Master's thesis

NTNU
Norwegian University of Science and Technology
Faculty of Economics and Management
Dept. of Industrial Economics and Technology Management

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New Venture Legitimacy in Angel Investing

A Qualitative Multiple-Case Study

Master's thesis in Entrepreneurship at NTNU School of Entrepreneurship
Supervisor: Roger Sørheim & Karolina Lesniak
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ABSTRACT

We extend current knowledge on new venture legitimacy by investigating how angel investors in practice judge the legitimacy (i.e., the desirability, properness, and appropriateness) of four new ventures—a prerequisite for investment. Furthermore, we explore how the new ventures' entrepreneurs practically take action to build legitimacy toward their angel investors. Our findings from examining this "legitimacy dynamic" suggest a novel insight: From when entrepreneurs and angels meet to discuss an investment opportunity, legitimacy is primarily driven by what we define as the intangible, people-centric aspects of the new venture. An angel's perception of a new venture's legitimacy is highly influenced by his or her subjective impression of immeasurable elements such as the entrepreneurs' trustworthiness, dedication, and level of humility. Our inductive, qualitative research yields a myriad of mechanisms entrepreneurs can employ to build legitimacy toward angel investors—mechanisms likely to increase their chance of securing investment. Moreover, our study surfaces a range of initial observations lending themselves to future research on new venture legitimacy.

SAMMENDRAG

Vi utvider nåværende kunnskap om nyetablerte bedrifters legitimitet ved å utforske hvordan engleinvestorer bedømmer legitimiteten til fire nyetablerte bedrifter. Videre ser vi på hvordan entreprenørene i disse bedriftene praktisk går frem for å bygge legitimitet overfor sine engleinvestorer. Forskningen vår på denne «legitimitetsdynamikken» mellom engler og entreprenører har resultert i en ny innsikt: Fra tidspunktet engler og entreprenører møtes for å diskutere en mulig investering, drives legitimitet i hovedsak av de immaterielle og menneskerelaterte aspektene ved bedriften. En engleinvestors oppfatning av en bedrifts legitimitet påvirkes sterkt av personens subjektive inntrykk av for eksempel entreprenørenes troverdighet, dedikasjon og ydmykhet. Vår induktive og kvalitative forskning fostrer en rekke mekanismer som entreprenører kan bruke for å bygge legitimitet overfor engleinvestorer – mekanismer som kan øke deres sjanse i å sikre investering. I tillegg fremkaller forskningen vår flere observasjoner og fenomen som tilrettelegger for videre forskning på nyetablerte bedrifters legitimitet.

PREFACE

This document constitutes our master's thesis, concluding our Master of Science in Entrepreneurship, and in Industrial Economics and Technology Management at the Norwegian University of Science and Technology (NTNU). The thesis serves as the final report in the course "TIØ4945 – Entrepreneurship, Master's Thesis."

We wish to acknowledge and thank our academic supervisors, Professor Roger Sørheim and Ph.D. candidate Karolina Lesniak, at the Department of Industrial Economics and Technology Management at NTNU. Their passion and expertise in the field of study, patient feedback, and dedication to our success have been instrumental.

Additionally, we thank the entrepreneurs and angel investors who served as informants for our research. We much appreciate them setting aside time to contribute during the Coronavirus Pandemic, where the economic downfall threatened the existence of many new ventures.

Trondheim, July 2nd, 2020.

Vidar Melstveit

Marcus L. Nickelsen

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List of Abbreviations

Abbreviation	Description
B2B	Business to business
B2C	Business to consumer
BA	Business angel
EBAN	The European Trade Association for Business Angels
CEO	Chief executive officer
CFO	Chief financial officer
CMO	Chief marketing officer
CTO	Chief technology officer
IPO	Initial public offering
IRP	Investment-readiness program
NSE	NTNU School of Entrepreneurship
NTNU	Norwegian University of Science and Technology
ROI	Return on investment
RQ	Research question
VCP	Venture creation program

1 INTRODUCTION

To access resources such as financial capital, technology, quality employees, customer goodwill, and networks, new ventures—or newly founded organizations, often referred to as “startups”—must be perceived as legitimate (Fisher, Kotha, & Lahiri, 2016; Stinchcombe, 1965; Zimmerman & Zeitz, 2002). Its founders must overcome the venture’s “liability of newness” (Stinchcombe, 1965): a phenomenon where external audiences perceive the new venture virtually as “guilty until proven innocent.”

Fortunately, legitimacy serves as an antidote to the liability of newness (Fisher et al., 2016; Stinchcombe, 1965; Zimmerman & Zeitz, 2002), and entrepreneurs can work strategically to attain it (Fisher et al., 2016). Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."

To build legitimacy, entrepreneurs should focus on *strategic legitimation*: actions aimed at changing themselves, their venture, or the external environment to be perceived as legitimate (Zimmerman & Zeitz, 2002). There are several legitimation mechanisms and strategies that entrepreneurs can utilize to build legitimacy (Fisher, Kuratko, Bloodgood, & Hornsby, 2017; Überbacher, 2014; Zimmerman & Zeitz, 2002). In practice, these mechanisms and strategies can be understood as “tools” for building legitimacy.

By applying these mechanisms and strategies, a new venture can acquire sufficient legitimacy to overcome its liability of newness. After having surpassed a *legitimacy threshold* (Fisher et al., 2016; Zimmerman & Zeitz, 2002), the venture can acquire its needed resources—e.g., financial capital (Stinchcombe, 1965; Zimmerman & Zeitz, 2002).

Access to financial capital is critical to technology-based and growth-oriented ventures—ventures that aim to scale rapidly through science- and technology-driven innovation (Gregson, 2014). These ventures undergo costly research and development processes that typically require external funding (Gregson, 2014; Mason, Botelho, & Zygmunt, 2017; Sudek, 2006). Failing to raise enough funding is an important reason why technology startups fail (Barney, 1991; Feinleib, 2011).

New ventures can seek financial capital from a range of audiences: friends and family, potential customers, governmental institutions, business angels, and venture capitalists (Fisher et al., 2017; Pahnke, Katila, & Eisenhardt, 2015; Shane, 2012). These audiences judge the legitimacy of a new venture differently because they operate with contrasting institutional logics (Fisher et al., 2017; Kraatz & Block, 2008; Thornton, Ocasio, & Lounsbury, 2012): Different audiences have differing norms, beliefs, rules, and procedures for assessing a venture (Fisher et al., 2016).

Of the different audiences, one constitutes by far the most significant source of risk capital for new ventures: angel investors—often referred to as business angels or “angels” (Barraket, Furneaux, Barth, & Mason, 2016; Mason et al., 2017; Sudek, 2006). In 2017, business angels invested a total of 7,3 billion Euros in European early-stage ventures, constituting 63,9 % of all early-stage investments (EBAN, 2018).

Angels use their funds to provide seed capital—also known as informal venture capital—to new ventures (Fisher et al., 2017; Wetzel, 1987). They also contribute to value creation in various other ways beyond money: with industry expertise, a broad professional network, and with business and entrepreneurial experience (Douglas & Shepherd, 2002; Fisher et al., 2017; Wetzel, 1987). In exchange for their invested capital, time and effort, angel investors demand equity stock (i.e., an ownership stake in the company) from which they expect significant medium-term (often seven to ten-year time horizons) financial returns, preferably through investment exits such as an initial public offering (IPO) or a trade sale (Fisher et al., 2016).

Raising money from investors is hard, and rejection rates for investment proposals are high: Only about 2–3% of proposals attract funding (Carpentier & Suret, 2015; Croce, Tenca, & Ughetto, 2017; Mason & Harrison, 1995; Mason & Harrison, 2015). Many ventures are not investment-ready when they seek external financing; their owners lack an understanding of what equity investors (e.g., angel investors, and venture capitalists) look for and are turned down for not meeting their requirements (Douglas & Shepherd, 2002; Mason & Kwok, 2010). Angel investors turn down business opportunities for a variety of reasons—both “objective” or “tangible” reasons (e.g., market potential and deal structure) and more “subjective” or “intangible” reasons (e.g., personal chemistry, trust, and interest) (Brettel, 2003; Feeney, Haines, & Riding, 1999; Haar, Starr, & Macmillan, 1988).

Business angels invest earlier than other private equity investors (Fisher et al., 2016), and base investment decisions more on “feelings than analysis” (Mason et al., 2017; Shane, 2009). Angel investors do not have the capacity to perform detailed market research or due diligence as, for example, venture capitalists do (Fiet, 1995; Mason et al., 2017). While venture capitalists dive deep into market data, acquisition metrics and conversion rates, angels rely more on entrepreneurs as individuals and their vision for their ventures (Feinleib, 2011). Angel investors seek to mitigate investment risk by investing in new ventures managed by competent and trustworthy entrepreneurs (Fiet, 1995; Mason et al., 2017).

Based on the observations that (1) angel investors form the primary source of risk capital; (2) they invest earlier, at times when—according to Zimmerman and Zeitz (2002)—a venture’s ability to convey legitimacy is essential; and (3) they base investment decisions more on “feelings than analysis”; we surmise that legitimacy plays a fundamental role in the relationship between angel investors and entrepreneurs seeking financial capital for their new ventures.

Through a literature review conducted during the fall of 2019, we have examined a pool of research on new venture legitimacy and investment criteria. Notably, only one of the identified empirical studies focuses on how entrepreneurs build legitimacy specifically toward angel investors: Parhankangas and Ehrlich (2014). Furthermore, of the relevant empirical studies, only one targets how angel investors judge the legitimacy of new ventures: Becker-Blease and Sohl (2015). We have not encountered any empirical study encompassing both angel investors and entrepreneurs, exploring the legitimacy dynamic between them. Hence, we conclude having identified a literature gap.

This thesis aims to address the literature gap mentioned above and to shed new light on new venture legitimacy in practice. More specifically, the aim is to examine how angel investors judge the legitimacy of new ventures and, conversely, how the new ventures’ entrepreneurs build legitimacy toward angel investors. Our ultimate ambition is to present a set of practically-oriented mechanisms for entrepreneurs seeking to increase their venture’s legitimacy toward angel investors. We strive to make these mechanisms clear and applicable to “real-life” entrepreneurship. Our research is rooted in the following research questions (RQ):

RQ1: How do angel investors in practice judge the legitimacy of new ventures?

RQ2: How do entrepreneurs build legitimacy toward angel investors?

Our research, which took place during the spring of 2020, follows a qualitative method with a multiple-case study and semi-structured interviews as the means for data collection. The multiple-case study comprises four Norwegian technology-based new ventures that have raised financial capital from angel investors. Each case—i.e., each new venture—is analyzed through semi-structured interviews with its respective entrepreneurs and angel investors. The process of analysis, coding, and structuring of data is inspired by the Gioia method (Gioia, Corley, & Hamilton, 2013).

All the studied ventures raised their first round of funding when their entrepreneurs were still active students at The Norwegian University of Science and Technology (NTNU). This is noteworthy because—as emphasized by scholars such as (Fisher et al., 2017) and (Feeney et al., 1999)—the entrepreneurs' experience is of fundamental significance when investors evaluate a new venture as an investment opportunity. Student entrepreneurs are typically young and professionally inexperienced; therefore, we posit that they generally have "more to prove" when raising money. To student entrepreneurs, legitimacy is a resource of even higher significance (Zimmerman & Zeitz, 2002), but is also one harder to attain. Consequently, from a scientific standpoint, we see student entrepreneurs as particularly interesting in the study of new venture legitimacy.

This thesis is divided into six chapters. The end of this paragraph marks the end of the introduction and thus, also Chapter 1. Chapter 2 outlines the relevant literature and theory that is employed in later discussions. The research methodology is described in Chapter 3, after which the research analysis and its associated results are revealed in Chapter 4. Chapter 5 brings everything together in a discussion; here, key findings are discussed in the light of relevant literature. Additionally, we discuss both limitations to the study and implications for practitioners and future research Finally, Chapter 6 encapsulates the main conclusions.

2 Theoretical Framework

Being perceived as legitimate is critical to a new venture for it to acquire the resources it needs (Fisher et al., 2016; Zimmerman & Zeitz, 2002). When launching and establishing a new venture, many entrepreneurs depend on resources from external actors, and being successful in attaining these resources can have a significant impact on the success of the new venture (Barney, 1991; Hunt & Aldrich, 1996; Starr & MacMillan, 1990b).

Entrepreneurs may work strategically in establishing new venture legitimacy—a process known as *legitimation* (Zimmerman & Zeitz, 2002). A new venture's goal of the legitimation process is to establish sufficient legitimacy to surpass certain *legitimacy thresholds* and, in turn, gain access to much-needed resources such as financial capital (Fisher et al., 2016; Zimmerman & Zeitz, 2002).

New ventures can build legitimacy (i.e., undertake legitimation) by employing *legitimation strategies* (Zimmerman & Zeitz, 2002) and *legitimation mechanisms* (Fisher et al., 2017; Überbacher, 2014). According to Fisher et al. (2017), legitimation strategies and mechanisms are most effective if tailored for a specific legitimacy judging audience. Different audiences may judge legitimacy differently because they operate with contrasting *institutional logics* (Kraatz & Block, 2008; Thornton et al., 2012).

Angel investors—a highly relevant audience to new ventures, according to Fisher et al. (2017)—operate with a *market logic* (ibid.) when judging the legitimacy of new ventures. Importantly, angel investors also have individual sets of criteria and preferences—ranging from objective and tangible, to subjective and intangible—that a new venture must satisfy to be eligible for his or her investment (Carpentier & Suret, 2015; Croce et al., 2017; Feeney et al., 1999; Mason et al., 2017; Sudek, 2006).

This chapter introduces the theoretical framework that forms a significant part of this thesis' foundation. It delves into the most central elements of the current research on new venture legitimacy. Since the literature on new venture legitimacy is young and somewhat limited, this chapter will also probe aspects of relatable literature streams (investment criteria) and relevant theories (institutional logics). The goal of this chapter is to uncover what the extant literature can explain concerning our research questions. Recall that these are as follows:

RQ1: How do angel investors in practice judge the legitimacy of new ventures?
RQ2: How do entrepreneurs build legitimacy toward angel investors?

The presented literature is the essence derived from an extensive literature review we conducted during the fall of 2019—including 62 studies identified through a combination of snowball sampling and a systematic literature search. The included studies were on topics related to new venture legitimacy, organizational legitimacy, legitimation activities, institutional logics, angel investors, investor criteria, and investment readiness.

2.1 New Venture Legitimacy

2.1.1 What Is New Venture Legitimacy

Zimmerman and Zeitz (2002) argue that legitimacy is a resource to new ventures—a resource at least as vital as other resources such as capital, technology, personnel, customer and governmental goodwill, and networks. Drawing on Deeds, Mang, and Frandsen (1997), they argue that legitimacy can be viewed as a "continuous variable ranging in value from low to high" (p. 426). They proceed to explain legitimacy as "a social judgment of acceptance, appropriateness, and desirability" (2002, p. 414). This explanation is consistent with institutional theory (DiMaggio & Powell, 1991): The notion of a *general* social judgment is tied to more consistent and resilient behavior in a social structure—the core of institutional theory. Furthermore, the explanation shares similarities with the definition of organizational legitimacy forged by Suchman (1995): "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (p. 574)."

Before delving further into new venture legitimacy, we underline that this literature stream is rather young; in fact, about half of the studies on this topic in leading journals have appeared since 2008 (Überbacher, 2014). We also emphasize that—as the previous paragraph indicates, with Zimmerman and Zeitz (2002) evidently drawing inspiration from Suchman (1995)—the literature stream of new venture legitimacy has branched out from the more extensive and mature literature on organizational legitimacy.

Stinchcombe (1965) introduced the notion that new ventures inevitably face a "liability of newness"—a notion that has since been recognized and adopted by a wealth of scholars (Berkery, 2007; Fisher et al., 2016; Fisher et al., 2017; Singh, Tucker, & House, 1986; Starr & MacMillan, 1990b; Suchman, 1995; Überbacher, 2014; Zimmerman & Zeitz, 2002). According to Stinchcombe, the liability of newness contributes to the high percentage of new venture failure. Due to their liability of newness, new ventures are virtually perceived as "guilty until proven innocent" by external actors (Berkery, 2007, p. 1). With no track record, there is "a (justifiable) lack of confidence on the part of external actors (e.g., angel investors) that the venture will survive and therefore little reason to provide patronage" (Starr & MacMillan, 1990a, p. 83).

2.1.2 Why New Venture Legitimacy Matters

To new ventures, legitimacy is of utmost importance because it serves as an antidote to their liability of newness and enables them to access much-needed resources (Fisher et al., 2017; Singh et al., 1986; Stinchcombe, 1965; Zimmerman & Zeitz, 2002). New ventures need resources from their environment (Zimmerman & Zeitz, 2002), and success in garnering these external resources can have a significant impact on the success of a new venture (Barney, 1991; Fisher et al., 2017; Hunt & Aldrich, 1996; Singh et al., 1986; Starr & MacMillan, 1990a; Stinchcombe, 1965; Zimmerman & Zeitz, 2002). Of the different categories of external resources, studies on new venture legitimacy draw particular attention to the acquisition of financial capital (Becker-Blease & Sohl, 2015; Fisher et al., 2016; Fisher et al., 2017; Parhankangas & Ehrlich, 2014). Legitimacy is not directly observable, but the acquisition of financial capital represents a fundamental and measurable proxy for new venture legitimacy (Fisher et al., 2016; Martens, Jennings, & Jennings, 2007; Zott & Huy, 2007).

Financial capital is an essential resource to many early-stage entrepreneurial ventures (Becker-Blease & Sohl, 2015), especially for technology-based ventures that aim to scale rapidly through science- and technology-driven innovation (Fisher et al., 2017). These ventures undergo costly research and development processes that typically require substantial funding from external sources such as angel investors and venture capital firms (Barney, 1991; Gregson, 2014; Mason et al., 2017; Sudek, 2006).

Fisher et al. (2017) imply that entrepreneurs who are unable to attain legitimacy are much less likely to garner the financial capital they need to develop and grow their new ventures. Alarmingly, not acquiring the necessary seed capital to get started, or failing to continue to raise money to cover high burn rates, are common reasons why startups fail (Deeds, Mang, & Frandsen, 2004; Feinleib, 2011; Wucinich, 1979). Delmar and Shane (2004) posit that undertaking activities that generate legitimacy "reduces the hazard of a venture disbanding during the first 30 months of a venture's life and that generating legitimacy with external stakeholders is an important precursor to other organizing activities" (p. 408). They continue to suggest that legitimacy is particularly crucial for new ventures since their survival is often more linked to the perceptions of stakeholders than current financial performance (Delmar & Shane, 2004).

In summary, legitimacy matters because it enables new ventures to access essential resources—crucial for survival and growth. Legitimacy constitutes an antidote to the liability of newness—a resource-hindering obstacle that all new ventures, virtually by definition, inevitably face. The liability of newness obstructs entrepreneurs from raising financial capital to their ventures; fortunately, they can overcome this challenge by building legitimacy.

2.1.3 Legitimacy Thresholds: How Legitimacy "Unlocks" Resources

In addition to explaining legitimacy and presenting it as a continuous variable, Zimmerman and Zeitz (2002) suggest the existence of a *legitimacy threshold* (see Figure 1). They argue that new ventures can—with a sufficient amount of legitimacy—cross a certain threshold whereby it is judged as legitimate by its environment. By crossing this threshold, the venture receives access to the capital and other resources it needs. In a sense, legitimacy is the "key" that "unlocks" resources for new ventures.

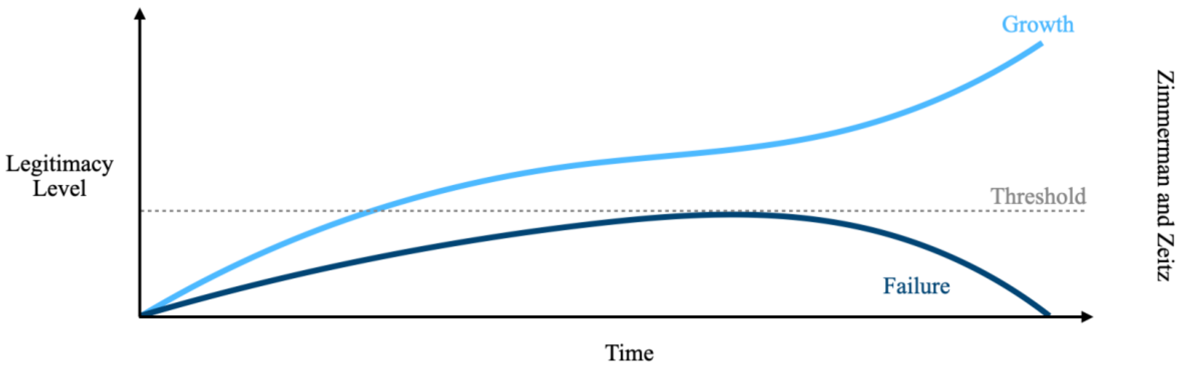

Figure 1: The legitimacy threshold (Zimmerman & Zeitz, 2002, p. 427).

By drawing on Zimmerman and Zeitz (2002) while integrating insights from identity theory and institutional theory, Fisher et al. (2016) suggest that new ventures confront *multiple* legitimacy thresholds (as opposed to only one). According to them, new ventures must surpass multiple legitimacy thresholds because of their evolution and growth, and because their audiences (i.e., stakeholders) have different expectations of what constitutes a legitimate venture. Notably, the literature on the growth stages of organizations recognizes the notion of thresholds (Greiner, 1972); it is indeed a familiar concept. Lewis and Churchill (1987) appear to suggest that small businesses cross a conceptual threshold when moving from what they term the "existence stage" to the "survival stage."

2.2 Building New Venture Legitimacy

2.2.1 Legitimation: General Actions to Build or Manage Legitimacy

Traditionally—influenced by early institutional theory—legitimacy was understood as something organizations had to *receive* by conforming to already-established norms, beliefs, and rules (Deeds et al., 1997; Fisher et al., 2017; Scott, 1995; Suchman, 1995; Tornikoski & Newbert, 2007; Zimmerman & Zeitz, 2002). However, a newer approach suggests that organizations can exercise *strategic choices* to alter the type and amount of legitimacy they possess (Deeds et al., 1997; Scott, 1995; Suchman, 1995; Zimmerman & Zeitz, 2002).

