need identification

When Alfa initiated contact with potential BAs, they needed investors with relevant network and capital to place more emphasis on product development, scale up production and expand to Europe. Product-market fit was reached through sales and partnerships, and up until now, they had capital in which they raised through a crowdfunding campaign three years earlier with 10 investors. Before seeking BA investment, Alfa had a relaxed attitude toward the process, and as the founder said, "two of [our existing shareholders] said that if the new investment round is not fully subscribed, they will make sure it is, either by investing themselves or through contacts in their network."

(2) Matching, attraction

Alfa started the process by sending out an investor prospect to personal contacts in their network to share with potential investors. The founder explained, "we utilized our network and tried to seek out to those within our network whom had not already invested in us." They managed to get several introductions from their network with whom they booked meetings with. One of their current investors from the crowdfunding campaign referred Alfa to a group of BAs that had previously invested in a startup from NSE, and the founder said that "it was helpful that [the BAs] were familiar with startups from the same environment, because they could see that we had the same drive." The referrer "presented our case, talked warmly about us and said that we are good at investor communication," the founder explained. After being referred, Alfa called the investors to see if they were interested and got a meeting the next morning.

(3) First meeting

Four of the seven investors were present at the first meeting. When asked about the first meeting, the founder said, "it was a positive meeting, and the chemistry was good. I believe this

Table 2: *The startups' relationship initiation with BAs*

	Need identification	Matching, attraction	First meeting	Defining exchange	Forming the future	Agreement
Alfa	Needed investor capital for product development and scale up production. Product-market fit.	Sent prospect to own network. Was referred to BAs by a prior relation in their own network.	Face-to-face presentation of business case to a BA group, followed by Q&A. Agreed to send an email after the meeting.	Due diligence by answering questions via email. BAs ask, and entrepreneur prove execution and analytical skills.	Negotiations on valuation, and contract points via email. Present investors joined the emission.	Agreed upon a valuation lower than hoped for and signed the contract via email.
Bravo	Needed investor capital to verify the technical feasibility. Next was to verify the market through pilot testing. No product-market fit.	Made a list of criteria and potential investors. Called and booked meetings with investors within the founder's network.	Face-to-face presentations with all team members represented, followed by Q&A session.	Due diligence through follow-up meetings, technical verification and questions via email. Crucial that existing investor re-invested.	Negotiations on valuation. Founder re-invested in the case.	Agreed upon the valuation and one-two strong BAs signed. Turned down BAs that did not accept the valuation.
Charlie	Needed a mentor with experience and money for product development, competence and liquidity. No product-market fit.	Made a list of criteria and potential investors. Was referred by trusted third actors. Bob referred to investor friends.	Face-to-face presentations of business case. Planned follow-up meetings at the end of meetings, or they were not interested.	Goal was to reach an appropriate risk level. Trust is prevalent as the BAs need to trust the entrepreneur and case.	Bob decided to invest. Small details in contract and valuation was discussed. Uncertainty was high.	Charlie gave in on a lower valuation - the toughest win the fight. Signed the contract via email.
Delta	Needed investor capital to validate the business model and to pay salaries. No product-market fit.	Got in touch with potential BAs through their network, through a BA program and through personal network of one of the founders.	Introductions, dinner, meetings at different programs. First meeting with prior relations.	Due diligence face to face and email. BAs called pilot customer.	Negotiations on valuation/cap over coffee and had to revise the initial agreement.	Agreed upon valuation after a revision and a clause of the investor joining the shareholders agreement.
Echo	Needed investor capital to scale their business and develop the final product. Product-market fit.	Referred to through network, met BAs on events and kept them updated, list of BAs	Personal meetings, meetings at different events. Pitched the company.	Lead investor was important to sign the other investors.	Negotiations on valuation in 2-3 rounds of personal meetings.	Agreed upon a lower valuation than the entrepreneurs hoped for.
Foxtrot	Needed investor capital to speed up the production. Product-market fit.	Reached out through network, list of BAs, some came directly to them and some direct calls by them.	Personal meeting, meetings at events. Presented the company. High reputation.	Many meetings, get to know each other, no due diligence, got lead investor	Negotiated through FB on contract, valuation and shareholder agreement	Agreed upon a lower valuation. The first BAs set the price and turned down those that did not accept the valuation.

is important because you can't just kill the presentation; they need to see passion as well; that this is not only a job, but your life." At the end of the meeting, after the presentation and the exchange of questions and answers, they agreed to send an email to the BAs with the presentation and financial statements from the previous year.

(4) Defining exchange

The communication forward was through email correspondence. The founder explains the due diligence as "the time where they go in and check that what we say is true and that we have nothing to hide. (...) They also sent a lot of follow up questions via email to test our focus, execution capabilities, market insight and so on." The BAs also asked for the contact information of current suppliers and distributors but never contacted them. "Either they did not have time to contact them or they used it as a control question to see whether we had something to hide," the founder explained. The process moved gradually towards more formal negotiations after Alfa had addressed several key issues presented by the BAs.

(5) Forming the future

The formal negotiations were mostly about the firm's valuation and consisted of "questions back and forth and negotiation on valuation back and forth." Almost all of Alfa's current investors from the crowdfunding wanted to put more money in during the investment round at the suggested valuation, which according to the founder was "a good position to be in, because the [potential BAs] see that our existing investors that have followed our case for 2-3 years are positive to the proposed valuation." When asked about the process of due diligence and negotiations, the founder explained, "some investors invest after a lot of due diligence and some invest with their heart (...) I believe a few of the investors that invested in us invested more with their gut than their head."

(6) Agreement

After negotiating on the firm valuation through email, they landed on a number that they all agreed on after Alfa went down on the initial proposal. If to do it again, the founder said, "there's a few things we didn't think about when negotiating the valuation, for example the new tax incentives that came in 2017, in which we could have argued for a higher valuation (...) it's important to see things from both sides." After the agreement, Alfa sends updates to all BAs every three months, and other than that, there is not much contact. As the founder said, "it is less dialogue than I had expected." When discussing the agreement, the founder concluded by saying, "I had expected it to be more demanding to raise capital then what it has been. It's been okay, I would say."

4.2 Bravo

(1) Need identification

When Bravo started seeking external BA investments, they were in the process of verifying the technical feasibility with the existing prototype. A product-market fit was established through an early investment by their profiled and more experienced co-founder, Fred, to perform an initial verification of the technical solution and to develop a first prototype.

(2) Matching, attraction

To start the process, Bravo created a list of potential investors and their main criterion was local investors whom could contribute with a high amount of money. As the co-founder said, "thinking about what kind of people you want to invest makes it a lot easier to prioritize the right people based on your criteria, like for example smart capital, to obtain external investment quickly or the size of investment." Fred was in charge of making the calls and booking meetings. The founder in Bravo explained, "[Fred] has one of the biggest names out there and people know who he is, so it was natural that he led the initial contact. (...) The truth is, he called his friends and people he knew well. (...) If we did not have him, it probably would have been much harder." Most of the meetings were booked by Fred, but Bravo also met some of their BAs at venues. "All these people were prior relations of [Fred], which makes it easier to get credibility and trust in our case and thus the process of raising financing was easier," the founder explained.

(3) First meeting

During the first meetings, Bravo presented their case and their accomplishments. The founder explained, "despite the fact that [Fred] knew everyone, we still had to go through the formalities, such as pitching the idea to get a meeting, presenting the idea more in depth and get people to trust you." The management team was represented in the investment meetings, and preparations and knowing the case well was important to answer the questions from the BAs. The founder stated, "if we knew that this investor was into technology, we would make sure to bring the CTO." The founder highlights the team in the first meeting, and explained, "the investors were interested in getting to know us, and I think they realized how competent we were after the first presentation". At the end of the investor meetings, Bravo asked for an answer to whether they wanted to invest within 2 weeks.

(4) Defining exchange

With a few of the BAs, Bravo had follow-up meetings to answer additional questions and a technical verification of the prototype to show that the product worked. The founder explained, "we usually had a follow-up meeting with the investors just to go through elements they were uncertain about or other things they wanted to discuss further, but this was usually shorter than the first meeting and more like a final review." However, most of the due diligence happened over email where they answered questions about the market, financial models such as cash flow, capital need, and the timeline for production and sales. Bravo emphasized on showing the plan of actions when meeting the investors; "you have to show the roadmap that you have pictured and the phases you must go through, and eventually the investor will have return on investment. To show the investor that you can vision the process as a long-term project is important".

(5) Forming the future

When it came to negotiations, the valuation was the theme of the discussion and the founder of Bravo explained that "no matter which price you suggest, it always turns into a discussion". It was all about finding some BAs that could lead the process, and "as long as you get the first 1-2 people, it's easier for the rest to accept the valuation," the founder explained. When asked about the valuation, the founder stated, "as the investors have a social relation to [Fred], the acquaintance establishes some trust toward the valuation. You rely more on the other party and you are less likely to negotiate than if it had been someone you did not know."

(6) Agreement

Bravo ended up rejecting a couple of investors who did not want to agree with the set valuation. "Something that I have learned is to start earlier than you think because everything takes more time than expected", the founder explains. Bravo has had another round after this one, and the founder of Bravo described it as "so much easier to persuade the investors to join the third round after proving our capability to execute." Bravo updates the investors through their Facebook-group and email, and the plan is to do investor meetings twice a year. Initially, Bravo looked for smart capital when seeking investments, but when asked how important it was in the end the founder explains, "obviously smart capital was not important enough. (...) I think it has to do with the composition of our team, that we have a great network and competence within the team. In the end, time became a factor and therefore smart capital was not prioritized."

4.3 Charlie

(1) Need identification

Charlie initiated contact with BAs early rather than when they needed capital. The founder explained, "if you are feeling the time pressure, you have shot yourself in the leg (...), it is like dating, when you can tell the other person is desperate." At this time, Charlie had not yet reached a product-market fit, and a working prototype was not finalized. A year before the official process started, they began looking for a mentor with experience and money through the Innovation Norway mentor program. The founder explained, "we wanted a mentor who ask the tough questions we cannot answer (...) and after the first meeting with [Bob], we realized that we needed him as our mentor." When the official process started, they needed capital to verify their market and technology. The founder explained, "we had already worked with people that we had in mind when it came to financing, so much of the job was already done."

(2) Matching, attraction

Charlie started the official process by making a list of criteria for what they looked for in BAs, followed by a list of potential BAs. Rather than using the network to find investors, the founder mapped out beforehand who to contact. The founder explained, "before contacting the investors, I always map out who they are, who they know and who they trust. (...) I have been very aware to always get a referrer to introduce me to the investor, and this from someone they trust. (...) You almost win the battle already there." Charlie then contacted the BAs through phone or email. They accessed another group of BAs with previous knowledge about the team and the case directly. "Initially, a scouter recommended us to [this BA group], but at this point we already knew of them and they knew of us" the founder explained.

(3) First meeting

They went to first meetings with several BAs and presented their company. The founder explained, "either, the meeting ends with the investors saying that they're not interested and that the case is outside his risk appetite - or that they are interested in a follow-up meeting in a few weeks when the addressed issues are fixed. (…) If I was to go through this process again, I would make sure to have all details from past meetings cleared up and answered before going in to the second. If not, the investors have stronger cards in the negotiation."

(4) Defining exchange

After a few follow-up meetings with some of the BAs to share more information and get to know each other, the relationships were terminated. Around this time, Bob also decided that he wanted to invest in Charlie and went from being their mentor to their lead investor. The founder explained, "unlike [Bob], who had a year with due diligence through the mentoring, we had two-three meetings with other investors and that is it. (...) They did not trust us, and they did not know the case well enough, and I believe that is the reason they chose not to invest." Bob introduced the case to other investors which were triggered and joined the investment opportunity and decided to join the current investment round. The founder explained, "I don't think we would have gotten the other investors on board if we did not have [Bob] as our lead investor. He is a proof of quality (...) and a person that can open many doors for us."

(5) Forming the future

The formal negotiation consisted of discussions around type of contract, valuation, and details within the contract. Since Bob knew more about Charlie than what BAs normally learn throughout the process, he had stronger cards in the negotiation about valuation. The process was time consuming and challenging, and Charlie ended up agreeing on a valuation lower than hoped for. However, as the founder put it, "I believe being open about the things we struggle with is the key. You don't want to be in the position where it looks like you know everything. It is better to be honest about issues and get help. In this way, we can improve the case and not our own egos." When asked about the negotiations, the founder said that "the uncertainty of the whole process is the worst part. In the negotiation process you went quickly from a situation where you had full control to a situation where you didn't know anything, and that was frustrating."

(6) Agreement

After the agreement was signed, it was business as usual. A couple of their investors are very involved in the business. In contrast, Charlie do not have much contact with the rest. When asked about the job of raising BA investments, the founder argue, "it is very important not to just send anyone to do this, because it is not 'left-hand-work'; the person needs a lot of empathy and must be easy to trust."