Today, there is a strong consensus in the literature that entrepreneurs can work strategically to build and manage legitimacy for their new ventures (Deeds et al., 1997; Fisher et al., 2017; Scott, 1995; Suchman, 1995; Tornikoski & Newbert, 2007; Zimmerman & Zeitz, 2002). Zimmerman and Zeitz (2002) name this phenomenon *strategic legitimation*—emphasizing the term *legitimation*, rather than *legitimacy*, indicating that it is a process (one initiated by the new venture), and not merely an outcome (p. 421).

To navigate the legitimation process, entrepreneurs can utilize *legitimation strategies* and *mechanisms*. These strategies and mechanisms can be viewed respectively as overall plans and actual means aimed at building legitimacy. Zimmerman and Zeitz (2002) state that by following legitimation strategies, "new ventures can acquire legitimacy in deliberate, goal-oriented ways" (p. 422). Fisher et al. (2017) outline a range of legitimation mechanisms to demystify what "an entrepreneur might *do* to enhance and manage the legitimacy of a new venture" (p. 53). It should be noted that the articles by Zimmerman and Zeitz (2002) and Fisher et al. (2017) constitute cornerstones in this thesis due to their recognition in the literature and their complete and encompassing nature considering new venture legitimacy.

Interestingly, Zimmerman and Zeitz (2002) do not only explain and present different legitimation strategies; they also imply that these strategies induce a positive feedback loop. Legitimation strategies generate legitimacy, whereby legitimacy unlocks resources. These resources, in turn, reinforce legitimacy—reiterating the legitimation process (see Figure 2).

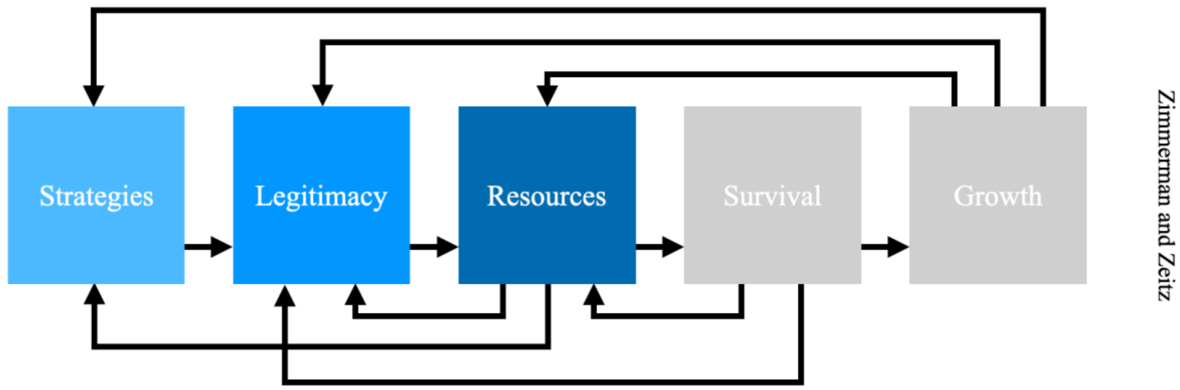

Figure 2: The positive feedback loop of legitimation (Zimmerman & Zeitz, 2002, p. 415).

2.2.2 Legitimation Strategies: Overall Plans to Build Legitimacy

Zimmerman and Zeitz (2002) argue that a new venture can take proactive steps to acquire legitimacy. They explain that it can do this in two ways: by changing itself (e.g., by changing its structure, managerial team, business model) or changing its environment (e.g., by lobbying for change in regulations). Accordingly, they present four overall legitimation strategies: *conformance*, *selection*, *manipulation*, and *creation*—the first three of which were initially proposed by Suchman (1995). The four strategies are explained in the following paragraphs.

Conformance involves “efforts to conform to the dictates of preexisting audiences within the [new venture’s] current environment” (Suchman, 1995, p. 587). A new venture that conforms “does not question, change, or violate the social structure” (Zimmerman & Zeitz, 2002, p. 422); instead, it “follows the rules” and does not challenge established *institutional logic*. Institutional logic is a core concept in social theory that focuses on how broader belief systems shape actors' cognition and behaviors. Institutional logic determines how a particular “social world” (i.e., institution) works, where that social world has its own “rules of the game” (Fisher et al., 2016;

Kraatz & Block, 2008) that govern the behaviors within its particular space (Delmar & Shane, 2004; Thornton et al., 2012).

To exemplify the conformance strategy, Zimmerman and Zeitz (2002) refer to new ventures addressing and adhering to government regulations: A new venture can *conform* to the government regulations to which it is subject (e.g., by registering itself in the governmental company registration system) and thus build legitimacy. Zimmerman and Zeitz (2002) emphasize that to new ventures—that generally have little power and few resources to challenge the established social structure—conformance is an especially appropriate legitimation strategy.

Selection as a strategy entails "efforts to select among multiple environments in pursuit of an audience that will support current practices" (Suchman, 1995, p. 587). A new venture following a selection strategy locates and chooses an environment that is advantageous and consistent with itself (Kuratko, Fisher, Bloodgood, & Hornsby, 2017; Zimmerman & Zeitz, 2002). As an example, a new venture can select a market consistent with its already established culture. As another example, a new venture may move to a favorable geographical location where organizations address similar "scripts, rules, norms, values, and models" that could provide it with legitimacy (Zimmerman & Zeitz, 2002, p. 423). By selecting its environment carefully, a new venture may reduce the extent to which conformance is necessary (Karlsson & Middleton, 2015); in fact, a new venture may select an environment in which conformance is easy (Zimmerman & Zeitz, 2002).

Manipulation encompasses "efforts to manipulate environmental structure by creating new audiences and new legitimating beliefs" (Suchman, 1995, p. 587). Oliver (1991) describes manipulation as "the purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations" (p. 157). A new venture adopting a manipulation strategy attempts to make changes in its current ecosystem to achieve consistency between its environment and itself as an organization. An example of new venture manipulation is that of biotech companies that—with no records of profits—manage to raise money by refocusing investors' attention from profits (already established in their institutional logic or "social world") to the potential for scientific breakthroughs (Zimmerman & Zeitz, 2002).

Significant manipulation of the environment requires a lot of resources (e.g., money and power); this makes manipulation an unfit strategy for the typical single new venture (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Nonetheless, new ventures can team up with other new ventures, or "piggyback" on the legitimacy of recognized, successful, and well-established organizations (Starr & MacMillan, 1990a), and thus establish a stronger position for manipulation (Karlsson & Middleton, 2015; Kuratko et al., 2017; Zimmerman & Zeitz, 2002).

Creation involves "developing something that did not already exist in the environment" (Zimmerman & Zeitz, 2002, p. 425). Sometimes, new ventures, especially those in new emerging industries, must creatively act as a pioneer and form new scripts, rules, norms, values, and models for its still moldable social structure (Aldrich & Fiol, 1994; Anderson & Zeithaml, 1984). To exemplify creation strategy, Zimmerman and Zeitz (2002) point to the dot.com-companies that arose with the early internet; these companies created new business models in which growth and market share, rather than profitability, were seen as primary investment criteria.

2.2.3 Legitimation Mechanisms: Actual Means to Build Legitimacy

Similarly to Zimmerman and Zeitz (2002), Fisher et al. (2017) searched the literature to understand what entrepreneurs may do to gain legitimacy. By largely drawing on a literature review by Überbacher (2014), they reviewed 70 articles and identified all mechanisms that could contribute to new venture legitimacy. Fisher et al. (2017) coded the mechanisms and grouped them into three broad categories: *identity*, *associative*, and *organizational*. Each of these categories encapsulates multiple subcategories—14 in total: *storytelling*, *sensegiving*, *impression management*, *analogies and arguments*, *cultural agency*, *collective framing*, *symbolic actions*, *organizational ties*, *top management ties*, *individual ties*, *internal milestones or structures*, *leaders' background*, and *external validation*. Fisher et al. (2017) highlight that their categories differ slightly from prior categorizations of organizational legitimacy (e.g., from those proposed by Suchman (1995)) because of "their orientation toward the actions of the entrepreneur in practically establishing legitimacy for a new venture rather than focusing on how legitimacy judgments are made" (p. 54).

Identity mechanisms—forming the first main category presented by Fisher et al. (2017)—account for how entrepreneurs use cultural tools and identity claims such as images, symbols, and language to enhance and manage new venture legitimacy (Swidler, 1986). The goal of these mechanisms is to create an understanding of the venture's activities and aims (Aldrich & Fiol, 1994). Entrepreneurs following a conformance strategy may draw on identity mechanisms and make explicit and implicit claims about their venture to align it with an audience's identity expectations (Fisher et al., 2017). Table 1 on the next page shows how the identity mechanisms divide into seven of the subcategories mentioned above. We provide a succinct explanation to each subcategory (i.e., each legitimation mechanism). Notice that Table 1 also reveals how the other two categories—associative and organizational mechanisms—branch into their respective subcategories. These categories and subcategories these are discussed below.

Table 1: Legitimation mechanisms (Fisher et al., 2017).

Broad Category	Subcategory	Description
Identity	Storytelling	Creation of appealing stories rooted in valuable resources (Aldrich & Fiol, 1994; Desa, 2012; Garud, Schildt, & Lant, 2014; Katre & Salipante, 2012; Lounsbury & Glynn, 2001; Martens et al., 2007; Nagy, Pollack, Rutherford, & Lohrke, 2012; Navis & Glynn, 2011; Ruebottom, 2013; Snihur, 2016; Victoria Johnson, 2007).
	Sensegiving	Communicating a meaningful course of the new venture (Cornelissen, Clarke, & Cienki, 2012; Feinleib, 2011; Fischer & Rebecca Reuber, 2014; Hill, 1995; Holt & Macpherson, 2010; Navis & Glynn, 2010).
	Impression management	Shaping one's own behavior to create, control, protect, maintain, or alter the image of oneself as perceived by a target audience (Benson, Brau, Cicon, & Ferris, 2015; Clarke, 2011; Kibler, Mandl, Kautonen, & Berger, 2017; Nagy et al., 2012; Pollack, Rutherford, & Nagy, 2012).
	Analogies and arguments	Guide thinking by conveying relationships to concepts already understood (Cornelissen & Clarke, 2010; Gioia, 1986; Hargadon & Douglas, 2001; Pollock & Rindova, 2003; Santos & Eisenhardt, 2009; Snihur, 2016; Van Werven, Bouwmeester, & Cornelissen, 2015).
	Cultural agency	Advocating legitimating aspects of one's own culture while undermining conflicting forms of legitimacy (Drori, Honig, & Sheaffer, 2009).
	Collective framing	Guide awareness by treating selected topics in a certain context (Gurses & Ozcan, 2014; Hiatt, Sine, & Tolbert, 2009; Parhankangas & Ehrlich, 2014; Rao, 2004; Weber, Heinze, & DeSoucey, 2008).
	Symbolic actions	Draw the audience's attention to the meaning of an object or action that goes beyond the object's or action's intrinsic content or functional use (Starr & MacMillan, 1990b; Zott & Huy, 2007).
Associative	Organizational ties	Ties to well-established organizations (Joel & Oliver, 1991, 1992; Knoben & Bakker, 2019; Plummer, Allison, & Connelly, 2016; Singh et al., 1986; Snihur, 2016; Stuart, Hoang, & Hybels, 1999; Zimmerman & Zeitz, 2002).
	Top management ties	Having a board of directors with experience and influence (Certo, 2003; Higgins & Gulati, 2003, 2006).
	Individual ties	Having individual ties to industry insiders (Haveman, Habinek, & Goodman, 2012; Packalen, 2007).
Organizational	Internal milestones or structures	Highlighting accomplishments and strong internal structures and practices (Barraket et al., 2016; Choi & Shepherd, 2005; Delmar & Shane, 2004; Karlsson & Honig, 2009; Khaire, 2009; Souitaris, Zerbinati, & Liu, 2012; Wiklund, Baker, & Shepherd, 2010)
	Leader's background	Having industry status, good reputations, and relevant experience (Cohen & Dean, 2005; Packalen, 2007; Tornikoski & Newbert, 2007).
	External validation	Communicating prior signals of validation from external actors (Kistruck, Webb, Sutter, & Bailey, 2015; Marlow & McAdam, 2015; Rao, 1994; Sine, David, & Mitsuhashi, 2007).

Associative mechanisms account for “the relationships and connections that entrepreneurs and their ventures forge to establish and manage their legitimacy” (Fisher et al., 2017, p. 55). The core idea of associative mechanisms is that new ventures may establish connections with powerful and recognizable actors (e.g., corporate elites, influential organizations, and high profile investors) and, as a result, strengthen their legitimacy (Dacin, Oliver, & Roy, 2007). According to Rindova, Petkova, and Kotha (2007), such connections signal that the new venture has won approval by other legitimate actors. This notion of “vouching” induces legitimacy of itself. The idea that legitimacy can be derived from networks and associations is demonstrated in a range of research (Aldrich & Fiol, 1994; Deeds et al., 1997; Dowling & Pfeffer, 1975).

Organizational mechanisms consider how a new venture’s capital, structure, practices, and achievements can foster legitimacy (Fisher et al., 2017). According to institutional theory, a new venture will enhance its legitimacy if its organizational behavior, performance, and accomplishments align with what is expected in the social world (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This alignment can manifest itself by the new venture having the right profile person in a leadership position (Cohen & Dean, 2005; Tornikoski & Newbert, 2007), or by achieving certain organizational milestones such as product launch, company registration, or certification (Choi & Shepherd, 2005; Delmar & Shane, 2004; Khaire, 2009).

2.2.4 Legitimacy Toward Different Audiences: Institutional Logic

Institutional logic plays an essential role in understanding legitimacy judgment (Fisher et al., 2017). As noted in Chapter 2.2.2, institutional logic determines how a particular “social world” (i.e., institution) works, where that social world has its own “rules of the game” (Fisher et al., 2016; Kraatz & Block, 2008) that govern the behaviors within its particular space (Delmar & Shane, 2004; Thornton et al., 2012). Fisher et al. (2016) state that “For a venture to be judged as legitimate, [it] must align with the institutional conventions—that is, the norms, values, beliefs, and definitions—of the socially constructed system governing the audience making legitimacy judgments” (p. 388).

Since new ventures must marshal resources from a wide range of external audiences, and since each of them operates in a social world of their own with different institutional logics, Fisher et al. (2017) argue that new ventures should tailor legitimation to their target audience. Legitimacy assessments represent social judgments that reside in the eye of the beholder

(Ashforth & Gibbs, 1990; Bitektine, 2011; Fisher et al., 2016; Fisher et al., 2017; Zimmerman & Zeitz, 2002). In a nutshell, legitimacy judgments are audience dependent (Suchman, 1995); therefore, legitimation should be tailored to its intended audience (Fisher et al., 2017).

Particularly Fisher et al. (2017) and Pahnke et al. (2015) appear to recognize the institutional logic perspective as a meaningful theoretical basis to distinguish between different categories of new venture audiences. Collectively, they point to five audiences that are relevant to new ventures seeking external resources; specifically, they target technology-based ventures seeking financial capital. The five audiences are crowdfunding backers (predominantly following a *community*-oriented institutional logic), government agencies (with a *state logic*), angel investors (with a *market logic*), venture capitalists (with a *professional logic*), and corporate venture capitalists (with a *corporate logic*) (Fisher et al., 2017; Pahnke et al., 2015).

In this thesis, one of the audiences mentioned above is of particular interest, namely the angel investors. The next chapter delves deeper into what the literature says about angel investors as a group: who they are, why they matter, and how they judge legitimacy in new ventures.

2.3 Angel Investors

2.3.1 Who Angel Investors Are

Angel investors—also known as *business angels* or just *angels*—are typically well-educated, high net-worth individuals with extensive business experience (Becker-Blease & Sohl, 2015; Feeney et al., 1999; Reitan & Sorheim, 2000; Wetzel, 1986)—often entrepreneurial experience specifically (Fisher et al., 2017; Reitan & Sorheim, 2000). In exchange for their investment, angels receive equity stock in the venture—a share of ownership from which they expect significant financial returns in the medium-term future (e.g., seven to ten-year time horizons) through *investment exits* (Fisher et al., 2016). Investment exists typically take form as an initial public offering (IPO) or a trade sale. The funds provided by angel investors to new ventures are often referred to as *seed capital*, *risk capital*, or *informal venture capital* (Fisher et al., 2017; Reitan & Sorheim, 2000; Wetzel, 1987).

To a new venture, an angel investor typically contributes to value creation in various ways beyond money: with industry expertise, particular skills (e.g., finance, accounting, marketing, operations, sales, product development), a broad professional network, business- and entrepreneurial experience, and—as will be explained later—legitimacy (Douglas & Shepherd, 2002; Gregson, 2014; Wetzel, 1987). Angels tend to be involved in the firms in which they invest, either through informal mentorship or formal managerial roles. Serving as a board member, for instance, is very common (Barraket et al., 2016).

Becker-Blease and Sohl (2015) suggest that angels are attracted to ventures where they feel more personally necessary to the venture's eventual success. Shane (2012), and Van Osnabrugge and Robinson (2000) explain that angel investors have two primary incentives for investing: personal financial gain, and the opportunity to take an active role in a potentially successful venture.

Angel investors often syndicate and share ideas, experiences, and recommendations (Feeney et al., 1999); this can happen in informal settings and through personal networks, or in organized business angel networks (Aernoudt & Erikson, 2002; Carpentier & Suret, 2015; Croce et al., 2017; Mason et al., 2017). Angels use their personal and professional networks for referrals (Reitan & Sorheim, 2000); in fact, Gregson (2014) states that many angels will only deal with referrals and do not even look at unsolicited business plans sent by unknown entrepreneurs.

Statistics from the The European Trade Association for Business Angels (EBAN) (2018) indicate a clear trend: It is becoming increasingly common for business angels to organize themselves in networks. When organized, angels make more substantial investments (Mason et al., 2017), and their practices begin to resemble those of venture capitalist firms (Carpentier & Suret, 2015).

2.3.2 Why Angel Investors Matter

Of the audiences mentioned above, angel investors form, by far, the most significant source of risk capital for new ventures (Barraket et al., 2016; Mason et al., 2017; Sudek, 2006). According to the EBAN (2018), business angels invested a total of EUR 7.3 billion in European early-stage ventures in 2017—constituting 63,9% of all early-stage investments in Europe that year. The EBAN recognizes that the informal capital market is hard to quantify, namely because of its informal nature: Many investments are made "under the radar" (EBAN, 2018)—implying that the number above is even higher in reality.

Initial angel investments are commonly for amounts of less than USD 1 million (Becker-Blease & Sohl, 2015; Wiltbank, 2005). According to the EBAN (2018), European angels invested, on average, EUR 180 000 per deal in 2017, while US angels invested, on average, USD 380 000. Business angels invest in ventures in earlier life cycle stages compared to venture capitalists (Barraket et al., 2016; Fisher et al., 2016; Reitan & Sorheim, 2000). For technology-based new ventures, such early investments are often instrumental for undertaking the necessary early work—conducting research projects, assessing technology, or developing initial prototypes and concepts (EBAN, 2018; Rao, 2004).

As noted in Chapter 2.3.1, angels often provide valuable guidance and expertise—extending their contribution to a new venture beyond mere financial support. This "mixed blessing" contribution—a concept known as "smart money"—is recognized as highly beneficial to early-stage ventures (Gregson, 2014).

2.3.3 The Angel Investment Process

An array of scholars have investigated angel investors' decision-making when evaluating new ventures as investment prospects (Barraket et al., 2016; Carpentier & Suret, 2015; Croce et al., 2017; Gregson, 2014; Harrison, Mason, & Smith, 2015). There appears to be a strong consensus that angel investing is a multistage decision-making process of interaction between investors and entrepreneurs: When angel investors evaluate new ventures as investment opportunities, they do so following a sequence of steps. Gregson (2014) explains that each successive step involves a higher expenditure of an angel investor's time. Brush, Edelman, and Manolova (2012) clarify that investors weigh and evaluate aspects of a new venture differently across the different stages.

Gregson (2014) defines five stages that outline a typical angel investment process: *deal origination*, where the angel and the new venture first come into contact; *deal screening*, where the angel investor quickly and efficiently assesses the investment opportunity; *deal evaluation*, where the investor more thoroughly evaluates it; *deal structure*, where the angel and the venture clarify terms; and *deal negotiation and agreement*, where the two parties establish and implement the agreement. The stages are illustrated in Figure 3.

Gregson (2014) states that "the purpose of the staged process is to eliminate, at the earliest possible time, those investment opportunities which fail to meet the criteria established by the investor" (p. 103). Raising money from angel investors is hard, and few ventures make it through the process to secure investment; in fact, only about 2–3% of proposals attract funding (Carpentier & Suret, 2015; Croce et al., 2017; Harrison et al., 2015; Mason & Harrison, 1995). According to Feeney et al. (1999), more than 90% of proposals are rejected already at the deal screening stage.

Figure 3: The five stages of the angel investment process (Gregson, 2014, p. 104).

Deal origination refers to when angels and new ventures come into contact with each other—either in person, over the phone, through e-mail, or virtually through video conferencing tools. As noted, many angels will only deal with referrals (Gregson, 2014) from their personal and professional networks (Reitan & Sorheim, 2000). In organized business angel networks, there are sometimes dedicated gatekeepers who receive, screen, structure, and share investment prospects to network members (Mason & Botelho, 2016).

Deal screening refers to the stage where an angel seeks to quickly reject and dismiss prospects that are more or less apparent misfits considering his or her personal preference and investment criteria (Gregson, 2014). An angel investor may do this, for example, when scanning a new venture's business plan or pitch-deck, listening to an "elevator pitch" (an entrepreneur's typical response to the question: "What do you do?"), or watching a new venture's presentation. Deal screening is typically a fast process, taking anything from one to twenty minutes (Barraket et al., 2016; Harrison et al., 2015). Gregson (2014) explains that, during the screening stage, "those projects that can demonstrate tangible, measurable returns are prioritized over those with less tangible or difficult-to-measure outcomes" (p. 111).

Deal evaluation is the stage where an angel undertakes a more thorough examination of the new venture as an investment opportunity. At this stage, an angel may request a full business plan, virtual or in-person meetings—typically accompanied by in-depth presentations and extensive questionings—and contact details of references (Barraket et al., 2016; Carpentier & Suret, 2015; Gregson, 2014). According to Gregson (2014), the evaluation stage may involve an "initial due diligence" (i.e., an angel's preliminary investigation of a new venture).