4.4 Delta

(1) Need identification

Delta saw the need for external financing when they had to reach a product-market fit for their solution, as well as capital to further develop their business model and pay salaries. For the founder in charge of the process it was all about using as little time as possible on the process, as he explains that "raising capital is not how you build a business".

(2) Matching, attraction

To match and attract potential BAs, the founder used referrals from their personal contacts and network, which functioned as awareness builders and access providers. He also reached directly out to those they had previously been in touch with during a prior search for BAs. The founder in Delta said, "I knew a couple of them, especially one from earlier." The founder of Delta had previously been in a successful startup with a good reputation, so he already had a network of BAs that he called directly. Delta did not have a lead investor or utilized specific referrals, rather the founder reached out to those within close reach and those he had already established close ties with.

(3) First meeting

Delta met the first two investors through a program the startup participated in. As this was an ongoing program, specifically for getting BA financing, they managed to build a relationship over time. Delta met the third investor for the first time one and a half year before the investment took place. During the first round of exchange the investor did not want to invest. When asked what the reason was, the founder explains that "I think they thought it was taking too much time, and it was unclear who the team was. (...) At that stage the terms were very aggressive". Since the investment process stopped at this point, the relationship was inactive for approximately 6 months before it was re-initiated.

(4) Defining exchange

They met the BAs that they had previously been in touch with again at a program in California. At this point, a strong tie was already established as they knew the BA beforehand. Delta had reached a few milestones and had managed to get other BAs on board since last initiation but had still some uncertainties regarding their business model. When asked what his strategy was, he replied "if there are many alternative business models, I would hide the complexity and focus on the one that you believe the most in and sell that one."

(5) Forming the future

After spending some weeks together in California, they started a new dialogue toward the funding. They met 2-3 times to discuss the details of the deal. The founder of Delta explains that "I had a pretty reasonable suggestion, a convertible loan, which the other investors had agreed upon with defined conditions." The investor did some due diligence by calling their pilot customer at that time. The founder focused on being transparent during the process and showing interest in the BAs to build a relationship. He also made sure the BA knew that they had other BAs interested, as he explains that "we showed that we were genuinely interested in them, but not for any price." The founder of Delta highlights the importance of the dynamic between showing great interest and not being desperate, and if you are desperate, "you at least have to fake it."

(6) Agreement

During the agreement process the investor revised minor details of the agreement. An agreement was made when a reasonable cap was agreed upon, which was the same for all three investors. When asked how it turned out, the founder of Delta explains, "the cap was fair as we managed to get valuable investors." Delta sends out investor updates each month to maintain their relationship with the current BAs. They managed to get some BAs with more broad experience, and some with specific experience within their field, which they get advice from occasionally.

4.5 Echo

(1) Need identification

When Echo started looking for external BA financing, they had a working product and several customers. They had a product-market fit and needed capital to scale up their business. For Echo, the process of initiating relationships with investors started two years prior to seeking investment, and they were not pressured on time.

(2) Matching, attraction

The strategy had always been to build close relationships to potential investors over time to obtain external financing, and the founder explained, "in this way, people get to know your case better, and it is much easier to close the deal." It was important for Echo to show interest in the BA, and as the founder explains, "do not consider the investor as just a financial source. Business is about establishing relations and get to know each other. (...) Due to our long-term relationships, I know what our investors do in the holidays and what type of beer they love." Initially, Echo started out with a list of potential investors. They did not want BAs that got too involved, but rather those with relevant industry and business competence. They accessed potential BAs either through referrals or direct contact at various events. A personal business connection introduced Echo to one of the BAs, Peter, and a meeting was set. They describe this connection as "always helpful and interested in our case." The founder describes the entire process as coincidental, as he stated "everything has happened randomly. At the same time, if we have met BAs we have always kept in mind that this could be a potential investor." The founder met one of the BAs at two different events, one of them being a pitch competition which Echo won with the BA in the jury. Interest from the brief conversations at the event led to the first meeting shortly after.

(3) First meeting

During the first meetings, they presented their business case and track record. The first investor meeting was with Andrew, who ended up becoming their largest shareholder. Andrew called for more financial projections, and a follow-up meeting for solving the set issues. To move forward to defining exchange, Echo kept all potential BAs in the loop with frequent updates about milestones and achievements. When moving further with Andrew, the founder of Echo explains that "a call to action was to stay in touch, (...) and when we were ready for investments we should let them know." The process with Peter happened faster, as Echo was more investment ready when they first met during a pitch. The founder explains, "he immediately got interested in joining the round, (...) and we agreed to have a meeting straight after the summer." The first meetings ended with follow-up meetings.

(4) Defining exchange

Echo kept updating the BAs and explained their relationships as "we kind of established very friendly relationships." Echo used the follow-up meetings to screen the potential investors; "I used the meetings to ask questions back to the investor (...) to identify what type of investors they were (...) I also think it is important for the investors to learn that we are serious too. (...) This is how you build a relation." The next official meeting with Peter was a few months later on

Skype with a group of BAs, but after this it did not go any further. However, Peter was still interested, and pursued further contact. The founder explained, "when the group of BAs did not want to invest, [Peter] said he wanted to invest by himself as long as [Echo] closed the rest of the round."

(5) Forming the future

The founder describes Peter as crucial for persuading the other BAs and said, "once we signed [Peter] who had experience from our industry, it gave us high credibility and helped to onboard the others. Then we signed [Andrew's fund] right away." During negotiations, the discussion went back and forth about the firm valuation. When the news about the round closing became official, a prior relation to the founder in Echo and another BA joined. The founder said, "I believe that the team and the way we work were crucial for landing the deal with the investors. (...) They had followed us for a while and understood how far we had come on a minimum of resources." The BA that Echo had a prior relation to became interested in investing in Echo after a common business trip in Europe just before the round closed.

(6) Agreement

Initially, Echo started at a higher firm valuation compared to the compromised final valuation. "It is important to emphasize that all parties were happy with the final deal. Now we have a great dialogue with them." When Echo started to look for funding, smart capital was important and still stands as important after the investment. When asked how they use their BAs today, the founder highlights; "it has been really important for us to be surrounded by people with high credibility and competence." Echo have frequent contact with their BAs and tend to use them as mentors for strategy and product development, as well as updating them through Slack and monthly newsletters.

4.6 Foxtrot

(1) Need identification

When Foxtrot started the process of initiating contact with potential BAs, they had a product-market fit but identified the need to speed up their production process. The founder of Foxtrot made the process of raising external BA financing to his full-time project a year before they needed the capital, and as he explains, "I completely shifted my focus toward raising money."

(2) Matching, attraction

They started out the process of attracting BAs by talking to their network and used an already made list of potential BAs that they received from personal contacts. They accessed a few BAs directly or through introductions by personal contacts, and some BAs also contacted Foxtrot directly. Due to their recent traction and media attention, they felt it was easy to contact BAs, as most of them had heard about their startup already. Foxtrot did not have one specific referral that played an important role, but rather several people within their network that created awareness and provided access toward potential BAs.

(3) First meeting

The founder of Foxtrot had meetings with the BAs they directly reached out to and also met potential BAs at events where first contact was initiated. The investment process took up most of the founder's time, as he had one-on-one meetings with many potential BAs. At one point, Foxtrot had 20-25 BAs in the loop. The founder explains that "it is all about getting to know the person, and let the investor get to know you." One event was particularly important, and the founder explains that "we got to know him, and he became interested in our case. We kept close contact after that." This was a low-key event where Foxtrot had the opportunity to get to know the BAs in a different environment than a typical investor meeting. Foxtrot managed to get a lead investor on board, which "triggered the whole process of raising funding." The founder mentioned that, "if we had the chance to do it over again, we would have gotten a lead investor from the beginning."

(4) Defining exchange

After the first meetings they accelerated the exchange of information through several meetings. When asked what they did to build a relationship with the BAs, the founder of Foxtrot explains, "it is all about talking, seeing results, have meetings frequently, almost every week." The founder recalls the importance of the lead investor several times, as he mentions that "other investors are very caught up with who the other investors are." The founder also mentioned that the lead investor was important for moral support and a good pillar throughout the process.

(5) Forming the future

None of the BAs that were still in the loop performed any formal due diligence. Since Foxtrot's success was publicly available, social ties and use of network to provide information added less value. The founder of Foxtrot said, "our track record is public, and it shows that we have proof of concept and that there is a market for us. That helped." Foxtrot started out with a high valuation, which caused some of the BAs to fall off. They lowered the price at the end of negotiations, as they concluded that "if we managed to get [the BAs] on board, the chance of future success would be higher." Foxtrot mainly negotiated with the lead investor, as he was an important asset for the company in the future.

(6) Agreement

When coming to an agreement, discussions about the contract, valuation and shareholder agreement was done with all the BAs. The founder of Foxtrot explained the process as a gut feeling of not really knowing whether it was a good deal, and said, "we are gambling 20% of our company on freaking good investors and a higher possibility of success." An agreement came to place when they reached a fair price that both parties were pleased with. When starting the process of raising external BA financing the founder was looking for BAs that could contribute with money and smart capital. The founder explains that they succeeded with this, but that "regardless of how smart the investor is, you will always know your own business and the market you operate in so much better". Today, Foxtrot communicate daily with their lead investor and send updates to their other BAs through Slack and email.

5. Analysis

The findings described in the previous section show the initiation of BA-entrepreneur relationships in a way that was predicted in the presented framework (see Figure 1). In this section, drawing from the case descriptions, the initiation processes are summarized, analyzed and compared in the light of the framework.

(1) Need identification

For the startups with a product-market fit - Alfa, Echo and Foxtrot - the need for financing was to scale up production or to expand their business. The cases show that the need for financing came at a later time for the cases that had raised early-stage verification through other sources of funding, such as crowdfunding or internal investments. For those that had not reached product-market fit yet - Bravo, Charlie and Delta - the trigger for funding was to verify or further develop their technology. Interestingly, the entrepreneurs with experience perceived the process as rather easy, compared to the inexperienced founders that thought of the process as more demanding, as uncertainty was more present throughout the process. It can therefore be argued that the teams' experience and the uncertainty tied to the startups facilitates how demanding the process of raising funding is perceived by the entrepreneurs. Though, all cases started the process of identifying a need a while before they actually needed the money and were therefore not pressured on time.

(2) Matching, attraction

The startups accessed potential BAs directly or through third party referrals. Several of the cases started with a list of potential BAs and a list of criteria for what they looked for in potential BAs. The list of BAs served for most startups as a guide for who to contact and created awareness about potential BAs. Similarly, the list of criteria made the process more structured and efficient, as the entrepreneurs focused on attracting only those BAs that fit the criteria. Interestingly, the startups with a list of criteria, Bravo and Charlie, sought capital for verification matters, and it can be argued that the list was essential to speed up the process. The startups that started out with a list of BAs tended to access BAs directly. In most of the cases, the entrepreneurs directly accessed BAs in which they had previously established a strong tie to. If a strong tie was not present, the entrepreneurs got referrals that worked as access providers and risk reducers. This means that entrepreneurs tend to have strong ties prior to directly accessing BAs or utilize third party referrals if the tie is weak or lacking. On the other hand, the startups with no list were more dependent on introductions from their network and prior relationships and tended to utilize their network relationships to be matched with potential BAs, build awareness, get access and reduce risk. Hence, these startups relied more on their referrals than the startups that started out with a list.

The experience of the entrepreneur affected the way of accessing BAs. Bravo and Delta accessed potential BAs directly as they had prior experience and a large network to rely on. An important focus for the startups with a narrow network was to expand the network from the start and use referrals to connect with potential BAs. It is therefore evident that the cases with inexperienced entrepreneurs most effectively assessed BAs through referrals. Referrals were used as access providers, awareness builders, matchmakers and risk reducers. Moreover, the reputation of the entrepreneur also affected the way of accessing. Only in Bravo and Foxtrot did the entrepreneurs access BAs directly in which they did not know. Therefore, in the cases where reputation and visibility are present, strong ties and previously established relations are deemed less important. Additionally, when information about the startup's success and reputation is publicly available, social ties and use of network to provide information will add less value. Having a credible referral or previous experience make the attraction of BAs more efficient. Similarly, the startups that have a track record or a reputation can manage to directly call or email potential BAs and successfully get their attention to make the process go further to a first meeting.

(3) First meeting

Previous experience, track record or accessing through trusted third-party referrals contributed to increased trust, which was necessary to book meetings with BAs for all cases. Even though some of the cases had a reputation or previous experience, they still had to pass the test through more formal presentations. In addition, building relations and a good chemistry in the first meetings were essential to move on in the initiation process. All the startups emphasized objective criteria like business plan, presentation, financials, and market information as important aspects of the first meeting in order to move on to the follow-up meetings. Despite the fact that objective criteria appeared to be most important in the first meetings, the entrepreneur and more subjective criteria became essential in the follow-up meetings. Establishing a relation and getting to know each other was highlighted as one of the key factors in the first meeting. The entrepreneurs started developing the relationship with potential BAs and built trust by addressing key issues the BA raised and sending them updates on the progress. Updates and frequent contact was highlighted in the cases as a trigger to establish a closer relation to move the process forward.