The last two stages of the angel investment process are the deal structure and deal negotiation and agreement stages. Here, angels and entrepreneurs clarify and negotiate details and terms of the investment agreement (Gregson, 2014). During these stages, the investor usually requests a more comprehensive and formal due diligence. The objective is "to determine if there are any serious deficiencies or risks in the business not identified during the initial due diligence process" (Gregson, 2014, p. 125). Ultimately, if the agreement still holds, it is concluded with a signed deal agreement.

2.3.4 How Angel Investors Judge Legitimacy in New Ventures

For a new venture to be perceived as legitimate in the eyes of angel investors specifically, Fisher et al. (2017) suggest that entrepreneurs need to utilize identity, associative, and organizational legitimation mechanisms that reflect a *market logic* (as touched upon in Chapter 2.2.4). Market logic governs the social world of angel investing. In this social world (i.e., institution), personal capitalism and self-interest underpin decision-making (Fisher et al., 2017; Thornton et al., 2012).

Fisher et al. (2016) summarize angel investors' (and venture capitalists') orientation toward technology ventures: "Technology ventures are mechanisms to generate private wealth in the medium-term and advance the reputation and career of financial intermediaries" (p. 390). They also list a range of legitimacy evaluation factors that angel investors rely on, such as demonstrated technological progress, perceived market potential (size, growth, and competitive dynamics), the plausibility of the proposed business model, and the team's entrepreneurial experience/reputation and passion. The summary and factors presented by Fisher et al. (2016) encapsulate the essence of angel investors' market logic.

Operating under a market logic, angel investors seek ventures that can generate substantial returns on their investment (ROI) (Shane, 2012; Zimmerman & Zeitz, 2002). Because they invest in ventures in early development stages (e.g., before the venture has launched its first product or proven that its technology works), there is a risk that an investment will not yield any returns. To account for this uncertainty, angels seek ventures with a disruptive identity that could—if successful—generate outsized returns (Fisher et al., 2017). To build legitimacy toward angel investors, entrepreneurs should, therefore, shape the identity of their new venture (e.g., through identity mechanisms) to reflect a disruptive nature (Becker-Blease & Sohl, 2015; Fisher et al., 2017).

Angel investors are drawn to ventures with identities that align with their own (Fisher et al., 2017; Mitteness, Sudek, & Cardon, 2012; Parhankangas & Ehrlich, 2014); hence, ventures that signal a clear connection between their own identity and the identity of a potential angel investor are more likely deemed legitimate and investment-worthy. On this accord, Fisher et al. (2017) recommend that entrepreneurs draw on identity mechanisms to tap into angel investors' prior industry experience, education, upbringing, family situation, or personal interest.

Business angels invest earlier than other private equity investors (Fisher et al., 2016), and make investment decisions more on "feelings than analysis" (Mason et al., 2017; Shane, 2009). Angels do not have the capacity to perform the detailed market research or due diligence as, for example, venture capitalists do (Fiet, 1995; Gregson, 2014; Mason et al., 2017; Shane, 2009): Whereas venture capitalists dive deep into market data, acquisition metrics and conversion rates, angels rely more on entrepreneurs as individuals and their vision for their ventures (Feinleib, 2011). In essence, angel investors seek to mitigate investment risk by seeking new ventures driven by competent, experienced, and trustworthy entrepreneurs.

Due to their limited capacity, angels often integrate into entrepreneurial ecosystems in their local areas (Fisher et al., 2017; Reitan & Sorheim, 2000; Stam, 2015)—forging relationships with venture accelerators and other entrepreneurial support organizations (e.g., venture creation programs, and start-up incubators). Such organizations often serve as "gatekeepers" and "matchmakers" that screen and present suitable investment opportunities to angel investors (Fisher et al., 2017). Because these accelerator programs are often challenging to get into, and because they provide early-stage entrepreneurs with useful consultation and learning opportunities (developing them into more investment-worthy ventures), ties to such a program can provide a new venture with legitimacy (Cohen, 2013; Fisher et al., 2017; Hathaway, 2016). To foster this type of legitimacy, Fisher et al. (2017) promote the employment of associative mechanisms.

Angel investors, dominated by market logic, focus on the probability that a venture will successfully take its technology to market (Fisher et al., 2017). They typically provide financial capital to a technology venture looking for viable ways to commercialize technological advancement (Becker-Blease & Sohl, 2015; Fisher et al., 2017; Preston, 2007; Van Osnabrugge & Robinson, 2000). From experience, angels know this is a challenging endeavor: Commercializing technology is hard. To navigate this risk, a business angel looks for a venture leader that can bridge the technological and market domains (Powell & Sandholtz, 2012)—a leader with "an understanding of both camps that can link a technology advancement or research breakthrough with a solution to a customer problem so as to create a market" (Fisher et al., 2017, p. 63).

Thus, if entrepreneurs want to strengthen their new ventures' legitimacy, they should—through what Fisher et al. (2017) term organizational mechanisms—emphasize their commercialization expertise and lay forth pragmatic ways to navigate commercialization challenges (Fisher et al., 2017). An efficient way of doing so is to highlight customer relationships and reveal feedback about the product (Blank, 2017; Fisher et al., 2017; King, Clemens, & Fry, 2011). According to Fisher et al. (2017), early customer interactions provide concrete evidence that a venture is bridging the technological and market gap by learning about what customers truly want and need.

Hallen and Eisenhardt (2012) describe how entrepreneurs can effectively signal legitimacy for raising capital by timing fundraising around demonstrable *proofpoints*. They define a proofpoint as "a positive signal of substantial venture accomplishment of a critical milestone that is confirmed by key external (not internal) actors" (p. 46). Proofpoints resolve a critical uncertainty by serving as unmistakable evidence of a venture's capabilities. Importantly, the influence of proofpoints is amplified when the achievement is recent (Fisher et al., 2016; Hallen & Eisenhardt, 2012; Packalen, 2007).

We have only identified two empirical studies that target new venture legitimacy in the eyes of angel investors specifically—one by Parhankangas and Ehrlich (2014), and one by Becker-Blease and Sohl (2015). However, there is a broad literature on investment criteria—a relatable literature stream briefly discussed in Chapter 2.4. As opposed to examining mere investment criteria, the studies by Parhankangas and Ehrlich (2014), and Becker-Blease and Sohl (2015) explore how specific new venture legitimation mechanisms (e.g., impression management) affect legitimacy as perceived by angel investors, and, ultimately, influence the likelihood of securing funding.

Parhankangas and Ehrlich (2014) studied entrepreneurs' use of impression management by quantitatively analyzing data from 595 new ventures that sought angel investment in New York between 2005 and 2007. Their findings suggest that entrepreneurs should seek a balance between boldness and caution when attempting to secure business angel funding. Parhankangas and Ehrlich (2014) point out that "on one hand, [entrepreneurs] should not hesitate to signal some degree of confidence in their ventures, whereas on the other hand excessive organizational promotion or blasting of their competition introduces the risk that potential investors perceive them as dishonest, opportunistic, or simply misinformed or unrealistic about the actual risks their venture face" (p. 544).

Parhankangas and Ehrlich (2014) found that entrepreneurs should reveal some of their weaknesses to angel investors—a counterintuitive impression management technique they term *supplication*. With the right amount of supplication—that is, creating an impression of neediness and vulnerability by broadcasting their limitations—entrepreneurs may increase their trustworthiness in the eyes of potential investors and thus increase their likelihood of securing investment (Parhankangas & Ehrlich, 2014). Parhankangas and Ehrlich (2014) clarify that "The power of supplication stems from the fact that business angels expect entrepreneurs to focus only on the strengths, and not at all, or only to a limited extent, on the weaknesses of their venture. When an entrepreneur deviates from this expectation, the investor will view him or her as exceptionally honest and trustworthy, which is key to successful persuasion" (p. 559).

Parhankangas and Ehrlich (2014) critiqued studies of investment criteria for being disproportionately focused on "objective" market-, product-, and performance-related data. According to them, more investigation is needed on aspects beyond the "facts of the case." The scholars prove that legitimacy judgments not only derive from performance metrics and quantifiable data.

In summary, Parhankangas and Ehrlich (2014) highlighted the importance of more intangible aspects that go beyond the "facts of the case", and revealed several "sweet spots" that entrepreneurs should strive for in impression management toward angel investors. To increase the chance of receiving funding, entrepreneurs should express just the right amount of confidence, passion, innovativeness, vulnerability, and weakness.

Becker-Blease and Sohl (2015) studied how a panel of five experienced angel investors evaluated and screened 176 applications by new ventures that sought to attend a 15-minute "speed date" summit with other angel investors. Through quantitative research, Becker-Blease and Sohl (2015) sought to understand how certain aspects of a new venture's written material invoke legitimacy in angel investors. They were particularly interested in the attributes associated with the angel investors' willingness to review an investment opportunity. There was no social interaction between angels and entrepreneurs in the study.

Becker-Blease and Sohl (2015) found that new ventures led by entrepreneurs with industry experience or relevant education are considered more legitimate by angel investors. They stated that "angels appear to find proposals by [entrepreneurs] with industry insiders more credible and likely to succeed." (p. 745) The findings of Becker-Blease and Sohl (2015) are consistent with the proposals by, for example, Cohen and Dean (2005) and Zimmerman and Zeitz (2002). Additionally, Becker-Blease and Sohl (2015) found that associations to high-quality advisors—such as highly experienced angel investors—and developed products or acquired revenue, significantly increase perceptions of legitimacy.

2.4 Relevant Findings from a Complementary Literature Stream: Investor Criteria

Even though the general concept of legitimacy is thoroughly explored and documented, only a limited amount of research is done on how angel investors specifically judge legitimacy in new ventures, and how entrepreneurs utilize legitimation mechanisms: (Becker-Blease & Sohl, 2015; Fisher et al., 2017; Parhankangas & Ehrlich, 2014). Hence, to build a stronger foundation for research, we touch on relevant findings from the relatable literature stream of investor criteria. As the name implies, the investor criteria literature delves into the different criteria investors have when considering an investment. Many studies aim to analyze and understand the acceptance and rejection criteria of angel investors assessing new ventures as investment opportunities. The literature stream highlights several aspects that overlap with elements in the new venture legitimacy literature. These elements are undoubtedly highly relevant to new venture legitimacy; however, we emphasize that these aspects are intended to be merely complementary in later discussions.

Mitteness, Sudek, et al. (2012) found that differences between angels' backgrounds, notably in terms of their industry experience, have a moderating impact on their investment criteria and evaluation of investment opportunities. This implies that angel investors have, to a degree, individual preferences that influence their assessments of new ventures. Sudek (2006) found that when assessing investment opportunities, investors tend to pay extra attention to areas related to their professional background. An angel with a background in finance, for instance, might focus on aspects related to financial projections. Mitteness, Baucus, and Sudek (2012) found that angels focus heavily on the business opportunity and market potential when evaluating a new venture as an investee.

Brush et al. (2012) found that factual, objective, and quantifiable data are central during the first decision-making stages in angel investing. In contrast, intangible and subjective characteristics are more important during subsequent stages. They found that as a new venture moves through the subsequent decision phases, objective criteria cease to be the consistent drivers of angel decision-making. They suggested that intangible aspects such as trustworthiness, commitment, persuasiveness, and passion of the founding team become more important in later stages of evaluation. Brush et al. (2012) highlight that "our findings suggest that those entrepreneurs who make it past the screening stage need to pay attention to intangible factors" (p. 126); furthermore, they urge that "entrepreneurs should spend time learning about the biases and subjective considerations of angel investors prior to attending a face-to-face screening session" (p. 126).

Other scholars seem to share the views of Brush et al. (2012): Mason et al. (2017), for example, touch on the idea that intangible aspects are of fundamental importance in angel investing. They highlight that relationships between angel investors and entrepreneurs appear to be infused with high levels of interpersonal trust from the outset. Sudek (2006) found that entrepreneurs' passion and trustworthiness, as well as the quality of the management team, were the most important in the eyes of the investors. He points out that enthusiasm from the lead entrepreneur is particularly essential.

Mason et al. (2017) found that shortcomings in the entrepreneur or founding team form the key reason why angels reject investment opportunities. Entrepreneurs are rejected if they are not perceived as open, straightforward, believable, trustworthy, and honest; furthermore, they are turned down if they do not appear knowledgeable or come across as unrealistic regarding valuation and equity share. In sum, people-centric factors constitute the dominant deal-breaker (Mason et al., 2017).

Statistics from the EBAN (2018) paint a similar picture: 90% of European angel investors rank "the quality of the founding team" as the main decisive factor in investing. Growth potential and quality of the idea or concept are also important factors—but of significantly lower importance. The statistics correspond with the findings of Hindle and Wenban (1999), who conclude that management team quality is the most critical factor, followed by growth potential, and product- or idea uniqueness. They declare that "angels place a very high level of importance on 'investing in the people—not the product'" (p. 183).

Feeney et al. (1999) emphasize that the critical element most often missing when entrepreneurs seek angel capital is evidence of strong managerial capabilities. They proceed to reveal common rejection reasons such as entrepreneurs' lack of realistic expectations (e.g., over-optimism, unrealistic forecasts and excessive valuations), and personal qualities (e.g., vision, integrity, flexibility, and commitment). With "people aspects" set aside, Feeney et al. (1999) emphasize the importance of reasonable exit plans, potential for high profit, and openness to investor involvement.

Other studies indicate that angels are particularly concerned about founders' managerial abilities, as well as poor personal chemistry, lack of trust, incompetence, unreasonable expectations, reluctance to share ownership, and acceptance of investor involvement (Brettel, 2003; Haar et al., 1988). There appears to be considerable agreement that quality in entrepreneurs and management teams is the most critical factor in angel investing, with growth potential and attributes related to product-market-fit ranked second and third, but of considerably less importance (Brettel, 2003; Hindle & Wenban, 1999; Stedler & Peters, 2003).

3 RESEARCH METHODOLOGY

In the core of this thesis lies a study we conducted during the spring of 2020. The study followed a qualitative method with an inductive research approach. The applied research design was a multiple-case study, and in our method of data structuring and analysis, we drew inspiration from the Gioia method (Gioia et al., 2013).

Four Norwegian technology-based new ventures were studied—all of which had raised financial capital from one or more angel investors during the two preceding years. Each case—i.e., each venture—was explored through separate semi-structured interviews with one of its core entrepreneurs (usually the CEO or the person responsible for fundraising) and one of its angel investors.

To strengthen research validity, complementary data (e.g., websites, product brochures, and investor reports) from each case was included. These secondary data sources enabled triangulation—cross-examination of different data sources to capture new dimensions of the same phenomenon (Patton, 2002; Yin, 2014).

As the name implies, this chapter describes research methodology: *how* the research was conducted, and *why* we made the choices we did throughout the study (Goddard & Melville, 2004). More straightforwardly, this chapter delves into the "whats," "hows," and "whys" of the research design, the selected cases, and of how data was collected, structured, and analyzed.

3.1 Method and Research Design

3.1.1 Why Inductive Qualitative Research Method

A qualitative research method is appropriate when the field of study remains rather unexplored (Patton, 2002). Prior to this study, we had only identified two empirical studies that specifically target the role of legitimacy between entrepreneurs and angel investors: Parhankangas and Ehrlich (2014) and Becker-Blease and Sohl (2015). Interestingly, Becker-Blease and Sohl (2015) stated that "to date, there is limited evidence of the contributors of legitimacy for nascent ventures seeking angel investment" (p. 737). The studies by Parhankangas and Ehrlich (2014) and Becker-Blease and Sohl (2015) were both quantitative—not qualitative. To our knowledge, there was no qualitative study on legitimacy encompassing both angel investors and entrepreneurs. Hence, it was clear that much remained to be explored in the realm of new venture legitimacy. This exploration—based on the perspective of Patton (2002)—entailed a demand for proper qualitative research.

Similarly to the general style of qualitative research, the inductive approach—where reasoning is based on learning from experience rather than from theory—is appropriate when little is known of the research field in question (Eisenhardt, 1989; Goddard & Melville, 2004). In social science, an inductive approach is employed when emerging patterns and observable phenomena are in demand for theory—i.e., generalized and coherent explanations of why they exist (Neuman, 2000). It is important to stress that even though inductive research aims to generate new theory, it does not prevent researchers from using existing theory to formulate the research questions to be explored (Saunders, Lewis, Thornhill, & Bristow, 2019).

In the domain of new venture legitimacy, some theoretical frameworks do exist—the most central of which were presented in Chapter 2. Zimmerman and Zeitz (2002), Fisher et al. (2016), and Fisher et al. (2017), for example, all discussed the fundamental significance of new venture legitimacy, how it can be acquired, and how it is judged across different audiences and new venture life cycles. Acknowledging that their findings were based on theory and not empirical evidence, the scholars collectively called for future empirical research to test their theories.

The studies mentioned above by Parhankangas and Ehrlich (2014), and Becker-Blease and Sohl (2015), were indeed empirical; however, regardless of their influence and scientific validity, they constituted a mere set of *two* quantitative studies. Consequently, we believed that there would be more patterns to be found and new concepts to be developed regarding the legitimacy dynamic between entrepreneurs and angel investors. We concluded that this called for a scientific journey—a journey through which inductive qualitative research would be necessary.

3.1.2 Why Multiple-Case Study Research Design

In its most elementary sense, the research design is a plan; it is "the logical sequence that connects the empirical data to a study's initial research questions, and ultimately, to its conclusions" (Yin, 2014, p. 28). In simpler terms, Yin (2014) explained it as a "*plan for getting from here to there*, where *here* may be defined as the initial set of questions to be answered, and *there* is some set of conclusions (answers) about these questions" (p. 28). As presented in Chapter 1, the initial questions to be answered in this study—the research questions—are:

RQ1: How do angel investors in practice judge the legitimacy of new ventures?

RQ2: How do entrepreneurs build legitimacy toward angel investors?

As noted, the applied research design in this study was a multiple-case study. According to Yin (2014), a case study is suitable when (1) the research question is formed in terms of "how" or "why," (2) the examined behaviors and events cannot be manipulated or intervened with, and (3) the study focuses on contemporary events.

Considering the conditions put forward by Yin (2014), we deemed a case study to be a well-suited research design because:

1) The study's research questions were indeed how-oriented: "*How* do angel investors in practice judge the legitimacy of new ventures?" and "*How* do entrepreneurs build legitimacy toward angel investors?" How-oriented questions are highly exploratory: They set the scene for the discovery and development of new concepts—a key element in proper inductive qualitative research (Gioia et al., 2013).
2) Examined behaviors and events could indeed not be manipulated: Interviews with entrepreneurs and investors were held separate, with no disclosure between the involved parties (nor with external parties for that matter).
3) The study did indeed target what Yin (2014) characterized as contemporary events: The study did not explore the "dead past" (p. 12). The informants were retrospectively reporting events and behaviors they remembered, reaching no longer than two years into the past.

We chose to include *four* new ventures—i.e., four cases—in the study, resulting in a *multiple*-case research design. Contrary to single-case studies, multi-case studies enable comparisons that clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by several cases (Eisenhardt, 1991). This thesis aims to provide a *general* understanding of the legitimacy dynamic between angels and new ventures; therefore, while acknowledging that a sample size of four is still rather limited, we included *multiple* cases in the study. Colloquially, by "casting our net wide," we believed we would surface a larger set of *initial observations*—observations that could later lend themselves to more in-depth research.

3.1.3 Context of the Study

The study was conducted during the spring of 2020, with interviews taking place in March and April, and analysis in April and May. All the ventures included in the study had a connection to NTNU—three of them specifically to the venture creation program "NTNU School of Entrepreneurship" (NSE). The fourth venture was launched by students outside the program.

As of July 2020, we are ourselves students at NSE. The NSE network is broad, consisting of approximately 60 active students and over 400 alumni. The network is also highly active and well maintained: its members are constantly and generously sharing ideas, experiences, and information. The NSE network has been instrumental for effectively identifying and selecting well-fitted ventures to serve as cases for analysis.

3.1.4 Selection of the Cases

Thanks to our affiliation to the NSE network, we had immediate access to a pool of ventures serving as potential cases for study. This enabled us to carefully select suitable cases—performing what Eisenhardt and Graebner (2007) denominate as "theoretical sampling." In theoretical sampling, cases are "selected because they are particularly suitable for providing empirical insight in the chosen area of research" (p. 27).

All the ventures included in the study were launched while their respective founders were still students at NTNU. As was briefly covered in Chapter 1, we posit that student entrepreneurs are typically young, have less experience, and thus have "more to prove" when trying to raise financial capital from investors. Drawing on Zimmerman and Zeitz (2002), such a case would imply that building and maintaining legitimacy as a resource is even more significant to student entrepreneurs than to those with more experience.

Since we had access to high-quality ventures initially launched by students, we chose to orient the study toward ventures that had raised money from angels while their founders were still students; this formed the first criterium for case selection in the study. The second selection criterium was that the venture had raised money from its associated angel(s) at least once during the two preceding years. We wanted to ensure that informants could vividly remember the fundraising process, reducing the risk of memory bias and inaccurate data. The third selection criterium was that the venture was technology-based. As covered in Chapter 2, technology-based ventures typically depend on external capital and therefore rely more on legitimacy as a resource.

In summary, there were three criteria for case selection:

1. The venture had raised financial capital from one or several angel investors while its founders were still students.
2. The venture had raised financial capital from its associated angel(s) at least once during the two preceding years.
3. The venture was technology-based.

The four ventures chosen as case subjects are described in Table 2.

Table 2: Description of the four cases

	Case A	**Case B**	**Case C**	**Case D**
Business idea/concept	Motor solutions	Facility management solutions	Recreational equipment	Educational technology
Product category	Hardware	Hardware	Hardware	Software & consultancy
Sales model	B2B	B2B	B2B & B2C	B2C
Founders	2	4	5	2
Angel Investors	6	7	3	5 + 19 (syndicate)
Investment rounds with angels	2	1	2	3
Total capital raised from angel investors	NOK 3 million	NOK 3.5 million	NOK 1.5 million	NOK 2.2 million
Primary data source	Semi-structured interviews	Semi-structured interviews	Semi-structured interviews	Semi-structured interviews
Secondary data sources	Website, e-mail correspondence	Website, product brochure	Product brochure, website	Investor report, website

3.2 Data Collection

3.2.1 Why Semi-Structured Interviews

Data were collected mainly through semi-structured interviews, which should be, according to Gioia et al. (2013), the main component of inductive qualitative research. For each case, two interviews were held: one with the venture's CEO or person responsible for fundraising, and one with an associated angel investor. As the research questions reflect, we wanted to include "both sides" of the legitimacy-dynamic: the side of the entrepreneur, who is building legitimacy, and the angel investor, who is judging it. Although it would pose a greater challenge methodologically, we included two informant groups because (1) we were convinced it would result in a higher number of interesting observations, and (2) because it would form an empirical study unlike anything we had identified in the extant literature.