(4) Defining exchange

Following the first meeting, most of the startups had follow-up meetings with the BAs to exchange information and answer questions. As the first meeting was more about presenting the firm and team, the following communication was about building a closer relationship. The due diligence differed between the startups on length, topics discussed, and number of meetings. Interestingly, the way of accessing did not have any effect on the due diligence, but rather the reputation and experience. It is evident that the entrepreneurs with reputation or experience used the due diligence process to build trust and a closer relationship through frequent meetings. The startups with no prior experience - Alfa, Charlie and Echo - spent more time answering questions regarding execution capabilities, team, market potential, financials, and timeline. Addressing key issues presented by BAs in meetings was important to show execution skills and to reduce the level of uncertainty. Moreover, the cases show that they managed to build trust within the relationship by showing commitment and presenting clear goals and roadmaps for how to succeed. In the cases where the BAs terminated the relationship, there was a lack of mutual goals and the risk factors were perceived as too high. This is based on the entrepreneur's thoughts of why the BAs did not invest and is related to lack of close relationship and trust. It is clear that the relationship itself, and especially trust, was important to move further in the process of due diligence.

The number of meetings was on average two-three follow-up meetings to exchange information and build closer relationships. A few of the startups created a time limit for the BAs to create a sense of urgency and could therefore move to the next stage faster. It is apparent from the cases that this time limit was essential to make the BAs commit to the next subprocess of the stage, and thus move from information exchange to a more detailed negotiation phase and discussions about the contract.

(5) Forming the future

All of the startups had to discuss the valuation and the contractual agreements surrounding the investment proposal. Some of the cases got a BA to sign up early in negotiations. From the cases, it is clear that when one BA with high credibility and competence decides to invest in the startup, other BAs tended to follow. Therefore, the first investor, also referred to as the lead investor, is vital to trigger action among the other BAs, as it accelerated the process, provided trust and concrete evidence. For the startups which had lead investors on board early in the process - Bravo, Charlie and Foxtrot - the process of closing the deal and attracting new BAs was easier than for those that did not have lead investors. These startups were also the only ones that were in a position to turn down potential BAs that did not have mutual goals. All cases wanted competent BAs that could provide more than just financing, and with a lead investor onboard, they were able to reject those that did not fit these criteria.

The process of negotiating is shown to be less demanding for those entrepreneurs who have previously raised external capital from BAs or through crowdfunding, such as Alfa, Bravo and Foxtrot. If the BA and entrepreneur have developed a strong tie at this stage, it is easier to get the BAs to sign up on the proposed valuation. This is especially for those relationships that had strong ties prior to the investment process, such as Bravo. Therefore, trust is highlighted as important in this stage to get BAs to pay premium for their shares.

(6) Agreement

When reaching an agreement, all startups except from Bravo had to go down on their initial firm valuation. Therefore, trust and prior strong ties can be argued to be important for the negotiations about valuation. Interestingly, the startups that made a list of potential BAs in the beginning of the process - Bravo, Charlie, Echo and Foxtrot - felt the process took longer than expected. The cases show that the process took long due to the importance of developing a close relationship with the investors, as trust, mutual goals, and expectations were viewed as important. Even though almost all startups had to go down on the initial agreement, they found the agreement to be fair, as they managed to get valuable BAs with capital, knowledge and network. Another interesting finding is the use of BAs after the agreement was made. Most of the startups have frequent contact with only a few of their BAs. Echo is the only startup that has frequent contact with all their BAs, but they were also the only startup to perform due diligence on their potential BAs to make sure it was good BA-entrepreneur fit. It can therefore be argued that startups need a couple BAs with smart capital, and that the rest of the BAs can only provide capital. The BAs that have frequent contact with the startups are also usually board members.

In sum, the entrepreneur's characteristics, namely prior experience, reputation, and network relationships, influence how effective the search for potential BAs is and the process of obtaining funding. The analysis show that prior relations and reputation positively affect the process of accessing BAs. Moreover, for the entrepreneurs to facilitate the process to move forward, it is important to have frequent meetings, follow up on key issues, be transparent and establish a close relationship. Further, when defining exchange, it is important to show the ability to execute, and the level of trust mediates how much information exchange the BA require and thus, how rational the decision-making is. Identified facilitators which facilitate the process toward an agreement is having a lead investor and giving the BA a sense of urgency.

6. Discussion

This paper examines the initiation of BA-entrepreneur relationships when seeking early-stage financing. Based on a multiple-case study, the aim for this paper is to examine the facilitators for the relationship initiation between BAs and entrepreneurs seeking early-stage financing. The investigated startups initiated relationships with various BAs, and our findings provide major insights with regard to how new BA-entrepreneur relationships are initiated with focus on the facilitators that trigger the process to move forward. The findings and analysis section show that the initiation process begins with a need, followed by matching and attraction. In this stage of the process, the entrepreneurs identify and access BAs, either through the use of third party referrals or directly. When accessing directly, we see that there is a difference between accessing cold contacts and prior relations. After the entrepreneurs have identified and contacted the BAs, the relationship develops further through various means, such as through initial meetings and the exchange of information. Moreover, our study shed light on the facilitators that impact the different stages of the investment decision-making process, as called for by Haines et al. (2003) and Feeney et al. (1999), as well as the importance of network relationships (Paul et al., 2007). The initiation process results either in an agreement or in rejection. To examine each of these aspects in depth, the following section will discuss the research questions raised in the introduction to answer the question of how entrepreneurs initiate new business relationships with BAs, namely 1) What are the facilitators in the three main stages of initiation, and 2) How do the facilitators contribute? The discussion on what facilitators and how they contribute are discussed within the respective stages below, starting with the facilitators in the familiarization stage.

Facilitators in the familiarization stage

The analysis shows that entrepreneurs access BAs both directly and through referrals, and the most effective way of accessing is dependent on the characteristics of the entrepreneur. For example, we found that inexperienced entrepreneurs rely more on trusted referrals when accessing potential BAs, while experienced entrepreneurs or startups with a good reputation can access BAs directly because trust within the relationship is already present to some extent. In terms of direct access, the analysis also shows that entrepreneurs both access BAs in which they have a prior relation, or a strong tie, and in which they have no prior relation, also referred to as a weak tie. As shown in our analysis, strong ties are helpful when accessing BAs to accelerate the process. This finding confirms previous BA literature and relationship initiation literature on the difficulty acquiring resources (Oukes & von Raesfeld, 2016; Rasmussen & Sørheim, 2012; Heuven & Groen, 2012), where it is argued that the lack of experience, reputation and an extensive network makes it difficult for startups to identify and access resource providers. A key element in the initiation process is to establish trust and a close relationship. As this is already existent within BA-entrepreneur relationships where a strong tie is present, much of the initiation process is already done, and the parties can focus on the job of getting to an agreement. Although previous research has examined the importance of references and the role of network in the BA process, the role of trust in the relationship and how it is built early on has received little attention (Edelman et al., 2017). Hence, through our analysis, we demonstrate that entrepreneurs can utilize the beneficial effects of trusted third-party referrals to build credibility and trust in the accessing of financial resource providers. Further, the reputation of the entrepreneur was important in the cases were the entrepreneur took directly contact with the investors. In especially one of the cases, having a profiled founder with a credible track record was crucial to get in touch with all the BAs they met. Also, the reputation and track record of the case companies themselves were identified as a risk reducer when engaging with BAs. So, it was easier to establish relationships with BAs when the startups could show the accomplished achievements on limited time and capital. On the contrary, this means that having an established reputation will make it easier to establish new relationships.

Our cases demonstrate how most startups access potential BAs, as well as the roles of the third parties in relationship initiation, as identified by Aarikka-Stenroos (2008). Rather than building on the roles of third parties described in buyer-seller relationships, this study has found critical roles of third parties for entrepreneurs seeking BA funding. As the roles access provider, awareness builder and matchmaker were apparent in almost all cases using references, our findings suggest that references are not only important for providing information, but also for building awareness and for accessing one another. Hence, this study builds on the previous gap in the BA literature on the role of referrals by showing the importance of how the use of trusted third parties can reduce the uncertainty the BAs feel toward an investment proposal in the initiation stage, and therefore influence the overall performance of obtaining external capital for BAs (Batjargal, 2004; Steier & Greenwood 2000; Edelman et al., 2017).

Facilitators in the screening stage

To further develop the relationship with BAs, the analysis shows the importance of having frequent meetings and face-to-face interactions to build the relation, trust and showing commitment to their case. Addressing key issues presented by the BAs was a strategy for the entrepreneurs to show their capability to execute, and also their abilities to respond to feedback and issues raised by the BAs. As the communication became more transparent, the trust within the relationship started to build. When trust was already built to some degree, our analysis show that addressing key issues and showing the ability to execute was less important. This was especially for the entrepreneurs that had a good reputation and prior experience. In these cases, the BAs did not look at any financial papers or did any due diligence. Hence, the screening stage was more about building a good relationship with one another through frequent communication and commitment. However, if trust was not yet built, the entrepreneurs needed to convince the BAs that their management team consisted of the right people by showing results, execution skills, market possibilities, and financial models. The analysis show that there is a lack of rationality and that the level of trust mediates this, as many of the investment decisions was made on the gut feeling rather than formal analysis and research. Rasmussen and Sørheim (2012) have previously argued that high levels of uncertainty make it difficult for BAs to make rational decisions about the investment proposal. Our findings contribute to the knowledge about rationality in the process since we find that high levels of trust lead to less rational decisions about the investment proposal. This finding builds on the literature requesting more research on how trust is built early on and how social capital can provide the foundation of trust in the initiation of the relationship (Edelman et al., 2017).

Although all startups succeeded with developing a relationship with their respective BAs, the entrepreneurs also highlighted situations where they did not manage to further build a relationship with potential BAs. We found that one of the reasons for the difficulty of raising funding, was the lack of familiarity with one another, too much uncertainty and risk involved for the BA and not being able to build strong enough relationships with the BAs. If trust and a relationship is not yet built, and there is a high degree of risk and uncertainty involved, the analysis show that it was more difficult for the entrepreneurs to further develop the relationship. This finding also brings new insights into current gaps in the literature regarding both the entrepreneur's perspective on the pre-investment stage and also how successful BA-entrepreneur relationships could be initiated at an early stage (Paul et al., 2007; Lauvås et al., 2013) and how the relationship can be terminated due to lack of familiarity and the fit between the BA and startup. The screening stage is found to be especially fragile, and thus, the relationship can be terminated more easily. Therefore, key facilitators such as frequent contact, building relations and trust, commitment, and showing the ability to execute by addressing key issues are important for the process to move to the next stage.

Facilitators in the bargaining stage

In the analysis we have identified facilitators that accelerate and reduce risk in the bargaining phase. One identified accelerator which facilitates the process is the entrepreneurs' ability to take advantage of the sense of urgency. By giving a due date or a time limit, the BA will feel pressure and a fear of missing out if not taking part in the deal. Four out of six cases received funding from the BAs that were given a due date from the startup. Three of these cases had already gotten one or two BAs on board at the time the due date was set on when to close the investment round.

Our analysis show that an identified risk reducer which facilitated the process to move forward was the importance of having a lead investor who function as both a referral and a quality stamp on the behalf of the startup. Our findings show that getting a lead investor on board is critical to gain more interest from other BAs, trigger other BAs to invest, and support the entrepreneur during the funding process. This finding provides major insights on the current gap in the literature regarding how entrepreneurs can become more attractive toward BAs (Mason & Kwok, 2010; Mason & Harrison, 2004a; Rasmussen & Sørheim, 2012). It is highlighted by five out of the six founders that it was easier to get other BAs interested once the lead investor was on board. A lead investor gives more credibility to the startup, and also makes the investment less uncertain since one BA has already verified and said yes to the proposal and the proposed valuation. Therefore, the lead investor works as a trust builder and risk reducer for other BAs and thus a facilitator that accelerate the process to move forward. Our findings found partial support for the lead investor to function as a pillar for the founders throughout process by giving support and advice. Two out of six cases used the lead investor throughout the process.