3.2.2 Conducting Interviews

Due to the many ramifications of the pandemic caused by the coronavirus during the spring of 2020, only one interview was conducted in person; the remaining interviews were carried out over the phone or through video conferencing tools. Ideally, all interviews would have been carried out face-to-face, but unfortunately, this was not an option under the circumstances.

All interviews were recorded and later transcribed by one of us. The transcripts were coded following the "Gioia approach" (Gioia et al., 2013)—a process further elaborated in Chapter 3.3—and the emerging material was systematized in a data structure, also inspired by the Gioia approach. Table 3 outlines the different case interviews.

Table 3: Overview of the case interviews, including date, informant, and duration.

Case	Date	Informant	Duration
A	12/03/20	CMO	51 min
	27/03/20	Angel investor	34 min
		Total	**1 hr 25 min**
B	28/03/20	CEO	60 min
	31/03/20	Lead angel investor	55 min
		Total	**1 hr 55 min**
C	13/03/20	CFO	59 min
	20/03/20	Angel investor	55 min
		Total	**1 hr 54 min**
D	18/04/20	CEO	50 min
	30/04/20	Angel investor	45 min
		Total	**1 hr 35 min**
		Grand total	**6 hrs 49 min**

As the table above clearly shows, the duration of the interviews varied due to their semi-structured nature. During each interview, we followed an interview guide (i.e., a set of predetermined questions) but we freely added follow-up questions when needed. Also, we seldomly intervened with the informants' answers: we wanted to facilitate natural and fluent conversation. Interview guides are presented in Appendix B and C.

3.2.3 Complementary Data

As noted, complementary data were also included in the study to enable *triangulation* and thereby strengthen research validity. Triangulation is the practice of cross-examining different sources of data to capture new dimensions and patterns and to gain a more holistic overall perspective (Yin, 2014).

Complementary data were obtained from the cases' respective entrepreneurs, and is composed of:

- Product brochures, outlining the main value propositions of the products.
- E-mail correspondence between angels and entrepreneurs.
- Reports on new venture performance sent from entrepreneurs to angel investors.
- The ventures' website, carefully designed to engage investors and potential customers.

The complementary data were used to exemplify and support findings from the primary data analysis.

3.3 Structuring the Data

3.3.1 Drawing Inspiration from the "Gioia Methodology"

As will become apparent in the following chapters, the study drew largely on principles and techniques from the "Gioia approach" to qualitative data analysis (Gioia et al., 2013). Due to its influential role in the study, an introduction to the approach—supplied by breakdowns of its most relevant elements—is given in the following chapter. How the method was applied in practice is described in succeeding chapters, starting from Chapter 3.3.3.

3.3.2 An Introduction to the Gioia Approach

In qualitative inductive research, it can be challenging to systematically structure data and results without sacrificing its much needed creative, exploratory, and ambiguous aspects (Gioia et al., 2013). Fortunately, over the course of 20+ years, Gioia et al. (2013) have elaborated and refined the "Gioia methodology": an approach to systematically collect data, to guide analysis, and to present results.

The Gioia approach is designed to give rigor and structure to inductive qualitative research and simultaneously facilitate the development of new concepts. In short, the method achieves this by keeping early stages of the research process open, ambiguous, and somewhat messy, and by delaying the search for common denominators and patterns—the features that enhance qualitative rigor and structure—until later in the process.

Gioia et al. (2013) highlight that, early on, during data collection (particularly during interviews), researchers should "get in there and get their hands dirty" (p. 19). They should "madly make notes on what informants are telling [them], conscientiously trying to use their terms, not [their own]" (p. 19). The same rule applies in the early stages of analysis—in the "1st-order analysis." Here, researchers should not make efforts to distill or categorize the informants' statements; instead, the informants should be treated as "knowledgeable agents" (p. 17)—they should not be "corrected" in any way. These efforts—aimed at "giving voice to the informants"—are, according to Gioia et al. (2013), precisely what creates plentiful opportunities for the discovery of new concepts rather than the affirmation of existing ones.

It is not until later stages of analysis—in the "2nd-order and aggregate dimension analysis"—that researchers should start to interpret, distill, and categorize data. It is at this point where efforts to create rigor and structure are introduced. In order to structure data properly, Gioia et al. (2013) stress that researchers must be knowledgeable enough to "figure out patterns in the data, enabling them to surface concepts and relationships that might escape the awareness of the informants" (p. 17). Moreover, Gioia et al. (2013) explain that researchers must be able to formulate the concepts in theoretically relevant terms.

The notion that early research stages are kept open and informant-centric, whereas later stages are more rigorous and researcher-centric, is illustrated in Figure 4. The different orders of analysis (shown along the horizontal axis) will be explained further in succeeding chapters.

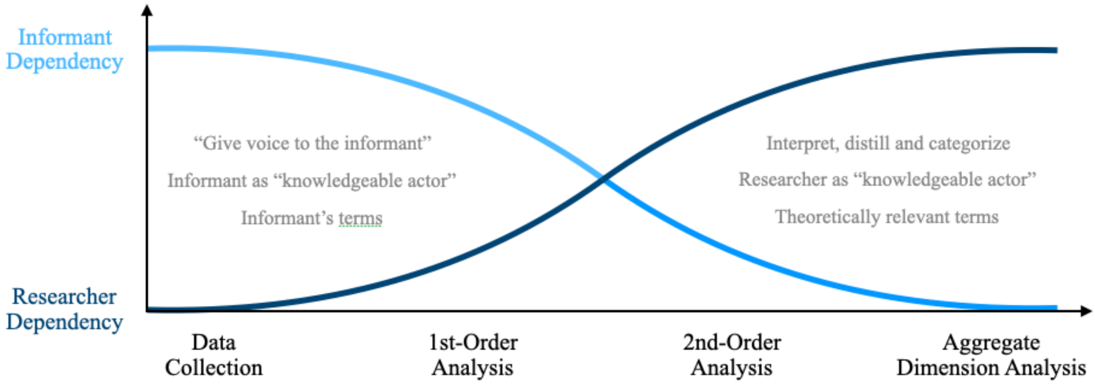

Figure 4: Informant vs. researcher dependency—a central aspect of the Gioia method.

Apart from making a clear distinction between early- and late-stage analysis, the Gioia method encompasses a range of other important features, some of which are (Gioia et al., 2013):

- The research depends on a well-specified research question framed as a "how"-oriented question (p. 19).
- Multiple data sources are employed; however, "in the heart of these is the semi-structured interview" (p. 19).
- Up until the 2nd-order analysis, it is advantageous if the researchers do not know the relevant literature in great detail. Knowing the literature intimately too early makes researchers susceptible to confirmation bias (p. 21).
- In 2nd-order and aggregate dimension analysis, it is beneficial to have one researcher serve as a "devil's advocate," whose role is to "critique interpretations that might look a little too gullible" (p. 19).

3.3.3 Coding Through 1st-Order, 2nd-Order and Aggregate Dimension Analysis

We both coded the interview transcripts individually and separately. The goal of this was to employ an element of inter-coder reliability, a qualitative research technique to strengthen research validity (Nili, Tate, & Barros, 2017). Following the Gioia approach, coding and analysis were performed at three different levels—each enhancing qualitative rigor by gradually introducing more structure and researcher-dependent interpretation.

As the name indicates, the first step of the coding process was the 1st-order analysis. Working separately, we deliberately made little attempt to distill or categorize the data: Everything the informants had said or explained relevant to legitimacy was given a label of its own. In the labeling process, we used the informants' terms whenever possible, adhering to the previously mentioned rule of "giving voice to the informant" (Gioia et al., 2013, p. 17). However, all quotes had to be translated into English, and many had to be trimmed down. From the total of eight interviews, the 1st-order analysis yielded two sets of 286 and 270 1st-order codes—one set from each of us.

After the 1st-order analysis, it was time to start the actual coding: It was time for the 2nd-order analysis. Here, we started seeking similarities and differences among the 1st-order labels to categorize them into fewer, more general 2nd-order codes. To do this, we took a step back to gain a holistic perspective of the data—seeking answers to the fundamental question: "What is going on here?" (Gioia et al., 2013, p. 20).

According to Gioia et al. (2013), it is first in the 2nd-order analysis researchers should start comparing the emerging patterns in the data to the phenomena and theories referenced in the literature. Researchers should pay particular attention to nascent concepts that do not fit into or overlap with existing theory; these concepts have what Corley and Gioia (2004) denominate as "identity ambiguity." With the literature review from the fall of 2019 as our foundation, we identified both overlapping and nascent concepts. These concepts are discussed in Chapter 4. The 2nd-order analysis resulted in two sets of 35 and 29 2nd-order codes—again, one set from each of us.

With a full set of 1st- and 2nd-order codes, we could take the analysis to yet another higher level of abstraction—creating a more complete and rigorous data structure. Figure 5 shows a segment of this structure. It shows (with examples from the study) how 1st-order labels were distilled into 2nd-order codes, and how these, in turn, were condensed into aggregate dimension codes. The complete data structure is presented in Appendix A. The aggregate dimension analysis yielded two sets of seven and five aggregate dimension codes, completing two preliminary data structures.

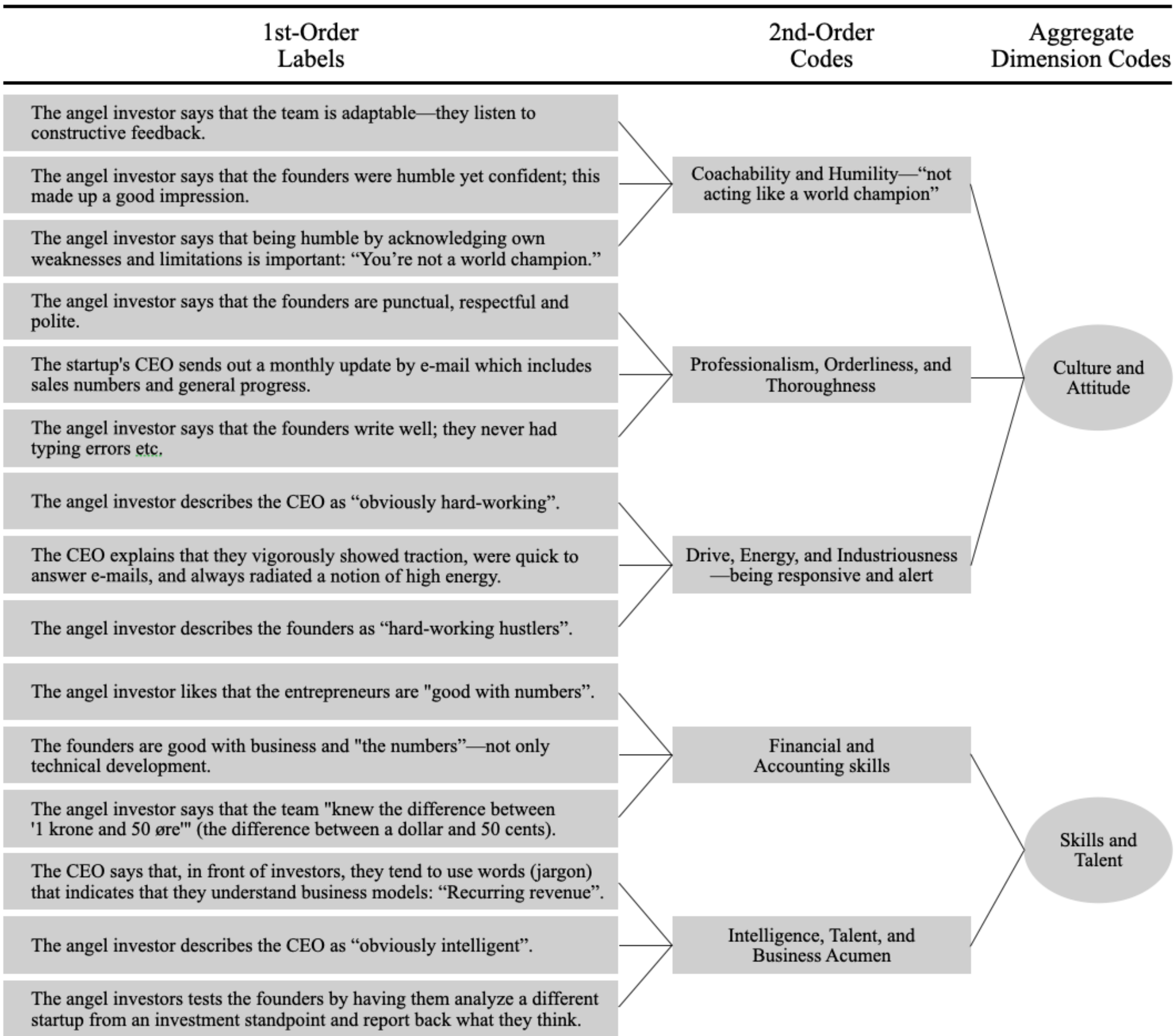

Figure 5: Segment of the data structure. The complete structure is provided in Appendix A.

3.3.4 Coding Result

Having established one preliminary data structure each, we revealed them to each other and compared our results. The goal was to essentially serve as each other's "devil's advocate" (Gioia et al., 2013, p. 19), and identify potential investigatory gaps, tackle logical inconsistencies, and to establish a new, commonly agreed-upon data structure. The ultimate structure (presented in Appendix A) is composed of 269 1st-order, 29 2nd-order, and seven aggregate dimension codes.

The most critical component of the data structure was the aggregate dimension codes, or—as termed from here on out—the aggregate dimensions. As will be shown in Chapter 4, the seven aggregate dimensions served as the primary tool for analysis and comparison of the different cases. We wanted to create a universally applicable set of aggregate dimensions: a set of “lenses” through which every case could be analyzed and evaluated. Equipped with this set, we would be able to uncover and present similarities and differences among cases in a more coherent, sensible, and orderly fashion.

3.4 Analyzing the Data

3.4.1 Within-Case Analyses

With the data structure in hand, we initiated a more in-depth analysis. Here, the cases were first targeted and analyzed individually, resulting in four elemental within-case analyses. For each case, we created a narrative, summarizing its most relevant elements (see Chapter 4.1). Not much emphasis was placed on the within-case analyses: In a multiple-case study, the spotlight should be devoted to a comprehensive cross-case analysis (Yin, 2014). *Multiple* cases are introduced for a reason: It is the type and degree of differences and similarities among them that are interesting—not as much the cases individually.

3.4.2 Cross-Case Analysis

Following the within-case analysis, a cross-case analysis was performed, starting with a high-level comparison of the cases. Here, drawing on practice described by Miles (2014), the cases were united in a matrix illustrating how prevalent each aggregate dimension was in each case—both in the entrepreneur and investor perspective. It should be emphasized that mere prevalence (i.e., the degree to which a topic or phenomenon was explicitly brought up by informants) is not necessarily directly linked to importance. Some topics and phenomena may not have been discussed much, yet, in retrospect, we may have deemed them highly influential concerning legitimacy.

After gaining a holistic perspective on the different cases and their similarities and differences, we proceeded the analysis by delving into each aggregate dimension successively. Every case was examined through the lens of one specific dimension at the time, providing observations both from its primary and secondary sources of data. While holding one aggregate dimension fixed, one or more of its underlying 2nd-order codes were explored successively—iterating between relevant cases. The selection of which 2nd-order codes to examine was based on their level of prevalence or importance as perceived by us.

By examining the cases in this algorithmic fashion, we could navigate the data more efficiently, and more accurately identify commonalities and contrasts between cases. For example, by locking the "culture and attitude" dimension (the most prevalent aggregate dimension in total) into place, and by focusing solely on its subordinate "coachability and humility" 2nd-order code, we achieved the following. First, we could gauge whether a specific entrepreneur was "moderately coachable and humble" toward his or her angel investor. Second, we could evaluate whether or not if this specific level of alignment or misalignment was congruent across other cases.

3.5 Strengths and Weaknesses in the Method

3.5.1 Juxtaposing the Two Sides of the Legitimacy Dynamic

The feature that makes this study unique is the incorporation of both "sides" of the legitimacy dynamic—the side of the entrepreneur and the angel investor. We believe that by including both sides, and by juxtaposing data from two equally relevant groups of informants, we have surfaced a wealth of interesting nuances that encourage further research. The inclusion of two informant groups may have compromised research depth; nevertheless, we posit that the broader perspective is precisely what makes the study exciting from a scientific perspective. With a broader nature, the study surfaces a more extensive set of initial observations that can later lend themselves to more in-depth research.

3.5.2 Risk of Confirmation Bias Due to Theoretical Insight

As touched upon in Chapter 3.3.2, Gioia et al. (2013) denote that up until the 2nd-order analysis, it is advantageous if the researchers do not know the relevant literature in great detail. It is clearly stated that "knowing the literature intimately too early puts blinders on and leads to prior hypothesis bias (confirmation bias)" (p. 21). Prior to this study, we had conducted a thorough literature review and a pilot study. The purpose of this work was to form a foundation for this thesis. Ideally, due to the above-mentioned risk of bias, we would have postponed this work until after the "informant dependent" phases of the research had been completed (see Figure 4 in Chapter 3.3.2); however, this was not possible for us to accommodate. It should be noted that

Gioia et al. (2013) admittedly acknowledge the practical barriers to their “methodological ideal”: It is virtually impossible for researchers to be “completely uninformed about prior work” (p. 21).

To minimize the risk of confirmation bias, we practiced inter-coder reliability (Nili et al., 2017): Both of us coded interview transcripts individually, and later compared our results, critically assessing potential bias. We aimed to serve as each other’s “devil’s advocate” throughout the coding process, as is recommended by Gioia et al. (2013).

3.5.3 The Double-Edged Sword of Practical Experience

As of July 2020, we are both entrepreneurs ourselves; in fact, concurrently with carrying out the study, we were ourselves in the process of raising risk capital from angel investors. Our need for investment was why we wanted to devote our thesis to the topic of new venture legitimacy: Increased knowledge about the field would be beneficial for our professional endeavors. Moreover, as touched upon in Chapter 1, we were drawn to the idea that, with our practical insight, we could more easily present a thesis of value specifically for practitioners—that is, for fellow entrepreneurs.

Being personally and practically engaged in the field of study undoubtedly had its benefits. It enabled us to understand and decode what the informants were communicating more efficiently: We were all, in a sense, “sharing the same language.” However, it may have had its drawbacks too: We could have been susceptible to confirmation bias as a consequence of our own personal “fundraising style.” To mitigate this risk, we drew on the “informant-centric” principles of the Gioia approach and sought to “give voice to the informant” whenever possible.

4 RESULTS AND ANALYSIS

Our study surfaced a range of observations and patterns relevant to new venture legitimacy in angel investing. As will become apparent in Chapter 5, some of these observations and patterns appear in the extant literature. In contrast, others have “identity ambiguity” (Gioia et al., 2013) and do not resemble well-known or documented concepts.

The data analysis is twofold: It contains a within-case analysis and a cross-case analysis. As noted, the emphasis is placed on the cross-case analysis, presenting commonalities and differences among the cases. First, individual case introductions describe the narrative of each relationship between the new ventures and the angel investors, including details such as how they met, where they met, and how their relationship progressed toward investment. Following these contextual descriptions, we analyze how the angel investors within each case judged legitimacy in the respective new ventures.

After that, the cross-case analysis presents the derived data structure and deeper nuances discovered in the data. The analysis delves into the key trends and findings of the thesis. The cross-case analysis ends by presenting the detailed qualitative results describing how new ventures build legitimacy towards angel investors, and how angel investors perceive the new ventures as desirable, proper, and appropriate, i.e., legitimate (Suchman, 1995).

Our key finding is that legitimacy between angels and entrepreneurs is predominantly driven by what we denote as intangible, people-centric aspects. These aspects include but are not limited to, coachability, humility, dedication, honesty, and personal chemistry. These intangible, people-centric features seem to be especially significant from the point when angels and entrepreneurs meet each other face-to-face to thoroughly discuss an investment opportunity. Our key finding, including relevant nuances and implications for researchers and practitioners, is discussed in Chapter 5. This chapter is devoted to a thorough inspection of our research results and analysis. Recall that our study’s complete data structure is provided in Appendix A.

4.1 Within-Case Analysis: Establishing Each Case’s Narrative

4.1.1 Case A: Soft Funding, Familiar Investors and Likable Entrepreneurs

New venture A first met Angel A at his home, where the two founders—Entrepreneur A and his co-founder, the CEO—held a presentation, answered questions, and showcased a prototype. Present were also other angel investors. That same morning, the venture had been granted soft funding of EUR 2 million from a European grant provider. To access the grant, they needed to partially match it with equity: They needed cash from the angel investor to receive the soft funding. Without themselves knowing, they were already halfway there: The angel investor had a personal connection with one of the earlier investors in the new venture. They had co-invested earlier and served as board members in some of the same new ventures. The presentation was well-received, and the founders were—in the angel investor’s eyes—humble, prepared, and passionate. According to Angel A, the entrepreneurs were likable. Shortly after departing, the founders got the confirmation via SMS from the investors: “We are in.”

4.1.2 Case B: A Complete Team With Dedication and Humility

New venture B met Angel Investor B through an accelerator program. The staff at the program introduced the angel investor to the new venture through e-mail; they had connected the angel investor's experience and areas of interest with the new venture's business idea and industry. At this point, the new venture had collected approximately NOK 5 million in funding—split between soft funding grants, bank loans, and a convertible loan. The new venture and Angel B met several times following the warm introduction before the investment was secured; the investor took his time to get familiar with the team and the business case. The angel was especially impressed with their professionalism, dedication, and humility. Before their first meeting, the angel investor saw the new venture as "fine” with no “exceptional features.” However, once he met the entrepreneurial team in person, he realized the potential of the business case. The investor may be described as professional in regard to investments and experienced with the industry in which the new venture operates. Angel Investor A acts as the chairman of the board in the venture.

4.1.3 Case C: Shared Values Between New Venture and Angel Investor

The new venture had onboarded Angel Investor A as a mentor some time before it was relevant to for him to become an investor; thus, the angel investor was relatively familiar with the founding team and the business case—even before considering the investment. They first met through a local incubator program. The new venture made exercise and recreational equipment for people with physical disabilities. Even though angel C had no experience with recreational equipment, or with that segment of users, he understood the value of the product and its positive impact on human lives. The social value was—in his eyes—equally as important as the market potential. The angel investor got more and more familiar with the team, especially Entrepreneur C. As it seems, the new venture and the angel investor share the same values: building products that help and provide happiness to people.

4.1.4 Case D: Radiating Intelligence, Thoroughness, and Dedication

New venture D met angel investor D while participating in an investment readiness program (IRP) staged as a competition, where the first prize was an investment of NOK 1 million. Angel Investor D acted as a judge and mentor during the IRP, providing mentorship to the new venture. The angel investor noticed the entrepreneurial team's ability to be coachable and the clear intelligence and dedication of its members—especially of Entrepreneur D. The new venture proved their thoroughness by taking questions from investors seriously and reporting back their answers at a later time. The new venture won the first prize and received the NOK 1 million investment. Shortly after the competition ended, the new venture utilized their momentum and gathered a group of angel investors, including Angel Investor A, for an additional round of investments. Here, they also secured funding.

4.1.5 How Each Angel Investor Judged Legitimacy in the New Venture

In each case, there was a handful of factors that drove the angel investor's perception of the new venture's desirability, properness, or appropriateness—in other words, its legitimacy. For example, as shown in Figure 6, Angel D emphasized features of the new venture that we have categorized as "Culture and Attitude" and "Skills and Talent." Angel C emphasized what we have termed "Culture and Attitude" and "Rapport and Personal Chemistry."

Each angel emphasized different aspects of a new venture and its entrepreneurs when they explained how they found a new venture legitimate. Some aspects were highlighted more than others—both by investors and entrepreneurs. Culture and Attitude, for example, were elaborated much more than Background and Experience. These phenomena are illustrated in Figure 6, where informants' quotes and statements have been assigned to our established aggregate dimensions. Figure 6 uses color intensity to communicate high levels of occurrence (i.e., how much informants brought the topic up) and informant emphasis.

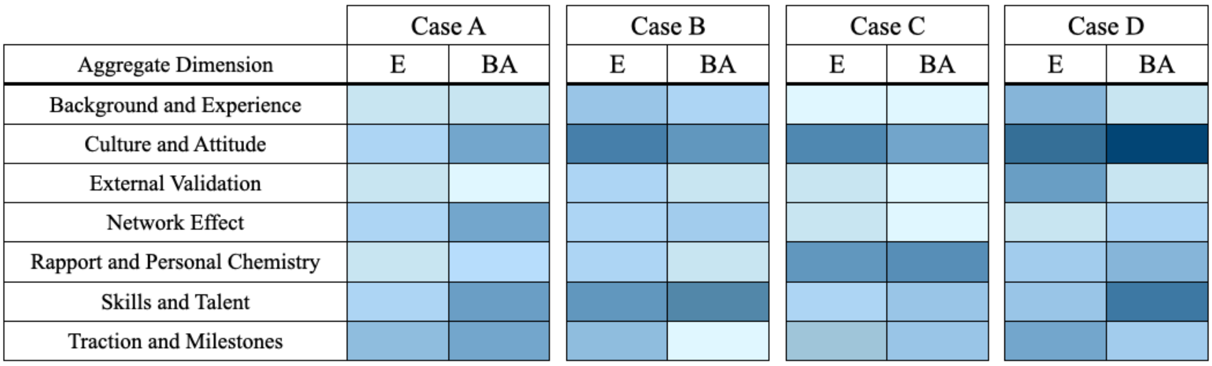

Figure 6: Occurrences and emphasis by informants on different aggregate dimensions

Table 4 on the next page presents what each case's angel investor emphasized during their interview. To some degree, angels highlighted different aspects when describing why they deemed the new venture in question desirable, proper or appropriate.

Table 4: Aspects influencing angel investors' legitimacy judgment

Case	Aspects Influencing the Different Angel Investors' Legitimacy Judgments
A	• **Granted soft funding.** The founders had proven their skills in acquiring substantial soft funding. Angel A told us that this acts as an "insurance for us angel investors, proving there is substance to what they are doing." • **Relationship to an investor.** The angel had a relationship with one of the new venture's investors from a prior investment. They have invested in the same handful of companies. Angel Investor D explicitly told us that he trusted his "investor partner's" judgment, providing the new venture with credibility. • **Founders.** Angel A described the founders as attentive, energetic, and confident, yet humble (listening to feedback). He said they possessed logos, ethos, and pathos, making them trustworthy and credible. • **Convincing presentation.** The founders gave a convincing presentation, and the angel investor praised their tempo, energy, and preparedness. The angel found the presentation elegant, and the founders as well-spoken. Quote: *"If you remove the investor and the soft funding, they would have had to come knocking several times. I don't know if it would have helped, as if they come with the same pitch, it doesn't help that they are nice people etc. If we don't see any 'movement around them', or that others are attracted to them, why should we invest?"*
B	• **The founding team.** At first, the Angel Investor D did not recognize this investment opportunity as 'outstanding'; he described his initial perception of the business idea as 'fine.' However, after meeting the team and seeing their professionalism, coachability, and dedication, he was convinced. • **Familiar industry.** Angel D had experience from the same industry as the new venture and was familiar with the problem they were solving and their value proposition—both economically and environmentally. Quote: *"It was first when I met the team that I got the positive feeling that these are young, hungry people who are alert, smart and coachable. They do not act as world champions, and they have a lot of knowledge […]"*
C	• **The product and its social value.** The new venture communicated their idea effectively, and the angel investor appreciated the social value it created. The social value was—in his eyes—as essential as the market potential. • **Soft funding.** The new venture had acquired soft funding. However, they needed equity from the angel investor to "unlock" the funding. The equity the angel investor provided triggered the soft funding. • **The founding team.** The angel investor told us that the team was one of the most convincing factors affecting his decision. He felt that they had guts, drive, and a wish to make this a commercial success. • **The market potential.** The angel investor understood that the products may bring value to many people. Although he seemed skeptical about internationalization, he believed this was the right team for the job. Quote: *"I saw the value this product would have for many people in a difficult situation who could really enjoy this product. […] The soft-funding possibility from the public grant provider gave some extra pulling power. […] I liked the product and [the CFO] and the others in the team, I felt they had guts and would be able to make it happen."*
D	• **Hard wording and intelligent team.** The team, initially Founder D, made a distinct impression on the angel investor during their first meetings. Angel D described them as smart young people with a high IQ and enough EQ. They seemed ambitious, hardworking, willing to sacrifice a lot to make it work, and with a low burn rate. • **Team dedication.** The team showed a high degree of dedication to the new venture by prioritizing the it instead of academic work; they prioritized an investment readiness-program instead of their exams. • **Coachability**. The team welcomed feedback and took questions seriously. They reported back answers at later meetings. Angel D described them as "mentally flexible", quick, alert, and "everything but lazy." Quotes: *"[The decision] was mostly based on my first impression of [the CEO] and, eventually, the rest of the team. [They are] smart, young people. Intelligent. High IQ. Sufficiently high EQ to navigate the strategical landscape. Ambitious. Hard working. Willing to sacrifice themselves to make it work. Low burn rate."* *"[I saw] an ability to think, and a mental flexibility; that is, the ability to listen, to be open, and to be humble."*

4.2 Cross-Case Analysis: Seeking Commonalities and Differences

4.2.1 Key Finding: Intangible People-Centric Aspects Drive Legitimacy

Table 5 presents the 2nd-order codes and aggregate dimensions derived from the data structure. As noted, the complete data structure, including 1st-order labels, is found in Appendix A. Some dimensions, such as Culture and Attitude, contain more 2nd-order codes and more nuances than others, such as Network Effect.

Table 5: Aggregated dimensions and 2nd-order codes

2nd-Order Code	Aggregate Dimension
Ambition, Vision, and "Hunger"	Culture and Attitude
Coachability and Humility—"not action like a world champion"	
Professionalism, Orderliness, and Thoroughness	
Drive, Energy, and Industriousness—being responsive and alert	
Dedication and Personal Risk and Sacrifice	
Frugality and Resource Effectiveness	
Openness, Honesty, Transparency, and Trust	
Grit, Stamina, Strength of Character	
Intelligence, Talent, and Business Acumen	Skills and Talent
Communication and Presentation Skills	
Financial and Accounting Skills	
Team Completeness—having a complementary and unified team: "the whole package"	
Business Development	
Technical Skills	
Social Value and Sustainability	Rapport and Personal Chemistry
Longevity and Familiarization—building rapport	
Sociability, Decency, Likability, and Personal Chemistry	
Common Values and/or Interests	
Relevant Academic Background	Background and Experience
Relevant Practical or Domain Experience	
Acquired Customers and Market Validation	Traction and Milestones
Granted Soft-Funding	
Showcasing Prototype	
Raised Hard-Funding	
Momentum, Accomplishments, and Sense of Urgency	
Warm Introductions and Cooperating Investors—investor vouching for a new venture	Network Effect
Prior Relationship or Familiarity	
Association to Entrepreneurial Support Organization	External Validation
Strategic Partnerships (organizations, board members, investors)	

After the data structuring and during the analysis, we recognized a need to further distinguish the derived 2nd-order codes. There existed some nuances that were still not captured by the data structure. Therefore, we established a distinction between “people-centric” and “business case-centric” aspects, and between “tangible” and “intangible” aspects.

People-centric aspects refer to entrepreneurs’ features and behaviors, and embody mechanisms such as “Dedication and Personal Risk and Sacrifice,” “Intelligence, Talent, and Business Acumen,” and “Relevant Academic Background.” On the other hand, business case-centric aspects revolve around the attributes and accomplishments of the new venture. They largely make up mechanisms such as “Raised Hard-Funding” and “Association to Entrepreneurial Support Organization.”

The degree of tangibility depends on the objectivity versus subjectivity of each mechanism. Some mechanisms have a more objective nature—that is, it is easier to quantify or measure, such as “Granted Soft-Funding” and “Acquired Customers and Market Validation.” In contrast, others are more subjective and rely on the angel investor’s impression, such as “Coachability and Humility” and “Professionalism, Orderliness, and Thoroughness.” Figure 7 illustrates these distinctions.

Figure 7: Distinctions between people-centric, business case-centric, tangible, and intangible aspects

Considering the angel investor data, it is evident that most would categorize as “intangible people-centric” and enter the upper-right quadrant in Figure 7. Throughout the study, angels referred predominantly to intangible people-centric aspects when discussing new venture legitimacy. They also drew attention to the tangible business case-centric aspects—the lowerleft quadrant—but considerably less than on intangible people-centric aspects. The remaining two quadrants—intangible business case-centric and tangible people-centric—were entertained rather little from angel investors in general.

The strong prevalence of the intangible people-centric aspects is also evident if we focus exclusively on the entrepreneur data; however, it does not stand out as clearly as it does in the angel data—data from entrepreneurs are more evenly distributed across the quadrants. After intangible people-centric aspects, entrepreneurs focus on tangible business case-centric aspects.

Based on the two previous paragraphs, we present our key finding from the study:

Key Finding: In angel investing, both entrepreneurs and angels attribute legitimacy—that is, perceptions of desirability, properness, and appropriateness—primarily to intangible people-centric aspects. Intangible people-centric aspects such as, for example, coachability, humility, and dedication, are what drive legitimacy in angel investing.

Besides our key finding, our data contain other patterns and phenomena relevant to new venture legitimacy and our research questions. Our data provide detailed practical insights into how angel investors judge legitimacy in new ventures, and how entrepreneurs build legitimacy toward angels.

The remaining of this chapter is devoted to detailed results from the cross-case analysis. The results are structured according to our aggregate dimensions and 2nd-order codes. Each aggregate dimension is given a section of its own which addresses its underlying 2nd-order codes (sorted by prevalence in the data). Naturally, the most prominent dimensions provide more data; thus, their sections are longer and more insightful.

4.2.2 Culture and Attitude

4.2.2.1 Coachability and Humility

This 2nd-order code was the most prevalent in our data analysis and was present across all cases. This presence signals the importance of coachability and humility. Coachability represents an entrepreneur's ability to welcome, listen to, assess, and appreciate an angel investor's opinion and feedback. With humility, an entrepreneur is not perceived as arrogant, assertive, or unwilling to admit to weaknesses or challenges in the eyes of an angel. In our study, coachability and humility emerged as central aspects of new venture legitimacy. Angel A exemplified the importance of humility: "You get a bad feeling when you see people who portray great confidence with no humility. […] This may be the difference between a yes and a no."

Entrepreneur B, C, and D explained that they have a conscious approach to coachability. They said it is important to let the angel investor contribute with feedback and mentoring. Entrepreneur B told us why it is essential to listen to the angel's advice: "We have to listen to what the investors say—advisory is a part of their role. If they feel like they never get through with their contributions, they lose motivation to help out further." In Case C, the entrepreneurs strived to make the angel investors feel valued. Founder C said: "We went to them and asked them to contribute with their competencies. In a way, they feel valued and think that 'I may actually contribute something here.'"

Entrepreneur C also told us that they focused on building a culture with active collaboration between the angel investor and the founders; they wanted to implement a culture of "building something together." Entrepreneur D said they went into the IRP with the mindset that they were young and inexperienced; this was an opportunity to get valuable feedback from talented mentors and angel investors. He also said: "The angel investors were clear on [the importance of] coachability, as it may define a good investment case." This statement shows that the angels were conscious of coachability and encouraged entrepreneurs to listen to their feedback and advice.

Entrepreneur B, C, and D gave examples of how they practiced their coachability toward angel investors; interestingly, their methods resemble each other, indicating that paying attention, taking notes, and assessing the feedback might be a successful recipe. In Case B, when the founders received feedback and questions, they later prepared a document with assessments and analyses. Entrepreneur C mentioned that when they had received a question or feedback from the angel investor, they wanted to prepare a thorough answer for the next meeting. Founder D told us they always made notes of Angel Investor D's feedback. Next time they met, they had prepared a reply to the feedback.

Angel Investor B and D commented on the new ventures' coachability, and Angel C did not; however, he had acted as the new venture's mentor before becoming an investor, indicating that he perceived the founders as coachable—or else he would likely not have wished to help them. Angel B told us that he perceived the team as adaptable and that they listen to constructive feedback—i.e., they were coachable. He also said: "whenever I provide constructive feedback, they show up in the next meeting prepared with an organized document with good analyses." Angel Investor D used the word "coachability" explicitly and told us it gives him "a feeling of a hard-working, dedicated team, who deliver [value] to interested investors and other team members. Besides, it shows signs of intelligence, mental flexibility, and non-laziness."

Both Angel A and B explicitly expressed that entrepreneurs must show humility. Interestingly, both used similar phrasing and said that entrepreneurs must not portray themselves as "world champions." When asked of his first impression of the entrepreneurs, Angel A said: "they made a good impression being humble and confident at the same time. […] Many companies have given me the feeling that they already 'own the world.' In those cases, I become very skeptical." Angel Investor B said he believed that many entrepreneurs have unjustified high beliefs in their products, which often have proven to be self-destructive. He continued to say: "I emphasize that you [as an entrepreneur] have to be reasonably humble about your weaknesses and errors and that you are not a 'world champion.' I see this is a great strength". These statements by Investor A and B indicate that showing some weakness is, in fact, perceived as a strength; consequently, humility may be perceived as a factor of desirability and, thus, legitimacy.

4.2.2.2 Drive, Energy, and Industriousness

Angels responded positively to hard-working entrepreneurs. Hard-working and dedicated entrepreneurs seem to be regarded as more desirable and legitimate in the eyes of angels. Entrepreneurs' responsiveness and alertness—communicated by responding quickly to e-mails and always being available for a phone call, for example—create a perception of hard work, high levels of energy, and dedication.

Founder B told us that he prioritized inquiries from Angel B, as he wanted to show responsiveness and that he did not let important tasks wait. He said: "If I received an e-mail from Angel B, I usually replied quicker than with others. It is pretty strategic to show that you are responsive and alert." When asked about his perception of the founder's alertness, Angel Investor B acknowledged that this built legitimacy toward the new venture. The responsiveness may have indicated that the angel perceived a feeling of being valued, as the new venture prioritized communication with the angel.

Founder C and D both told explained that their drive and hard work were essential for convincing their angels to invest. Entrepreneur C said that she felt that Angel C perceived them as hard-working and that this was one of the primary reasons behind the investment. In Case D, the CEO told us: "What it all came down to was that we were able to show good energy and drive and that we had accomplished a lot even though there was resistance in the market."

Both Angel C and D perceived their respective entrepreneurial teams as hard-working. When asked about the most convincing factors affecting the investment decision, Angel Investor C told us that he "liked the product, Entrepreneur C, and the team. They had the guts and wanted to make this happen. At that point, I was convinced." During his interview, Angel D told us several times that he perceived the entrepreneurs as "responsive hustlers," or "working hard to make things happen,": Their industriousness and drive convinced him. These remarks hint that the angels paid attention to the entrepreneurs' hard work, and found hard work, industriousness, and drive to be desirable and legitimating.

4.2.2.3 Professionalism, Orderliness, and Thoroughness

Entrepreneurs coming across as professional, orderly, and thorough are seen as more proper, appropriate, and desirable by angel investors. When the entrepreneurial team in Case B conformed to professional standards and social norms, by consistently being punctual and orderly in all professional affairs, for example, they influenced Angel B's perception of their properness and, in turn, legitimacy. Similarly, by expressing that their founding team had clear roles and divided responsibilities in daily operations, they created a general notion of properness and desirability.

Entrepreneur B explained that they have a conscious approach to "being professional": They work strategically to be perceived as a "serious company" and a viable investment opportunity. They deliberately alter their behavior and language to be perceived as more professional. He said: "It is a package: everything from the website, internal documents, the office space, being responsive. We try to be professional in all areas." The CEO noted that they had received praise from Angel B, who said their professionalism increased his trust. Drawing on our secondary data sources, New Venture B has a professional-looking website and product brochure: They communicate that New Venture B is a proper company, and its founders have an eye for detail. Angel B stated that the entrepreneurs "have a clean graphical profile that looks thorough and exquisite. The first impression of what they sent me was, 'this is professional.'" He proceeded to state that he perceived them as polite: "They are punctual [to meetings], clear and precise [in their communication] and polite."

Both in Case B and D, the entrepreneurs showed their thoroughness by having complete teams and well-defined roles. The entrepreneurs in New Venture D had made sure that they had all central positions in the team filled and generally had no "holes" or "missing parts" in their business case. In the competition in the IRP, this thoroughness gave them good chances compared to the other companies. The CEO said: "Almost all of the companies participating in the competition forfeited themselves by checking 9 out of 10 boxes, missing one box. Consequently, the angel investors assessed these companies as a non-investable case."

Both Angel B and Angel D brought up entrepreneurs' thoroughness during their interviews. Angel B mentioned the entrepreneurs' well-defined roles in the new venture, which positively affected his perception of their professionalism and thoroughness. Angel D told us that he was skeptical of how the new venture was going to internationalize its product; however, he was so convinced by the team's thoroughness and concentration and said that he is confident that they can pivot or adjust their business model if needed.

4.2.2.4 Openness, Honesty, Transparency, and Trust

Our analysis shows that features such as openness, honesty, transparency, and trust play an important role in new venture legitimacy. Entrepreneur B, C, and D all stated that they were exceptionally open, honest, and transparent toward their respective angel investors throughout the investment process. The founders were open about challenges and concerns and did not exclusively share "the good news." about their ventures. Angel Investor B and C both stated that the founders' honesty and straightforwardness greatly contributed to their trust.

The CEO in Case B told us that his co-founder, the CTO, once had been a bit "too honest" about challenges in the venture toward their potential angel investor—angel investor B. He had revealed a myriad of product weaknesses and pointed out potential risks. The CEO found this incident rather unsettling and was afraid the investor would lose interest. However, when asked about this incident, Angel B replied that he appreciated the CTO's honesty and emphasized that it represented the company's attitude toward product quality. He concluded that, as an entrepreneur, it is crucial to be open and honest when "things are not 100%"; entrepreneurs must never "brush things under the rug," and should acknowledge their mistakes and potential risks.

Similarly, Entrepreneur C and D stated that they were honest about various risks they had identified and discussed these with their angel investors. Furthermore, Founder C believed that their honesty had a positive effect on the trust between Angel C and her team. She proceeded to tell us why trust is essential: "I feel that investment decisions often are based on a low level of rationality. If you trust the [entrepreneur(s)], that's it—it's a 'yes.' At least that is how I feel." When asked about this, Angel Investor C told us that the founders being "honest and decent people" made him trust them. He rounded off by emphasizing that it is vital to not only tell the "sunshine stories"; entrepreneurs must be transparent and open about challenges.

4.2.2.5 Dedication and Personal Risk and Sacrifice

Entrepreneurs who portray dedication and prove to investors that they take on personal risk and make personal sacrifices seem to be perceived as desirable, and thus, legitimate in the eyes of business angels.

A similarity across Case B, C, and D were that the founders were taking personal risks and making personal sacrifices to prove their dedication to their new ventures. In Case B and C, the founders decided to extract meager salaries from their new ventures. This was mentioned by Angel C, who explained that it showed great commitment and dedication. In Case D, the team prioritized new venture activities above academic endeavors. Angel D picked up on this and had praised them for their dedication.

Founder B explained: "Everyone [speaking about entrepreneurs and investors in general] mentions team as the most important [in angel investing]. Everyone says that. However, you actually have to prove that you are a dedicated team. We are full-time employees; this is not a 'kids-project.' We have invested [ourselves] by taking additional student loans, and we are guarantors for a new venture-loan. We take a form of personal risk, resulting in others taking us more seriously as there is a higher threshold for leaving the company." Similarly, the founders of New Venture C chose to take low salaries. Angel Investor C emphasized this dedication during his interview. He praised the fact that the founders did not expect the same salary as their friends who went into a "regular job" and dedicated their time with low pay—maybe no pay at all in some periods—to work with the new venture.

In Case D, the team prioritized the new venture and the investment readiness program—which coincided with the university exam period—instead of their academic results and endeavors. Entrepreneur D told us: "For me, it was all about saying it and illustrating it. It was ongoing during the exam period; however, we could not have come and said that we focused on our studies. We simply could not do that." Angel Investor D perceived them as dedicated. When asked about how the new venture "convinced" Angel Investor D to invest, he said: "For me, it was primarily that they showed they had the quality: They are smart, hard-working hustlers, technically capable, [the CTO] seemed sharp, and they seemed to get a lot done for small amounts of money. They work hard to make this happen."