Through three research questions, we have investigated the initiation of BA-entrepreneur relationships from the entrepreneur's perspective and identified several key findings that research the initiation process in a financial context. First, entrepreneurs identify and access BAs directly or through third party referrals, and the most effective way of accessing depends on the characteristics of the entrepreneurs, such as prior experience, reputation and network relations. Second, the relationship is developed further through having frequent meetings and showing the BA the ability to execute. The findings show that the level of trust in the relationship mediates how much information exchange the BA require for the relationship to move forward. When trust is built to some degree, the relationship develops further through establishing good relations to one another. If a relationship is not yet built and there is a low level of trust and high level of risk involved, the relationship may be fragile and more likely to be terminated. Third, key facilitators in the process are either identified as accelerators or risk reducers that facilitates the process to move forward. The findings show that entrepreneurs can take advantage of the sense of urgency when accelerating the process. Furthermore, getting a lead investor seem to be important to reduce the risk of investing. Our findings underline the dynamics and complexity of the initiation process. In the analysis it was also evident that the startups experienced the initiation process differently from each other. Additionally, it was apparent from the cases that BAs invest with their gut feeling, and that the decision to invest is not always rational. This builds on previous BA literature that BAs invest based on their gut feel (Haines et al., 2003; Paul et al., 2007; Riding et al., 2007; Kelly, 2007). Moreover, as stated in previous research (Holmen et al., 2005; Aarikka-Stenroos & Halinen, 2007; Aaboen & Aarikka-Stenroos, 2017; Aaboen et al., 2017), the initiation process is difficult to analyze, and when a relationship is said to begin is disagreed upon. Therefore, the exact starting point in our analysis can be debated, as it was difficult to analyze exactly when the entrepreneurs initiated contact with potential BAs and thus exactly when the relationship begun.

This study has several contributions. First, we have identified key facilitators in the pre-investment process and its different sub-processes within the three stages familiarization, screening and bargaining. This contributes to the current gap in the literature regarding the factors which impact the different stages of the investment decision-making process and how they influence the overall performance of obtaining capital (Haines et al., 2003; Feeney et al., 1999; Edelman et al., 2017) as well as the importance of network (Paul et al., 2007). By highlighting key facilitators that move the relationship forward, it has also contributed to new insights in the context of BA-entrepreneur relationship initiation and its subprocesses (Aarikka-Stenroos et al., 2018; Wilson, 1995; Moncrief & Marshall, 2005) and pre-investment process (Paul et al., 2007; Mitteness et al., 2012a; Waller et al., 2001). In line with this, it has given new insights into the role of referrals in accessing BAs and how they impact the investment process, which has previously received little attention in the literature (Batjargal, 2004; Steier & Greenwood, 2000).

Moreover, we contribute to the literature on how entrepreneurs can succeed with initiating BA-entrepreneur relationships (Paul et al., 2007; Lauvås et al., 2013). Up to now, the initiation of relationships has not been looked at through the eyes of the entrepreneur, and thus we also increase the understanding on the pre-investment process from the entrepreneur's perspective.

This contributes to the long line of relationship initiation and development literature (e.g. Ford, 1980; Dwyer et al., 1987; Mandják et al., 2015; Halinen, 1997; Batonda & Perry, 2003; Polonsky et al., 2010; Edvardsson et al., 2008; Aaboen & Aarikka-Stenroos, 2017) and investment process literature (e.g. Haines et al., 2003; Paul et al., 2007; Tyebjee & Bruno, 1984; Fried & Hisrich, 1994; Van Osnabrugge & Robinson, 2000), because such studies have only analyzed mature firms or the process from the investor's perspective.

An important finding in this study was how the level of trust mediates how much information exchange the BA require for the relationship to move forward. As the role of trust in the relationship is still unexplored, this is an interesting addition to the current gap in the literature regarding the role of trust and how it could be built early on in the process (Edelman et al., 2017). As startups increase their knowledge about how their relationships are developed, they can be more prepared for future relationships (Aaboen et al., 2017), and hence make themselves more attractive to investors (Mason & Kwok, 2010; Mason & Harrison, 2004a; Rasmussen & Sørheim, 2012). This can provide a solution to the stream of literature discussing the difficulty of raising funding and how entrepreneurs can become more attractive for external funding from BAs (Mason & Kwok, 2010; Mason & Harrison, 2004a; Rasmussen & Sørheim, 2012). Most importantly, the study contributes highly to current literature by finally bringing the entrepreneur's perspective on the process of raising external BA capital and its different stages, as well as the entrepreneur's perceptions of the initiation of relationship with BAs (Edelman et al., 2017; Paul et al., 2007; Rasmussen & Sørheim, 2012).

7. Conclusion

This study contributes to the existing literature on how entrepreneurs can initiate business relationships with BAs when seeking early-stage financing, and the facilitators that affect the various stages of the process. Our study draws on literature from BA financing and business relationship initiation, and through a multiple-case analysis with six startups, our results reveal that 1) the characteristics of the entrepreneur affect the most effective way of accessing BAs, 2) the level of trust facilitate the ability of the relationship initiation to move forward, and 3) getting a lead investor and creating a sense of urgency accelerate the process. First, the most effective method of connecting and accessing BAs depends on the experience, reputation and network relationships of the entrepreneur. Inexperienced entrepreneurs most effectively access BAs through third party referrals, whereas experienced entrepreneurs can access BAs directly without any form of third party introduction. Second, we emphasize the importance of building a close relation to the BAs, which is based on the findings that high levels of trust facilitate the process and mediates the level of rationality in the investment decision. As trust is built, the level of rationality decreases, and BAs therefore base their decision to invest more on intuition than analysis. Lastly, the critical role of a lead investor and creating a sense of urgency accelerate the process, as they trigger action, provide credibility and reduce risk to other BAs. All findings highlight the dynamic nature of the initiation process and the actions undertaken by entrepreneurs. In conclusion, this study shows that the success of the process is determined on both the BA and entrepreneur, and that the entrepreneur's actions can affect the process significantly.

8. IMPLICATIONS

8.1 Implications for entrepreneurs

The findings of this study have several implications for the entrepreneurs. First and foremost, although the initiation of a relationship with BAs is a dyadic process, the entrepreneurs have the ability to influence the process toward a more successful funding. Despite the fact that the process can be demanding, entrepreneurs could secure an efficient and effective funding by getting a lead investor on board early on. This study shows that a lead investor will help the startup to gain credibility and trustworthiness, and consequently be more attractive for other BAs. Therefore, to best secure a successful investment process, the entrepreneur should start with a search for an appropriate lead investor that could take part in the process. Second, the experience of the entrepreneur will affect how the initiation of relationship with BAs will transpire. This study shows that a referral or a third party is needed for less experienced entrepreneurs that lack a reputation to get in touch with and tap BAs interest. On the other hand, experienced entrepreneurs are not in need of a third party for introduction and awareness building and could thus find the search more productive by initiating a relationship directly. An entrepreneur should therefore seek to find this experience, either through a mentor or a team-member, to be able to have a more effective initiation process. Third, entrepreneurs must be aware of how demanding the process of raising funding from BAs can be and should consider the timing and available resources at the initiation time as it can affect the core business. As this study highlights, BAs often invest with their gut feeling and the decision is not always rational. Hence, exhibiting factors such as passion and commitment are shown to be effective for the process to move forward and have a positive outcome on the funding process. This could be exhibited through for example addressing key issues the BA propose, showing interest in the BA and get to know each other at a more personal level, regular contact, and having several team members present at BA meetings.