4.2.2.6 Frugality and Resource Effectiveness

Our study showed that giving off a perception of frugality and resource effectiveness work in favor of entrepreneurs looking to build legitimacy toward angel investors.

Frugality implies to an angel investor that the new venture will spend their money effectively—not waste it on irrelevant activities and costs. If entrepreneurs can demonstrate their frugal economic culture by proving how effectively they have spent previous funding, this could increase their angel investor's perception of the new venture's legitimacy.

Entrepreneur B said that they make sure to show investors their "low spending approach" and will use their eventual money effectively. They show this by demonstrating that they, for example, take low salaries and rent cheap office space. Entrepreneur B explained that they wanted to be smart in their spending and use the money for what is "best for the company."

Angel investor C and D pointed out that they perceived the new ventures as economically frugal and resource-effective: They managed to get much done for a small amount of money. Angel Investor C emphasized that the team "understood the difference between NOK 1 and NOK 0,50." As noted in the previous chapter, he praised their decision to take a meager salary to dedicate themselves to the new venture.

4.2.2.7 Ambition, Vision, and "Hunger"

In our study, some angels mentioned the importance of ambition and vision and explained how this contributed to their perception of desirability in the new ventures.

Founder A mentioned that his co-founder, the CEO, is the "visionary" in the team, while he is "perhaps the boring realist." Angel Investor A revealed that he "fell in love with the CEO's starry eyes" and his vision of how big their company could become and how many potential markets and applications there would be for their product. Angel Investor explained that he pictured the CEO presenting at future green-tech conferences and receiving rounds of applause. He told us that the pathos the CEO expressed during the meeting gave conveyed credibility. Angel A emphasized that the vision of the CEO aligned very well with his own.

On two occasions, angel investor D described the team as ambitious and "hungry" and explained how this "won him over." He said he felt the team's ambition during their first meeting, and that it was one of the reasons he voted for them to win the competition in the IRP.

4.2.2.8 Grit, Stamina, and Strength of Character

Perceptions of grit and stamina in entrepreneurs suggest to an angel investor that they will continue to work, even though times are tough. This may invoke feelings of desirability, increasing the perception of legitimacy.

Angel Investor C and D both praised their entrepreneurs for exhibiting grit. In Case C, the angel investor told us that Entrepreneur C managed to convince him that she had the "stamina to make it happen" and to grow the company. In Case D, the team had managed to gain traction in a resistant market. Angel Investor D acknowledged that the team had been through some challenges; however, he explained that he never doubted them.

4.2.3 Skills and Talent

4.2.3.1 Intelligence, Talent, and Business Acumen

Business acumen refers to the innate ability to identify and act upon business opportunities and to make the correct strategical business decisions. Entrepreneurs with business acumen are more likely to have success in their new ventures. Our study suggests that perceptions of business acumen invoke legitimacy in the eyes of angel investors.

Entrepreneur B told us that Angel B used to present him with small "tests" to understand his "commercial ability" and his business analysis skills better. He said: "From time to time, he sent me a link to an article about a company and asked, 'what do you think about this?' […] I would do a ten-minute analysis. Maybe he was testing me to see how I think. It's a bit weird, but that's just how he operates. I enjoyed it." When asked about this, Angel B revealed the purpose behind these "tests": to discuss things he generally finds entertaining, and to get to know the entrepreneur better. He explained that he is interested in knowing: "How does he respond," "How does he analyze this business," and "What are his thoughts?"

In Case D, the angel investor was very explicit in his statements about the team's intelligence. On seven occasions, he used the words "IQ," "intelligence," or "smart." When we asked him about his first impression of the new venture, he told us: "[They are] smart, young people. Intelligent. High IQ. Sufficiently high EQ to navigate the strategic landscape." To explain the perception of intelligence, he said: "The way they spoke about what they were doing—it signaled intelligence and an ability to think, and mental flexibility; that is, the ability to listen, to be open, and to be humble."

4.2.3.2 Communication and Presentation Skills

Angel A and C emphasized that they liked that the new venture could clearly and understandably present their business ideas or products. Communication skills signaled to Angel A and C that the founders could easily affect other audiences'—such as potential customers or investors—perceptions and interests in the new venture with their sharp and precise language.

In Case A, where the entrepreneurs met Angel Investor A at his house, they gave a well-prepared presentation. The angel investor said he had 20+ years of experience with presentations, yet, he acknowledged that the founders were better at presenting than him. Angel A summarized: "The money hangs loosely when 'the package' [i.e., presentation of the company] is elegant and understandable. Additionally, the new venture had received soft-funding, and we knew the other board members." Our secondary data show that Founder A is skilled at expressing himself understandably and succinctly, especially in e-mails, which supports Investor A's comments on the founder's communication skills.

Angel Investor C mentioned that he must understand the product and its value. He proceeded to tell a short story about an entrepreneur who presented him with a cryptocurrency-project, where the entrepreneur failed to present the business case understandably; he ended up not investing as he did not understand the business case. The founders in New Venture C were able to present their product and business idea sensibly and elegantly, and for Angel Investor C, this was decisive in the investment decision. Venture C's website shows the product and its value proposition clearly and succinctly: It is a prime example of the entrepreneurs' sharp communication skills.

4.2.3.3 Team Completeness

A complete, unified, and complementary founding team suggests to angel investors that the founders can attract talented human capital who collaborate effectively—both prerequisites for successful commercialization. A complete team seems to create perceptions od desirability and properness, leaving angels with a perception of legitimacy.

Angel B used several examples to describe the completeness of the team in New Venture B. He initially saw the business idea as "fine," and described it as "nothing outstanding he had to throw himself over." However, meeting the team changed his perception. He said: "It was first when I met the team that I got a good feeling that these are young, 'hungry' people who are attentive, smart, and humble. They do not act as world champions, and they possess knowledge on which they can materialize."

Angel B proceeded with an example: "It seemed like they complimented each other well and could collaborate. They spoke respectfully to each other and were clear in their communication." The angel explained that the team aligns themselves in their work and vision: "Everyone in the company has an understanding of what their vision is, and their business model and strategy. They know what they want. They have a clear plan. There is no doubt about what they are going to do." Lastly, he rounded off with the notion also mentioned in Chapter 4.2.2.3: "They had defined the different areas of responsibility within the team. They had picked the most important pillars and divided them among themselves. That is extremely important."

In Case D, the team had managed to fill all critical roles in the team. Entrepreneur D said: "We knew that we had width in our team: different people who are talented in different fields. We did not miss a 'key position'; for example, we did not miss a CTO. It is a classic mistake to say that 'we only need a CTO who makes sure that the product gets built' It is hard to recruit a CTO in today's developer market. Our company's key positions were filled by people who have a foundation for doing a good job there." According to the CEO, Angel Investor D had told him that he believes in their team, something the angel investor confirmed during his interview.

4.2.3.4 Business Development Skills

Entrepreneur A, B, and C had all completed the same Venture Creation Program (VCP), which had greatly strengthened their business development skills. These skills seemed to play a role in the legitimacy dynamic between their ventures and the angel investors.

Entrepreneur B said that the VCP had given him a solid business development mindset. He noted that some people were surprised by the business skills he possessed. He further told us the team was conscious of their approach to demonstrate that the team possessed the right competencies to commercialize products and grow the company. Only Angel A and B commented on the founders’ business skills. Investor A told us that he liked that the founders were talented at collecting soft-funding, especially a grant from a European grant provider. Angel B noted that he believed the founding team possessed the skills to either pivot or adjust their business model if necessary.

4.2.3.5 Technical Skills

Case C and D share a commonality: They both have practical technical experience and skills. Entrepreneurs need practical skills to build prototypes, MVPs, and products; therefore, possessing technical skills seem to reward entrepreneurs with legitimacy.

Entrepreneur B and D emphasized the team's technical skills, and Angel B and D echoed the importance of these skills. Entrepreneur B explained that the founding team had five years of practical experience from different volunteer student engineering organizations—making race cars and autonomous drones. Angel Investor B brought up these engineering organizations unprompted. He said: "They have participated in [one of the organizations], which I think is very relevant concerning their skills in 'how to think outside the box.' I'd like to emphasize that."

In Case D, the CEO told an unusual and fascinating story about his CTO from when he was in high school. The CTO managed to hack the school's computer system and remove this absence marks, i.e., the days he did not show up at school. He ended up getting expelled. Angel Investor D told us that, even though the CTO does not have a strong educational background, he believed that he was well equipped technically for the job he was supposed to do.

4.2.3.6 Financial and Accounting Skills

Possessing financial and accounting skills seems to provide a new venture with a notion of legitimacy. Entrepreneur B said that their financial and accounting skills had impressed their investor. He explained: "The angel investor liked that we were skilled with the numbers and understood the economics—that we thought like 'business-people.' He understood that we were not only engineers 'consumed by tech.'" Their investor, Angel B, expressed something similar. He said that he had noticed that the entrepreneurs were "good with numbers," which he liked.

4.2.4 Rapport and Personal Chemistry

4.2.4.1 Social Value and Sustainability

Having additional motives beyond economic returns seems to strengthen a new venture's legitimacy as perceived by angel investors. In Case A, B, and C, the angel investors mentioned that they care whether a new venture has a "double bottom line": That it contributes to social (C and D) or environmental value (A and B) in addition to economic value. Founder A and B stated that they knew their potential investors had the "double bottom line" as a requirement for their investments. The importance of a "double bottom line" was not emphasized by entrepreneur C and D; however, all of the studied ventures' websites have aspects communicating the new venture's contribution to society.

Angel B explained that he cares about which industry a potential investee operates in. He said he would not invest in a liquor company, for example, because it does not contribute constructively to the world. Angel Investor A and B told us that they had sustainability as a requirement for investing in a new venture. Investor A required the new venture to develop future technology with environmental value, i.e., "green tech." He said: "What is important to me is that the technology fits into 'what Norway is supposed to sustain themselves with after the oil is gone.' For me, there has to be some environmental value in the new venture. As an early-stage investor, you should contribute to strengthening Norway in areas we are supposed to rely on when the oil runs out."

In Case C, where the new venture makes exercise products people with physical disabilities, the angel investor emphasized that it was crucial for him that the product had a "deeper value"; fact, this was equally important to him as the market potential. He said: "The product means something to someone: It may help someone. It is not all about the money; it has value beyond that."

4.2.4.2 Longevity and Familiarization

Angel B and C wanted to get to know the founding team well before investing; in contrast, Investor A and D decided to invest shortly following their first meetings with the founders.

Founder C explained that she believed it had been "alfa and omega" that the investor knew the team well through the mentorship role. She further emphasized that frequent contact was essential and that it took time to build a relationship. Angel C informed that he got to know the team and their motivational drivers in the new venture during his period as a mentor. Over time, he had seen the entrepreneurs' strong desire to create commercial success and build a product that would bring joy to peoples' lives. Over time, he had discovered that he and the entrepreneurial team shared similar values. Entrepreneur C revealed: "We had been conscious in our approach of connecting ourselves with persons before we asked for investment. I felt that Angel Investor C and [another angel investor] had a connection to us before we told them that we were going to proceed with a round of investments."

Angel Investor B described that he was very interested in meeting and getting to know the team; he was interested in finding out what "lived" in the entrepreneurs. His way of getting to know them was to ask many questions to see how they reacted. Entrepreneur B explained that Angel B had met them about ten times before deciding to invest: He wanted to get to know them thoroughly.

4.2.4.3 Sociability, Decency, Likability, and Personal Chemistry

Personal chemistry seems to play a role in new venture legitimacy. Many informants referred to aspects embodying personal chemistry, such as sociability, decency, and likability. For example, Angel C explained that, at the end of the day, "it boils down to whether or not he likes the entrepreneurs as people." He explained that he liked the CFO and the rest of the team, which meant a lot. In his eyes, they were "honest and decent people." He said that "[Entrepreneur C] and the others in the team are nice people, which means something—not something: it means a lot. You start to believe that these are people possessing the abilities required for this to become a success."

Angel A informed that he did not need to undertake comprehensive due diligence because he liked and trusted the entrepreneurs: He found them likable. Angel B described the entrepreneurs in venture B and warm and polite: They had professional decency and were friendly. Angel Investor D also emphasized the likability in the entrepreneurs. Additionally, he explained that Entrepreneur D, especially, was the kind of person who could influence people, and get them to collaborate. He said that Entrepreneur D's politeness was a part of this skill.

4.2.4.4 Common Values or Interest

In Case B and C, there were apparent alignments between the values or interests between the entrepreneurs and the investors. These commonalities seemingly increased the angel's feelings or desirability, and further, legitimacy.

Founder B told us that the new venture's identity harmonized with the interests of Angel Investor B. The new venture contributed to societal value, and they were developing a physical product—all in line with the angel's experience.

In Case C, where the new venture develops recreational equipment for people with physical disabilities, Entrepreneur C explained that the ethical elements of their business idea, and the overall "notion of helpfulness" helped them gain legitimacy. This seemed to resonate well with investor C, who said he appreciated and admired the social value of the business case, and felt he shared the same values as the entrepreneurs.

4.2.5 Background and Experience

4.2.5.1 Relevant Academic Background

None of the angel investors emphasized the entrepreneurs' formal education, even though the entrepreneurs have all relevant education from NTNU—a recognized university in Norway. Formal education was mentioned, but angel investors did not pay particular attention to this when explaining why they deemed the entrepreneurs as legitimate.

Investor B briefly mentioned that the entrepreneurs were engineering students from NTNU, but quickly moved on to other aspects. Angel Investor D said that it was nice that the founding team were people who had "gotten through the mandatory mathematics subjects at NTNU" because it signals intelligence. However, he noted that there are "many strange people" who manage to obtain a Master of Science degree. He proceeded to say: "The CTO has not completed school; he is mostly self-taught, and that is sufficient for what he is supposed to do." Except for these mentions, there was no emphasis on entrepreneurs' formal education.

4.2.5.2 Relevant Practical or Domain Experience

In general, the angel investors did not elaborate much on the importance of the entrepreneurs' practical or domain experience. Angel investor B, however, as noted earlier, emphasized the entrepreneurs' practical experience from engineering organizations as NTNU.

As mentioned, Entrepreneur B explained that the founding team had five years of practical experience from different volunteer student engineering organizations—making race cars and autonomous drones. This fact was also brought up by Angel Investor B. He appreciated the entrepreneurs' relevant experience, and stated, as revealed earlier: "They have participated in [an engineering organization], which I think is very relevant concerning their skills in 'how to think outside the box.' I'd like to emphasize that."

4.2.6 Traction and Milestones

4.2.6.1 Acquired Customers, and Market Validation

Only New Venture C and D had acquired customers at the point of investment, and all informants in Case C and D emphasized the importance of customers. Customers signal to angel investors that—as stated by Angel C—someone external has assessed the product and that the new venture has validated their market.

In Case C, the angel investor mentioned the significance that the new venture had acquired its first—and its most important—customer. Angel C said: “It was important, as it meant that they had secured their first customer. It is always easier to invest [in a new venture] if there are one or more customers on board. It means that someone external has already assessed the product.” When asked about this, the CFO in Case C said that she believed that acquiring their first customer was an essential factor influencing the investment decision.

Entrepreneur D told us that they had a total annual revenue of approximately NOK 1 million. We proceeded to ask the Angel Investor D how this influenced his investment decision; he replied with a short, but clear answer: “very important.”

4.2.6.2 Granted Soft-Funding

The studied ventures had all received a minimum of NOK 1.5 million in soft funding at the time of the angel investment, mainly from Norwegian soft grant providers. In Case A and B, European grant providers had contributed soft-funding as well. It should be noted that, in Norway, seeking soft-funding is a commonly utilized financial strategy for new ventures; it typically the first funding ventures seek.

Our study suggested that having acquired soft-funding helps new ventures build their legitimacy toward angel investors. On the new ventures' websites, the ventures exhibit the grants they have been awarded—presumably to induce a sense of validation.

Angel Investor A explained that he thinks that the founders are talented at collecting soft funding—an significant skill. The same day as their meeting with investor A, Entrepreneur A and his co-founder had been informed that they had received soft-funding from European grant providers of EUR 2 million. This grant was of special interest to investor A. Angel A explained that "the [European grant] system constitutes an insurance mechanism for us angel investors, as it proves that there is substance to what they are doing." Angel Investor A told us that the European soft-funding grant was an important factor influencing the investment decision.

In both Case A and C, the new venture needed equity to "unlock" a soft funding grant; the angels' investment would trigger the funding from the grant providers. Angel Investor C told us that he liked that the capital he provided "triggered" additional funding from a Norwegian soft grant provider. He told us that this was one of the factors affecting the investment decision. He reflected: "The financing opportunity through the public grant provider convinced me that you could get some extra pulling power and get started quicker."

4.2.6.3 Raised Hard-Funding

Our data hint that when angels see that other angels have invested in a particular new venture, they see the venture as more desirable.

Investor A explained this notion by saying: “In a way, you do not invest only in [the founders], but you invest in a company with talented owners. […] [The founders] do not sell this by themselves.” He continued by stating that: “If some founders come to me and tell me that there are already investors on board, and have received soft funding from several grant providers, their credibility increases.” Angel D pointed out an interesting notion. He explained that in angel investing, there is a lot of "sheep mentality": When one angel investor wants to invest in something, others join. As we will see in Chapter 4.2.7.1, some angels co-invest with others—a similar phenomenon.

4.2.6.4 Momentum, Accomplishments, and Sense of Urgency

New Venture A, C, and D had momentum during their investment process, possibly affecting the angels' perception of the new venture. Angel A and D commented on the momentum; Angel C did not. If the founders manage to establish a sense of urgency through demonstrating momentum and several recent accomplishments, it may trigger the investors to make their decision quicker than usual. This was evident in Case A; it seemed that the investors did not want to risk missing out on the investment opportunity.

Investor A felt a sense of urgency after meeting with Founder A. He said: "We chose them because they were having several meetings, and—as we thought this was an interesting opportunity—there might be others who commit before we do." There was a sense of urgency to it." Entrepreneur A told us that shortly after departing from the meeting, they got the confirmation via SMS: "We are in."

During the investment process, Founder C revealed several recent accomplishments to the angel investors. She exemplified: "We had just launched our product at that time, and we had considerable momentum while the round of investment happened. In the short periods between contact points, there was always something new to discuss. Our investors thought that 'this is exciting, and things are happening. These are founders who work hard to make this happen.'"

The new venture in Case D used the momentum they gained from winning the angel investor-funding-competition to raise another round of funding. Entrepreneur D said: "We had recently gotten some funding [through the competition], and the investors showed interest, and we had 'wind in our sails.' We closed another round of investments on that momentum." When asked, Angel Investor D told us that "at that point, they definitely had 'wind in their sails.'"

4.2.6.5 Showcasing Prototype

Our study hints that developed prototypes give new ventures legitimacy; however, only a few informants brought prototypes up during interviews. In Case A, the new venture brought a prototype to the meeting with Angel A. Entrepreneur A described the prototype as “amateurish.” Investor A briefly mentioned the prototype unprompted during his interview; however, without any further emphasis. The new founders in Case B had created prototypes and had conducted a proof of concept with positive results. Angel Investor B did not mention this during his interview.

4.2.7 Network Effect

4.2.7.1 Warm Introductions and Cooperating Investors

Our data shows that angels sometimes co-invest in startups; furthermore, they utilize their networks to give or receive referrals of investment opportunities. Referrals may induce legitimacy because the new ventures have been "screened" by someone the angel trusts.

Angel Investor A had a professional relationship with one of the existing investors in the new venture. He said they had invested in the same handful of ventures earlier and that he trusts the judgment of his investment "partner." In this case, when the founders came to the meeting, the angel investor explained that "as they arrived at our doorstep, they already have a form of credibility, as we know the other investor, whom we know and trust."

The scenario from Case A presented above, where Angel Investor A has a relationship to one of the former investors, is only evident in Case A. The angel investors in Case B, C, and D were all part of the new venture's first round of investments from angel investors. However, Angel Investor B was the lead investor for the investment round and informed that some angel investors often share investment prospects. "There are some profiles I co-invest with," he said and proceeded to explain that he was "bringing in" another investor from his network to the board of directors of New Venture B—someone he knows personally, but also who has relevant experience with international sales.

When asked about the importance of a professional network in angel investing, Angel B immediately told us to put it on "top of the list." He explained that he regularly calls people just to catch up. He said: "Be aware of those in your network who give back. We often exchange investment opportunities; I refer a new venture to someone, and next time, I get introduced to a new venture." Based on his experience, angel B estimated that, in general, a new venture has a 3x chance for investment if they receive a warm introduction from an angel.

4.2.7.2 Prior Relationship or Familiarity

In the study, two prior relationships may have influenced perceptions of legitimacy: the one in Case C (through the angel's mentorship role) and the one in Case A. In Case A, the CEO grew up 10 minutes away from Investor A. Also. His family had a connection with one of the existing investors in New Venture A—the investor Angel A had a professional relationship with, as mentioned earlier. Entrepreneur A revealed that he did not believe they would have received funding if it would have been for this prior relationship. Angel A, on the other hand, did not say anything about this relationship.

4.2.8 External Validation

4.2.8.1 Strategic Partnerships

Founder D and Angel B mentioned the importance of a strong board of directors. Based on their statements, it seems that a board of directors with credible members signals to angel investors that people with industry or business experience have deemed the new venture as likely to succeed.

Investor B emphasized that a harmonized board of directors is crucial. He explained that it is not necessarily a formal background that counts; instead, it is about combining practical experience and personality. If a venture has a robust and complementary board, it makes the venture attractive from an investor's perspective.

The CEO in Case D told us that they strategically used their board of directors to build trust early on; they were conscious of their exhibition of the board members. They used the reputation and professional background of the board members to prove they were a dedicated team with lots of energy and drive.

4.2.8.2 Association to Entrepreneurial Support Organization

All the new ventures met their first angel investors through an entrepreneurial support organization, such as an accelerator (B), investment readiness program (IRP) (A and D), or incubator (C). New Venture A had completed two rounds of investments. Investor A participated in the second round of investment.

Entrepreneurial support organizations seem to provide value to both investors and entrepreneurs; they educate entrepreneurs and provide angels with a flow of appropriate investment prospects. Our data suggest that entrepreneurial support organizations provide new ventures with legitimacy, possibly because they make ventures more investment-ready.

In Case C, the angel and the entrepreneurs came into contact through a local incubator that targets new ventures spinning out of NTNU. It was at this incubator he engaged in mentorship toward the venture. The new ventures in Case A and D participated in a well-known Norwegian IRP. The new ventures were coached and mentored by a group of 20 angel investors during the program; simultaneously, they competed against other ventures for a price of NOK 1 million in angel investment (NOK 50 000 from each of the 20 angels). New venture D won the competition, and—as pointed out earlier—they utilized the resulting momentum to raise more angel capital.

New Venture B participated in a recognized accelerator program. Founder B explained that the entrepreneurs used the program's brand and reputation to build credibility for their new venture. He also explained that the accelerator program acts as a "screening" mechanism for a network of angel investors; in fact, Venture B and Angel B were connected by the accelerator program's staff. They had "matched" them based on how the venture's business case aligned with Investor B's interests and experience.

Angel D told us that the investment readiness program was an excellent way to spend his energy: He knew that the participating new ventures had been through an initial screening and that "they were not completely crap." Later on, Angel D put it somewhat elegantly: "The IRP saves me the effort of digging through the crap."

5 DISCUSSION

Our findings indicate that new venture legitimacy plays a vital role in angel investing. When entrepreneurs are asked about why they believe they were successful in securing investment, they refer to actions and behaviors closely linked to legitimation mechanisms and strategies. Correspondingly, when angels are asked why they ultimately decided to invest in a particular new venture, they refer to events, impressions, and interactions associated with new venture legitimacy.

From the point when angel investors and entrepreneurs meet face-to-face (virtually or in person), to the point when an eventual investment is secured, angels predominantly base their legitimacy judgments on intangible people-centric aspects (e.g., humility, openness, and industriousness). Our evidence suggests that intangible people-centric factors play a fundamental role in new venture legitimacy—a precursor for investment. At the end of the day, angels seem to invest in people; this phenomenon is supported in the literature on angel investing. The tangible, objective, and measurable aspects (e.g., market potential, developed prototypes, and acquired customers) of the business case also play a critical role in angel investing; however, during the final stages of an investment process, intangible people-centric features trump tangible and case-centric aspects.

We believe that some tangible and case-centric criteria must be adequately satisfied for an angel to assess a new venture as a potential investee—that is, to deal with the new venture's inquiry and devote his or her time to evaluate its thoroughly. However, once a dialog is established, and angels and entrepreneurs start to familiarize themselves with each other, the legitimacy dynamic seem to take on a more intangible and people-centric nature. Hence, it is plausible to surmise that—at some point in the investment process—there is a shift in what drives legitimacy.

This chapter delves further into the topics introduced in the paragraphs above and discusses our key findings in the light of existing literature. This chapter aims to clarify our study's literary contribution and to provide implications for further research and for practitioners—entrepreneurs who seek to strengthen their understanding of new venture legitimacy.

5.1 New Venture Legitimacy: A Cornerstone in Angel Investing

Our study suggests that new venture legitimacy plays a critical role in angel investing. When we asked angel investors to explain why they decided to invest in a particular venture, they consistently pointed to events, impressions, and behaviors associated with ideas addressed in the new venture legitimacy literature. This phenomenon indicates that to secure investment from a business angel, a new venture must be perceived as legitimate in his or her eyes. Hence, we support the notion that legitimacy is essential for new ventures to access critical resources from external audiences—in this case, financial capital from angel investors (Fisher et al., 2016; Stinchcombe, 1965; Zimmerman & Zeitz, 2002). We echo that legitimacy helps new ventures overcome their liability of newness (Stinchcombe, 1965) and suggest that this is especially true for student entrepreneurs because they have "more to prove" than entrepreneurs with more experience.

When asked about how they secured angel investment, entrepreneurs largely attribute their success to behaviors and interactions associated with new venture legitimation mechanisms and strategies. During interviews, entrepreneurs explained how specific actions (intentional or unintentional) presumably contributed to their legitimacy, or—as Suchman (1995) would affirm—to their "desirability, properness, or appropriateness" as perceived by their angel investor. The fact that entrepreneurs refer to specific actions and behaviors reinforces the idea that entrepreneurs may work strategically to build legitimacy (Fisher et al., 2017; Zimmerman & Zeitz, 2002).

Since business angels readily point to behaviors and characteristics tied to new venture legitimacy when explaining why they decided to invest in a particular new venture, we argue that, in practice, legitimacy constitutes an investor criterion in itself. It seems that legitimacy (i.e., perceptions of desirability, properness, and appropriateness) is equally (if not more) important to angels as more documented investor criteria such as growth potential (Brettel, 2003; Feeney et al., 1999; Mitteness, Baucus, et al., 2012; Stedler & Peters, 2003), and idea-uniqueness (EBAN, 2018; Hindle & Wenban, 1999).

5.2 Intangible People-Centric Aspects "Seal the Deal"

Our findings not only signify the essential role of new venture legitimacy in angel investing; it also shows that the triggering factor of an angel's investment decision is anchored in intangible people-centric aspects (recall Figure 7). When angels describe why they ultimately decided to invest in a particular venture, they predominantly refer to characteristics such as humility, dedication, openness, and orderliness. Consequently, it appears that people-centric intangibles are what eventually "seal the deal" in angel investing. Considering this phenomenon, while appreciating that acquisition of financial resources represents a fundamental and measurable proxy for new venture legitimacy (Fisher et al., 2016; Martens et al., 2007; Zott & Huy, 2007), we derive that intangible people-centric aspects are the center of attention when an angel makes the ultimate legitimacy judgment of a new venture.

Since legitimacy represents social judgments that reside in the eye of the beholder (Ashforth & Gibbs, 1990; Bitektine, 2011; Fisher et al., 2016; Fisher et al., 2017; Zimmerman & Zeitz, 2002)—in this case, the angel investor—and angels seem to concentrate on people-centric intangibles in the final stages of the investment process, we derive that people-centric intangibles constitute the main drivers of legitimacy. Drawing on the definition of legitimacy by Suchman (1995), we argue that when business angels face the final decision of whether to invest in a new venture, they rely primarily on intangible people-centric aspects when judging if it is indeed desirable, proper and appropriate. Our interpretation implies that entrepreneurs should focus on legitimation mechanisms of an intangible and people-centric nature when dealing with business angels. Implications for practitioners are further discussed in Chapter 5.7. We stress that people-centric intangibles are not necessarily driving legitimacy throughout the *entirety* of the angel investment process—a nuance elaborated in Chapter 5.5.

Our findings strengthen the literature highlighting the clear significance of intangible people-centric factors in angel investing. Our research supports the notion that features such as trustworthiness (Becker-Blease & Sohl, 2015; Brush et al., 2012; Mason et al., 2017; Sudek, 2006), honesty (Mason et al., 2017), integrity (Feeney et al., 1999), realism (Becker-Blease & Sohl, 2015; Brettel, 2003; Brush et al., 2012; Feeney et al., 1999; Mason et al., 2017; Parhankangas & Ehrlich, 2014; Sudek, 2006), enthusiasm (Feeney et al., 1999; Sudek, 2006), and personal chemistry (Haar et al., 1988) play a critical role in angel investing. Hindle and Wenban (1999) elegantly condense the common denominator: "Angels place a very high level of importance on 'investing in the people—not the product'" (p. 183).

5.3 Intangible People-Centric Aspects and the Angel Investors' Market Logic

We suggest that business angels' preoccupation with intangible people-centric aspects is congruent with the idea of them operating with a *market logic* (Fisher et al., 2017). As elaborated in 2.3.4, the market logic (i.e., the institutional logic governing the "social world" of angel investing) is directed by personal capitalism, self-interest, and the probability that a new venture will take its technology to market. On the surface, since these ideas revolve around return on investment, it may seem that the market logic is dominated by more tangible and case-centric aspects such as entrepreneurial team experience, and potential for growth and disruption. These aspects are, as Fisher et al. (2017) communicate, undoubtedly fundamental in the market logic; however, we believe that intangible people-centric aspects underpin the market logic too.

Fisher et al. (2017) suggest that angels, operating with a market logic, focus on the probability that a new venture will take its technology to market. Consequently, they seek entrepreneurs with commercialization expertise—people who are more likely to bridge the technological and market domains (Powell & Sandholtz, 2012). Based on our findings, we posit that an angel investor will not trust an entrepreneurial team's ability to take their technology to market without considering people-centric aspects such as trustworthiness, openness, and professionalism. In essence, an angel investor operating with a market logic would not invest in a venture that is only legitimate "on paper" (i.e., in an objective sense); he or she would need to perceive the intangible people-centric aspects of legitimacy as well. Therefore, we argue that intangible people-centric aspects naturally form a central, but maybe less evident, part of angel investor's market logic.

Our assertion that intangible people-centric aspects are ingrained in what Fisher et al. (2017) term the market logic, is congruent with the idea that angels make investment decisions more on "feelings than analysis" (Mason et al., 2017; Shane, 2009). Furthermore, it is consistent with the notion that angels seek to mitigate investment risk by investing in competent and trustworthy entrepreneurs (Becker-Blease & Sohl, 2015; Feinleib, 2011; Mason et al., 2017).

5.4 The Most Prominent Legitimation Mechanisms

So far, we have seen that intangible people-centric aspects overall drive legitimacy in angel investing; now, we will see that some of these aspects are more consistent in driving legitimacy than others. Since legitimacy is judged by the resource-holding audience (Fisher et al., 2017; Zimmerman & Zeitz, 2002), and certain aspects generate more legitimacy than others, we argue that the most effective aspects can be translated into the most prominent legitimation mechanisms that entrepreneurs can employ.

5.4.1 Coachability and Humility: Legitimation Through Conformance and Involvement

Interestingly, the most prevalent legitimacy driver in our data, and—in our view—the most prominent one, is perhaps the least discussed in relevant literature: Very few studies mention the remarkable significance of features we classify as coachability and humility. In all studied cases, both entrepreneurs and angels indicated that entrepreneurs must be coachable—that is, attentive and sensitive to feedback from the angel investor—and humble: Angels are repelled by entrepreneurs who virtually see themselves as “world champions.”

We believe there are several reasons why coachability and humility generate new venture legitimacy. First, coachability and humility, and their underlying elements of flexibility and compliance, embody a sense of conformance. As explained in Chapter 2.2.2, conformance is a fundamental legitimation strategy (Suchman, 1995) that new ventures can and should adopt (Zimmerman & Zeitz, 2002). Recall that a new venture that conforms “does not question, change, or violate the social structure” (Zimmerman & Zeitz, 2002, p. 422). Our data clearly show that entrepreneurs who actively and patiently listen to and assess feedback from angels—without arrogantly ignoring or rejecting it—are rewarded with high levels of legitimacy. We believe this occurs because, by welcoming feedback and guidance, entrepreneurs inconspicuously conform to the angel investors’ social structure and institutional logic. Parhankangas and Ehrlich (2014) found that business angels prefer investment proposals characterized by high levels of “opinion conformity,” whereby entrepreneurs express values and opinions also held by the angels. Arguably, this insight can be interpreted as supporting evidence that coachability and humility generate legitimacy.

Second, we believe that coachability and humility induce legitimacy because they signal to angels that entrepreneurs are more open to and welcoming of their involvement in the new venture—a common prerequisite and motivation for angel investors (Shane, 2012; Van Osnabrugge & Robinson, 2000). Recall that business angels are attracted to ventures toward which they feel personally necessary (Becker-Blease & Sohl, 2015). Besides personal financial gain, many angels want to take an active role in a potentially successful venture (Shane, 2012; Van Osnabrugge & Robinson, 2000). In essence, we believe that coachability and humility communicates a willingness to cooperate—a feature highly desirable for angels who want to contribute with more than just financial capital. Revisiting the definition by Suchman (1995), desirability is a central component of organizational legitimacy, and thus also new venture legitimacy.

Third, we argue that coachability and humility drive legitimacy simply because they create rapport and social harmony, making the new venture more desirable. People, in general, including angel investors, enjoy being listened to, and appreciate when others give careful thought to their opinions. We posit that when entrepreneurs accommodate investor feedback, they strengthen the investors' self-esteem, which, in turn, makes them more desirable in the investors' eyes—strengthening their legitimacy. We believe that angel investors particularly relish when entrepreneurs "prove" that they have been carefully listening to them by acting on their previously given feedback and advice. In our understanding, entrepreneurs do not have to "blindly comply" to angels' feedback to gain legitimacy, or take their advice as undisputable instructions; merely acknowledging the angels' opinion and showing appreciation of his or her efforts to help seem to suffice.

5.4.2 Openness, Honesty, Transparency, and Trust: Legitimation Through Supplication

Another central legitimacy driver in our study, and arguably another legitimation mechanism entrepreneurs may use, is composed of openness, honesty, transparency, and trust. We draw from our results that these elements play a vital role in new venture legitimacy because they create trust. Revisiting the definition by Suchman (1995), we believe that trust promotes a perception of properness—a cornerstone in legitimacy—because, with trust, an angel feels more confident that the new venture is indeed what it presents itself to be.

The importance of trust in angel investing is highlighted by a myriad of studies (Brush et al., 2012; Haar et al., 1988; Mason et al., 2017; Mitteness, Baucus, et al., 2012; Parhankangas & Ehrlich, 2014; Sudek, 2006), and our study is no exception. Based on our findings, we endorse the notion that angel investors make investment decisions more on "feelings than analysis" (Mason et al., 2017; Shane, 2009), and believe that the "feeling" that leads to investment is tightly intertwined with perceptions of trust and, consequently, legitimacy.

Trust can be built in various ways; however, our findings display one way in particular, which, in our perspective, is quite peculiar and counterintuitive. It seems that entrepreneurs who are brutally honest, open, and transparent about their flaws, shortcomings, challenges, risks, and concerns effectively build high levels of trust with their (potential) angel investors, which, in turn, generates legitimacy. In our study, both angels and entrepreneurs emphasized that entrepreneurs should not overly glorify their new venture and the business opportunity they are chasing. Curiously, only sharing "sunshine stories" while undermining risks and flaws seems to create a sense that things are "too good to be true," which inhibits trust.

Parhankangas and Ehrlich (2014) accentuate the fascinating trust- and legitimacy-building mechanism mentioned above. According to the scholars, entrepreneurs should display some vulnerability and reveal some of their weaknesses to angel investors—a counterintuitive impression management technique they term *supplication*. They explain that with a moderate amount of supplication—essentially striking a conceptual "sweet spot"—entrepreneurs may increase their trustworthiness in the eyes of potential investors. The scholars suggest that this phenomenon occurs because investors generally expect entrepreneurs to "put their best foot forward" and almost exclusively emphasize strengths. When an entrepreneur deviates from this expectation, he or she stands out, and the investor will view him or her as exceptionally honest and trustworthy.

Noticeably, Parhankangas and Ehrlich (2014) underline that entrepreneurs should find a delicate balance in their supplication: It should be employed in moderation. Too much or too little supplication will diminish entrepreneurs' chance for investment. Our data indicate that this "supplication sweet spot" entails higher levels of supplication than entrepreneurs realize. In other words, it appears that entrepreneurs would benefit from being even more open, honest, and transparent about their challenges—passed the point of what feels natural and comfortable.

Drawing on two patterns in the literature, we provide an additional explanation as to why moderate supplication is effective in building trust and, in turn, legitimacy. First, we know that business angels have extensive business experience (Becker-Blease & Sohl, 2015; Feeney et al., 1999; Reitan & Sorheim, 2000; Wetzel, 1986)—sometimes entrepreneurial experience specifically (Fisher et al., 2017; Reitan & Sorheim, 2000). Furthermore, we know from the literature that angels value realism, and are turned off by over-confidence, unrealistic forecasts, and excessive optimism (Brettel, 2003; Feeney et al., 1999; Parhankangas & Ehrlich, 2014). Considering this, we believe that supplication induces trust because when entrepreneurs recognize the harsh nature of technology commercialization, it resonates with angels' personal experience. Angels know that commercializing technology is challenging, and they appreciate it when entrepreneurs acknowledge precisely that: It conveys realism—a central component in trust and, thereby, legitimacy.

5.4.3 Legitimation Through External Validation and Network Effects

Our results strengthen the idea that entrepreneurial support organizations and affiliated angel investors provide new ventures with legitimacy. We believe this occurs because such organizations and angels serve as "social proof" for a new venture, which in turn increases its desirability and properness, and thereby its legitimacy. Affiliation to support organizations and angels seems to accommodate associative legitimation mechanisms such as organizational ties and external validation (Fisher et al., 2017).

In all studied cases, the new ventures met their first angel investors through an entrepreneurial support organization (e.g., accelerator, incubator, or investment readiness program). This finding supports scholars stating that angels often integrate into entrepreneurial ecosystems in their local areas (Fisher et al., 2017; Reitan & Sorheim, 2000; Stam, 2015) to be exposed to more investment-ready new ventures (Cohen, 2013).

Interestingly, it appears that entrepreneurial support organizations—providing legitimacy through organizational ties and external validation (Fisher et al., 2017)—allow angels to spend fewer resources screening investment opportunities because ventures tied to the organizations have already been through an initial screening. We believe that ventures tied to entrepreneurial support organizations, in general, are rewarded with enough legitimacy to accelerate through the first stages of the investment process. As one angel told us, investment readiness programs relieve him of the tedious task of—using his terminology—"digging through the crap."

Our findings regarding the legitimating effect of entrepreneurial support organizations correspond with the notion by Cohen (2013) that these programs are difficult to get into, and typically provide mentorship and learning opportunities; consequently, they develop new ventures to become more investment-ready. In essence, these organizations make the ventures more desirable for angel investors, and thereby aid them in building legitimacy. This strengthens what some scholars have pointed out earlier: entrepreneurial support programs provide new ventures with legitimacy (Cohen, 2013; Fisher et al., 2017; Hathaway, 2016).

Similarly to entrepreneurial support programs, warm introductions between angels seemingly invoke perceptions of legitimacy. Our analyses show that angels actively utilize their network—often consisting of several angel investors—to access or refer others to potential investment opportunities. As exemplified by Angel B: “We often exchange investment opportunities; I refer a new venture to someone, and next time, I get introduced to a new venture.” Our results are in line with existing literature stating that angels use their personal and professional networks for referrals (Reitan & Sorheim, 2000) and that some angels even exclusively focus on referrals and do not even consider “cold inquiries” (Gregson, 2014).

5.4.4 Other Observations

Comparing our findings to the extensive review by Fisher et al. (2017) on the new venture legitimacy literature, we see that most of our legitimation mechanisms would categorize as *identity mechanisms*, and, more specifically, *impression management* mechanisms (recall Table 1 in Chapter 2.2.3). Most of what the studied entrepreneurs did—consciously or non-consciously—that increased their legitimacy, can be seen as behaviors to create, control, protect, maintain, or alter the image of themselves as perceived by the target audience—the angel investors. The strong presence of impression management mechanisms indicates that these mechanisms are particularly effective in building legitimacy for new ventures in the angel investing process—especially in later stages.

There are several legitimation mechanisms put forward by Fisher et al. (2017) that are not particularly prominent in our data. Angels nor entrepreneurs seem to accredit much legitimacy to mechanisms such as *cultural agency* and *symbolic actions*. It is possible that these mechanisms are more subtle and were harder for informants to remember during interviews; regardless of the underlying explanation, they were not emergent in our data. We were surprised by how little angels—relative to *impression management* and *external validation*, for example—seemed to care about the legitimation mechanism *leaders' background*.

5.5 A Possible Shift in Angels' Legitimacy Judgment Criteria

Considering how much intangible people-centric aspects influenced legitimacy judgments in our study and how seemingly under-communicated these aspects are in existing literature, we agree with Parhankangas and Ehrlich (2014). They critique studies on angel investment decision-making for being disproportionately focused on “objective” market- and product-related data. Our data show that business angles care rather little about these more tangible and case-centric aspects when judging legitimacy—at least in comparison to the intangible people-centric ones.

We emphasize that we do not disregard the importance of tangible and case-centric aspects in angel investing; however, we believe them to be the main drivers of legitimacy only during the early stages of the investment process—not in later stages. To explain, we revisit and take a closer look at the investment process model by Gregson (2014), which encompasses five stages: deal origination, deal screening, deal evaluation, deal structure, and deal negotiation and agreement (see Figure 8).

Figure 8: The five stages of the angel investment process (Gregson, 2014, p. 104)

When we asked angel investors why they invested in a particular new venture, which is—appreciating the *legitimacy proxy* (Fisher et al., 2016; Martens et al., 2007; Zott & Huy, 2007)—equivalent to why they deemed that venture legitimate, they predominantly referred to events taking place in what Gregson (2014) would term the deal evaluation, structure, and negotiation stages. Recall that these stages take place after the angel has requested or agreed to a virtual or in-person meeting with the entrepreneur(s) (Gregson, 2014). The majority of our data are connected to these stages and signal the strong influence of intangible people-centric aspects in legitimacy perception.

Interestingly, as our literature review reveals, and as Parhankangas and Ehrlich (2014) imply, a wealth of research emphasize aspects of a more tangible and objective nature—both in the new venture legitimacy literature (Becker-Blease & Sohl, 2015; Fisher et al., 2016; Fisher et al., 2017; Hallen & Eisenhardt, 2012; Shane, 2012; Zimmerman & Zeitz, 2002) and in the investor criteria literature (Brettel, 2003; Brush et al., 2012; Feeney et al., 1999; Hindle & Wenban, 1999; Haar et al., 1988; Stedler & Peters, 2003).

We suggest that during the first two stages of the investment process—through deal origination and deal screening—angel investors base their legitimacy judgments primarily on tangible and case-centric aspects of the new venture. Here, they pay attention to aspects such as market potential, accomplishments, and academic background—tangible and "objective" information that is communicated in business plans, pitch decks, presentations, and on web sites. However, from the evaluation stage—when angels and entrepreneurs enter face-to-face dialog—and onward, we believe intangible and people-centric mechanisms "take over" and become the primary drivers of legitimacy (see Figure 9). This would imply that, somewhere between the deal screening and evaluation stage, there is a shift in what drives legitimacy.