8.2 Implications for further research

This study provides six directions for future research. First, previous literature and this study provide contradictory results regarding the different approaches to initiate contact with BAs, based on the level of experience and reputation the entrepreneur possess. As a result, future research could further explore the effect of direct contact versus indirect contact through a third party, based on the experience and reputation of the entrepreneur. This study has used a qualitative approach, and therefore it would be interesting to establish a more generalizable result by using quantitative methods on the correlation between an entrepreneur's experience, initiation method and the outcome. In line with this, an addition to current literature would be further research on the role of referrals and how they, positively and negatively, contribute to a startup when seeking funding. Second, this study has only taken the perspective of the entrepreneur, but it would be beneficial to look at both sides simultaneously. For example, it could be interesting to investigate the initiation process and how it transpires for both the entrepreneur and the BA to capture the experiences from both sides to see how they relate. A theoretical implication for future research is the investigation of the BA investment process and BA-entrepreneur relationship through the lens of relational perspective and relationship initiation. This perspective takes into account the importance of acquiring resources from a pre-existing network of established relationships. Therefore, future researchers can investigate the initiation and development of relationships as part of the pre-investment process, as it is a dyadic relationship with focus on soft and personal facilitators. Third, considering that all cases in this study has successfully raised funding from BAs, it would be interesting to look at incidents in which the startups were unsuccessful in raising funding. As highlighted in the theoretical framework regarding the BA pre-investment process, there are many researchers that has looked at rejection criteria from the supply-side perspective (Maxwell et al., 2011; Feeney et al., 1999; Madill et al., 2005; Carpentier & Suret, 2015; Croce et al., 2017) but there is a lack of research from the entrepreneur's perspective when their initiation and proposals have been rejected. A potential future study could thus investigate a successful and an unsuccessful investment process and examine the differences in the two processes from both perspectives with focus on the facilitators of the process. Fourth, the research revealed that the startups were looking for more than just financial capital when searching for potential BAs, and in all cases network and knowledge were mentioned. Still, findings show that the BA engage to a less extent than anticipated from the entrepreneur's perspectives. Therefore, future research should explore the importance of smart capital, especially post-investment and the type of involvement the BAs have in startups. Fifth, this study highlighted the impact of having a lead investor when pursuing early stage funding from BAs. This subject has been given surprisingly little attention in previous literature, despite the positive affect it might have for entrepreneurs during the funding process. We therefore call for future research to investigate the impact a lead investor has for a startup seeking funding, for example by taking a quantitative approach looking at lead investor as a dependent factor and the financial outcome from the investment process. It could be argued that acquiring a lead investor early is a process in itself, future research could therefore use the proposed conceptual model to investigate the acquisition of a lead investor prior to the actual pre-investment process. Lastly, two of the startups had previously raised capital from crowdfunding. How crowdfunding and other types of funding prior to raising BA financing affect the pre-investment process would be a good addition to the literature, especially in terms of length of process and performance. This could contribute to the increasing stream of literature on types of funding, and specifically the rising topic of crowdfunding.

8.3 Limitations

We acknowledge that there are limitations to the method of our study. The study focuses merely on one type of context of the relationship initiation between startups and BAs. The study has taken a demand-side perspective focusing on one part of the BA-entrepreneur relationship. However, as highlighted by Mandják et al. (2015), the relationship initiation is based on the interactions of the parties involved. Reliance on only the entrepreneur's perspective of the relationship limits the validity of the findings. Thus, researchers should consider at least two actors in the relationship when studying the relationship initiation process. However, the viewpoint of only one of the actors seems to be studied in several of the initiation models within business network. Next, the studied cases have been selected among NSE startups. This means that all of the informants come from the same entrepreneurial environment, and they have therefore, to a certain degree, the same base of knowledge for starting up a business. Further, the NSE alumni network is a feature shared by all the case companies and may have given them a beneficial starting point when seeking external financing. Being from the same network could have influenced the results as the startups could to a certain degree have the same social capital when seeking funding. For example, it was present that some startups had attended the same events and also been in touch with the same BAs. Following this, the authors also know the case companies from beforehand which put them in a potential biased position. This prior knowledge makes the authors aware of certain information that is not collected through the interviews. Additionally, this study excludes startups from other environments, and it may not be applicable in other startups' situations. Furthermore, the study is based on a limited number of informants and the qualitative method is therefore not statistically generalizable (Shane & Cable, 2002). Also, the data collected is based on the memory of one informant per case company. Hence, potentially important information for this study may have been forgotten and therefore not taken into consideration. Moreover, the interviews were conducted in Norwegian and then translated to English, which may cause some limitations in the reproduction of data.

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Appendix A: Interview Guide

1. Opening questions
    - What are the sources of financing you have raised in addition to BA financing?
    - When did you start looking for BAs?
    - What was the status of your company at that time? What is it now?

2. How did you initiate the relationships with BAs?
    - How did you identify the BAs?
    - How did you access the BAs?
    - Describe the first meeting
    - How did you go from the first meeting to the next?

3. How did the relationship develop after the first meeting?
    - Who was involved in this process?
    - How often did you meet/communicate?
    - What did you discuss?
    - Who initiated the contact between the meetings? You / the BAs / both?
    - How long did the process take? Was this expected?
    - What was important for the relationship to evolve?
    - Any critical points during the process?

4. How was the process of negotiations?
    - When did the negotiation start?
    - How did you negotiate?
    - How did you agree on the contract? Has the contract changed?
    - Did the BA demand any changes for the investment to go through?
    - Were any issues raised by the BAs solved during the process? How?
    - What happened after the investment?
    - Any third parties involved in the process?

5. The BA
    - Does the BA contribute with anything else besides money?
    - Is the relationship tied to someone else?
    - Did the BA become a part of the board of advisory or team?
    - Did you try to establish a relationship with other BAs? How did it go?

6. What did you learn from the process?
    - Anything else of relevance?

7. Ending
    - Other informants?
    - Is it possible to send clarification questions later?
    - We will send you a transcription of the interview