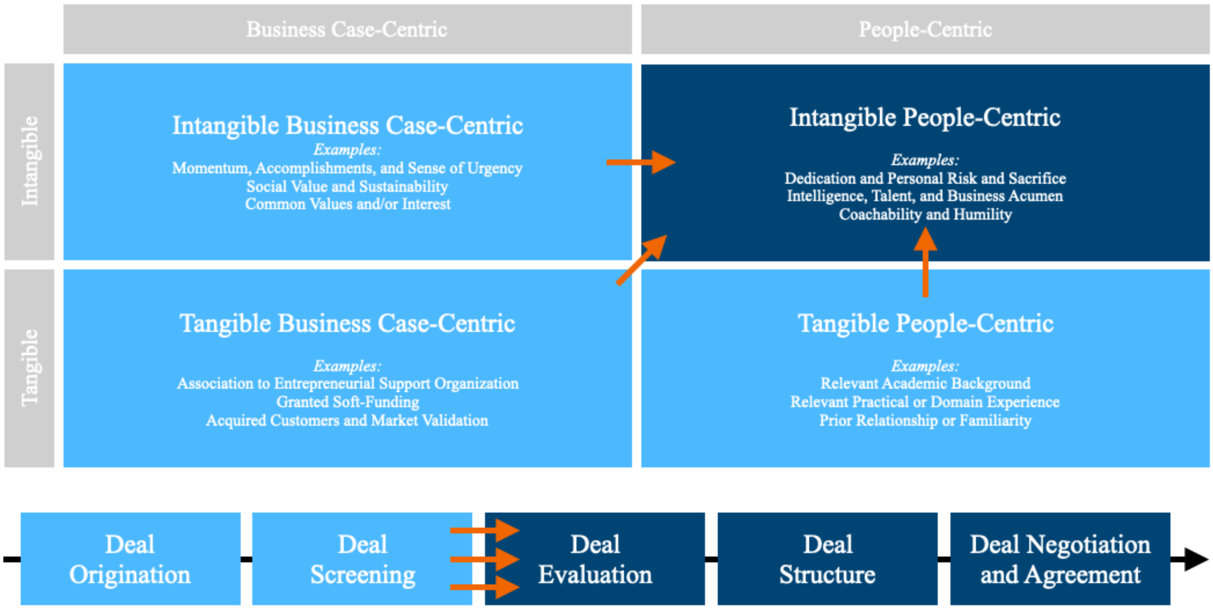

Figure 9: Suggested shift in legitimacy drivers, and connection between process stages and legitimacy drivers

It is natural that people-centric intangibles do not play a vital role before the evaluation stage; after all, the investor has not yet had the chance to meet the entrepreneurs face-to-face, and it is not easy to communicate or perceive features such as trustworthiness and humility before in-person interaction. What is not as natural, however, is how people-centric intangibles seem to trump case-centric tangibles in our data—again, mostly linked to the deal evaluation, structure, and negotiation stages.

Our suggested shift in legitimacy drivers provides a plausible explanation of why some studies highlight tangible and business case-centric factors, while others, including ours, attribute building and judgment of legitimacy to intangible people-centric aspects. A conceptual shift unifies these views by establishing that what constitutes the main drivers of legitimacy depends on where in the angel investment process angels and entrepreneurs are.

Our results cannot tell us exactly where our suggested shift takes place in the angel investment process; however, some scholars provide exciting findings that may guide this discussion. When explaining the screening stage of the angel investment process, Gregson (2014) states that “those projects that can demonstrate tangible, measurable returns are prioritized over those with less tangible or difficult-to-measure outcomes” (p. 111). In contrast, Parhankangas and Ehrlich (2014)— focusing more on what Gregson (2014) would refer to as the evaluation, structure and negotiation stages—emphasize the importance of aspects going beyond the “facts of the case.” Considering the findings by Gregson (2014) and Parhankangas and Ehrlich (2014), it seems that a conceptual shift would reside between the deal screening and evaluation stage.

Extending the previous paragraph, Brush et al. (2012) present some highly relevant findings. They found that investors weigh and evaluate aspects of a new venture differently across the different stages in the angel investment process. They discovered that as a new venture progresses through the angel investment process, objective factors eventually cease to be the consistent drivers of angel decision-making. The scholars suggest that when new ventures with progress throughout the process, intangible and subjective characteristics such as trustworthiness, commitment, persuasiveness, and passion, gradually become more critical. Notably, Brush et al. (2012) state that “entrepreneurs who make it past the screening stage need to pay attention to intangible factors” (p. 126), and that “entrepreneurs should spend time learning about the biases and subjective considerations of angel investors prior to attending a face-to-face screening session” (p. 126).

We have entertained the notion that our suggested shift may actually, in practice, constitute a *legitimacy threshold*, which have been described by scholars such as Zimmerman and Zeitz (2002) and Fisher et al. (2016). It is possible, for example, that once a new venture acquires enough legitimacy to enter the evaluation stage with its potential investor, it “unlocks” substantially more of a rather subtle resource, namely the angel investor’s time and patience.

We have not identified evidence contradicting the existence of a shift in the legitimacy dynamic. Scholars such as Fisher et al. (2017) and Fisher et al. (2016) delve into the institutional logic and legitimacy judgment of angel investors as a whole—a general resource-holding audience relevant to new ventures. These scholars do not mention or indicate possible shifts in legitimacy judgment criteria; however, this does not disclaim their existence but could mean that a higher level of resolution is needed in research to uncover such shifts. We endorse researchers who have “zoomed in” on angel investors specifically, or focused solely on one stage of the investment process (e.g., the screening stage), and discovered nuances indicating shifts in what drives legitimacy (Becker-Blease & Sohl, 2015; Brush et al., 2012; Gregson, 2014).

5.6 Limitations and Avenues for Future Research

Our research setting is unique and thus has significant inherent strengths. First, no other study (to our knowledge) incorporates both “sides” of the legitimacy dynamic in angel investing — that is, both angel investors and entrepreneurs. Second, our study is inductive and practically oriented: Insights are derived from real-world practices from angel investors and entrepreneurs—people with no particular knowledge of the concept of new venture legitimacy. Third, our study is qualitative and in-depth—enabling it to go beyond the mere “facts of the case” (the “objective” elements of legitimacy) as called upon by Parhankangas and Ehrlich (2014).

Our study does suffer from certain limitations however, that need to be addressed in future studies. First, our sample entrepreneurs and angel investors are all Norwegian. It is not unlikely—especially considering the interpersonal and intangible nature of our findings—that cultural aspects have had an impact on the legitimacy dynamic between angels and entrepreneurs. Norwegian angels and entrepreneurs have—by definition—their own social structure and institutional logic, which, as we have seen, influence legitimacy judgment. Future research can replicate our methodology in other countries and regions: The legitimacy dynamic and its underlying legitimacy drivers and judgment criteria may differ.

Another limitation of our study is that it only includes business angels who have indeed invested in the studied new ventures. Recall that in the new venture legitimacy literature, acquisition of financial capital represents an agreed-upon and measurable proxy for legitimacy (Fisher et al., 2016; Martens et al., 2007; Zott & Huy, 2007). This implies that an already invested angel will necessarily find the investee (the new venture in question) legitimate. Of course, what drove his or her perception of legitimacy is still interesting, hence the motive for this study; however, it would be fascinating to include both "investors" and "rejectors" of the same new venture and juxtapose their conflicting positions on its legitimacy.

Due to its broad nature, our study has surfaced a myriad of phenomena that can lend themselves to future research. To complement our findings with more depth, researchers could examine specific legitimation mechanisms—preferably those with a more intangible and people-centric nature—and gauge their separate effects on legitimacy.

Lastly, we urge researchers to explore whether there is a distinct shift in legitimacy drivers, as we suggested in Chapter **Error! Reference source not found.**: Do intangible people-centric aspects "take over" and drive legitimacy from the evaluation stage? On a more general note, we recommend future studies on legitimacy in angel investing to pay close attention to the different stages in the investment process. As we have touched upon, and as Brush et al. (2012) emphasizes, behaviors are not consistent across the different stages: The legitimacy dynamic might change.

5.7 Implications for Practitioners

Our results suggest that, in general, entrepreneurs can indeed work strategically to build legitimacy toward angel investors. Hence, the first implication for entrepreneurs—assuming they are seeking capital from angel investors—is that they should see legitimacy as a resource, incorporate legitimation as a strategy, and familiarize themselves with different legitimation mechanisms. Our findings imply that entrepreneurs who engage in face-to-face meetings with potential angel investors should focus particularly on intangible people-centric mechanisms. These mechanisms seem to be the most effective drivers of legitimacy once the dynamic enters the deal evaluation stage in the angel investment process.

Our findings imply that entrepreneurs should, overall, follow a conformation legitimation strategy when engaging with angel investors (Suchman, 1995; Zimmerman & Zeitz, 2002). In practice, this means that they should strive to meet the angel's expectations and not deviate too much from "the rules of the game" (Fisher et al., 2016; Kraatz & Block, 2008). As an example, entrepreneurs should employ the legitimation mechanism we term "Coachability and Humility," and conduct themselves accordingly. It appears that entrepreneurs are awarded high levels of legitimacy if they are attentive, welcoming of, and sensitive to feedback from angels—in other words: coachable and humble. Angels disfavor entrepreneurs who come across as arrogant and act as if they "have it all figured out".

Our results also imply that entrepreneurs benefit from being more open, honest, and transparent toward angels about their concerns, risks, flaws, and challenges regarding their new venture. In doing so, entrepreneurs will build legitimacy trough the mechanism termed "Openness, Honesty, Transparency, and Trust," or through supplication—a similar concept described by Parhankangas and Ehrlich (2014). Arguably, being open, honest, and transparent and thus signal a sense of vulnerability and neediness, builds high levels of trust—a central element in legitimacy. Angels know from experience that commercializing technology is hard, and see investment opportunities that are "too good to be true" as less legitimate.

Lastly, our findings suggest that entrepreneurs not underestimate the powerful legitimating effect of being affiliated to an entrepreneurial support organization (e.g., an incubator, accelerator, or investment readiness program) or being referred from one angel investor to another through a warm introduction. In practice, entrepreneurs should establish relationships with such organizations, and work their way into its eventual surrounding network of business angels. Additionally, they should appreciate that angel investors often work in teams, and try to use this to their advantage by humbly requesting referrals.

6 CONCLUSION

The purpose of this study was to explore the legitimacy dynamic between angel investors and new ventures; more specifically, it aimed at answering the following research questions:

RQ1: How do angel investors in practice judge the legitimacy of new ventures?
RQ2: How do entrepreneurs build legitimacy toward angel investors?

Our inductive qualitative research shows that when angel investors judge the legitimacy of new ventures, they pay particular attention to intangible people-centric aspects such as openness, humility, and dedication; this is especially true from the point where angels and entrepreneurs meet to discuss the possibility for investment thoroughly. An angel investor's perception of a new venture's legitimacy is anchored in his or her subjective impression of the new venture's entrepreneur(s). Furthermore, our results clearly show that new ventures gain legitimacy from established connections with angel investors, and affiliations with entrepreneurial support organizations (e.g., accelerators, incubators, and investment readiness programs).

Entrepreneurs—representing the other side of the legitimacy dynamic—build legitimacy by accommodating the above-mentioned intangible people-centric aspects. Entrepreneurs may exercise *strategic legitimation* by, for example, being coachable and humble toward angel investors, welcoming their feedback and overall involvement, or by being exceptionally open and transparent about their concerns and challenges regarding their new venture.

Our study clearly illustrates the practical features of the legitimacy dynamic between angels and entrepreneurs, but it also raises the question of whether there are shifts in what drives legitimacy throughout the angel investment process. This question, along with our presented legitimation mechanisms, constitute suitable subjects for analysis in future research.

We strongly believe that this thesis shines new light on new venture legitimacy, particularly due to its practical nature. We have presented new insight into how entrepreneurs actually go about to build legitimacy toward angel investors, and what investors actually deem legitimating. Consequently, we have addressed the literature gap we set out to close.

7 References

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Appendix A: Complete Data Structure Inspired by the Gioia Approach

Case	Informant	1st-Order Label	2nd-Order Code	Aggregate Dimension
A	Angel Investor	The founders were on the confidentre and forward-leaning, but without bragging; they were humble	Ambition, Vision, and "Hunger"	Culture and Attitude
A	Angel Investor	Angel Investor A praised the CEOs vision.		
B	Angel Investor	The angel investor wanted to meet the team and assess the people		
D	Angel Investor	Angel Investor D described the team as ambitious and "hungry"		
D	Angel Investor	Angel Investor D described the team as ambitious; it was a reason he voted for them to win the IRP-competition		
A	Angel Investor	The angel investor said that the founders were humble and confident at the same time, constituting a good impression	Coachability and Humility—"not acting like a world-champion"	
A	Angel Investor	The founders were benevolent and humble, not bragging and narcissistic		
A	Angel Investor	The Angel emphasized the importance of the founders' humility		
A	Angel Investor	The Angel emphasized the importance of the founders' humility		
B	Angel Investor	Angel B said that the team had a good adaptability: they listened to constructive feedback		
B	Angel Investor	The angel investor emphasized the importance of humility		
B	Entrepreneur	The entrepreneurs noted the importance of listening to advice from angel investors		
B	Entrepreneur	The founders were receptive, humble and honest		
B	Entrepreneur	The founders were receptive, humble and honest		
B	Entrepreneur	The new venture managed to balance humbleness and honesty with "selling"		
C	Entrepreneur	The new venture listened to advice form the angel investor		
C	Entrepreneur	The new venture listened to advice form the angel investor		
C	Entrepreneur	The new venture listened to advice form the angel investor		
C	Entrepreneur	The team wanted a culture where the founders and angels buildt something together		
C	Entrepreneur	Thee founders prepared answers and comments to feedback for the next meeting		
D	Angel Investor	The team possessed a "mental flexibility" and clearly showed an ability to listen		
D	Angel Investor	The team were not overly confident about themselves or the new venture: They were humble		
D	Angel Investor	The angel investor got an impression that the team were "mentally flexible"		
D	Angel Investor	The team delivered well on given tasks/assignment/questions		
D	Entrepreneur	Founder D and the team told Angel Investor D that they appreciated his advice		
D	Entrepreneur	The new venture deliberately showed that they were able to take advice from their mentors		
D	Entrepreneur	The team worked through their feedback thoroughly, analysing and discussing it		
D	Entrepreneur	The team showed coachability by taking feedback seriously		
D	Entrepreneur	Entrepreneur D told us that they viewed themselves as "totally noobs," showing humility		
D	Entrepreneur	The new venture were conscious about coachability, they knew this could be important to the investors		
D	Entrepreneur	The new venture were conscious about coachability, they knew this could be important to the investors		
B	Entrepreneur	The founders took personal economic risk	Dedication and Personal Risk and Sacrifice	
B	Entrepreneur	The founders took personal economic risk		
C	Angel Investor	The team were willing to make personal sacrifices to succeed		
C	Angel Investor	The team were willing to make personal sacrifices to succeed		
D	Angel Investor	The team were hard working		
D	Angel Investor	The team were willing to sacrifice a lot to make it work		
D	Angel Investor	Angel Investor D liked that founders prioritized the new venture over academic results		
D	Entrepreneur	The founders prioritized the new venture over academic results		
D	Entrepreneur	The founders prioritized the new venture over academic results		
A	Entrepreneur	The Founders showed dedication by travelling from another city to meet Angel A	Drive, Energy, and Industriousness—being responsive and alert	
B	Entrepreneur	The new venture had professional standards		
B	Entrepreneur	The new venture were quick and responsive		
C	Angel Investor	The team were seeking contact, open and easy to get in contact with		
C	Angel Investor	Angel C felt that the team had the guts to commercialize the product		
C	Entrepreneur	The angel investor saw that the founders worked hard and liked us as persons		
D	Angel Investor	The angel investor got the impression that these people were really responsive		
D	Angel Investor	The new venture gave the impression that they were responsive		
D	Angel Investor	The angel investor perceived the team as not lazy, but responsive		
D	Angel Investor	The angel investor described the team as hard working		
D	Angel Investor	The angel investor desribed the team as hard working hustlers		
D	Angel Investor	The angel investor said that they work hard to make this happen		
D	Angel Investor	The angel investor described the CEO as obviously hard working		
D	Entrepreneur	The team showed a good energy and drive		
D	Entrepreneur	The team talked with the angel investors outside of the planned sessions/question-rounds		
B	Entrepreneur	The founders had a frugal approach to spending	Frugality and Resource Effectiveness	
B	Entrepreneur	The founders had a frugal approach to spending		
D	Angel Investor	The team had a low burn rate		
D	Angel Investor	The angel investor believed the new venture could get a lot done for the money they have		
D	Angel Investor	The angel investor said that the team can get a lot done for a small amount of money		
C	Angel Investor	The team showed consciousness of their economic spending		
C	Angel Investor	Founder C had stamina and grit, and she showed this early on	Grit, Stamina, and Strength of Caracter	
D	Angel Investor	The angel investor praised the founders for persisting through hard times		
A	Angel Investor	The founders seemed trustworthy	Openness, Honesty, Transparency, and Trust	
B	Angel Investor	The angel investor praised the founders' openness and honesty		
B	Angel Investor	The angel investor praised the founders' openness and honesty		
B	Entrepreneur	The founders were receptive, humble and honest		
C	Angel Investor	The angel investor said that the founders being "honest and decent people" made him trust them		
C	Angel Investor	It was important to be conscious about challenges the new venture faces		
C	Angel Investor	The founders cannot only tell the "sun shine stories" and not all the challenges		
C	Entrepreneur	The angels showed great trust in the founding team		
C	Entrepreneur	The founders had been honest about things that have been difficult, negative, or challenging		
C	Entrepreneur	The founders had always been transparent and honest with their investors		
C	Entrepreneur	Entrepreneur C said that the trust is essential in an investment decision		
D	Angel Investor	The team were open		
D	Entrepreneur	The new venture discussed challenges with the angel investor, not only "things that were going well"		
A	Angel Investor	The founders were well prepared for their pitch meeting	Professionalism, Orderliness, and Thoroughness	
A	Entrepreneur	The founders got "prepped" by angel investors with pitching, due diligence, and "the tough questions"		
B	Angel Investor	The angel investor said that the team had defined their different areas of responsibility well.		
B	Angel Investor	The angel investor mentioned the founders' punctuality		
B	Angel Investor	The angel investor praised the professional quality of the founders' work		
B	Angel Investor	The angel investor mentioned the founders' punctuality		
B	Angel Investor	The angel investor said that the new venture could write and communicate well		
B	Entrepreneur	The new venture had professional standards		
B	Entrepreneur	The new venture acted professional in front of the investor		
C	Entrepreneur	During the investment round, the new venture attracted and "signed" strategical partners		
C	Entrepreneur	Founder C said that the founders are proper and orderly people		
D	Entrepreneur	Founder D sent out a monthly update email with sales numbers and general progress		
D	Entrepreneur	The team worked through their feedback thoroughly, analysing and discussing it		
D	Entrepreneur	The team made sure that they didn't have "the one big flaw" in their business case		
D	Entrepreneur	The new venture were conscious about coachability, they knew this could be important to the investors		

Appendix A: Complete Data Structure Inspired by the Gioia Approach

Case	Informant	1st-Order Label	2nd-Order Code	Aggregate Dimension
A	Entrepreneur	Founder A had an academic background from engineering and entrepreneurship at NTNU	Relevant Academic Background	Background and Experience
B	Entrepreneur	The CEO had a relevant academic background		
B	Entrepreneur	The CEO had a relevant academic background		
B	Entrepreneur	The foundeers had a relevant academic background		
D	Angel Investor	The team had relevant academic backgrounds		
D	Entrepreneur	The CTO had a relevant academic background		
D	Entrepreneur	The CEO had a relevant academic background		
B	Angel Investor	The angel investor emphasized that the team had practical experience from a student organization	Relevant Practical or Domain Experience	
B	Entrepreneur	The founding team had practical experience from a student organization		
D	Entrepreneur	The CTO had relevant experience		
D	Entrepreneur	The Head of Sales had relevant experience		
D	Entrepreneur	The CEO had relevant experience		
A	Entrepreneur	The founders got "prepped" by angel investors with pitching, due diligence, and "the tough questions"	Association to Entrepreneurial Support Organization	External Validation
B	Entrepreneur	The new venture "piggybacked" on the repuration of a sought-after accelerator program		
D	Angel Investor	The angel emphasized the importance of having "screened" new ventures to choose from		
D	Entrepreneur	The new venture participated in an investment readiness program		
D	Entrepreneur	The new venture participated in two investment readiness programs simultaneously		
D	Entrepreneur	The new venture participated in two investment readiness programs simultaneously		
B	Angel Investor	The angel noted the importance of a harmonized board of directors	Strategic Partnerships (organizations, board members, investors)	
B	Entrepreneur	Two of the founders had participated at NTNU School of Entrepreneurship, a sought after master's program		
C	Entrepreneur	A credible investor in the investment round said "yes" first thus vouched for the new venture		
D	Entrepreneur	The new venture included the board members in their presentation to build trust		
D	Entrepreneur	The new venture included the board members in their presentation to build trust		
D	Entrepreneur	The new venture included the board members in their presentation to build trust		
D	Entrepreneur	The new venture included the board members in their presentation to build trust		
D	Entrepreneur	The new venture were conscious with their communication of the board members.		
D	Entrepreneur	The new venture included the board members in their presentation to build trust		
D	Entrepreneur	The new venture used the credibility of a known personality in their presentations		
A	Angel Investor	The network is important to angel investors	Warm Introductions and Cooperating Investors—investor vouching for a new venture	Network Effect
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
B	Angel Investor	The angel investor said that network is almost at the top of the list of importancy		
B	Angel Investor	The angel emphasized the higher successrate of a recommended inquiry, compared to a "cold call"		
B	Entrepreneur	The new venture had a warm introduction to the angel investors		
B	Entrepreneur	The new venture had a warm introduction to the angel investors		
C	Entrepreneur	A credible investor in the investment round said "yes" first thus vouched for the new venture		
D	Angel Investor	The angel investor got a validating answer from some of the existing board members before investing		
D	Entrepreneur	Some of the investors in investment readiness program had a personal connection to the board members		
A	Entrepreneur	One of the Founders had grown up in the same neighborhood as the investor	Prior Relationship or Familiarity	
A	Entrepreneur	One of the Founders had a connection to one of the previous investors through his father—basically a FFF.		
B	Angel Investor	The angel investor said that network is almost at the top of the list of importancy		
B	Entrepreneur	Founder B believed Angel B was interested in sustainability, product development and hardware; a good match	Common Values and/or Interests	Rapport and Personal Chemistry
C	Angel Investor	The angel investor felt that he shared the same social values with the founders		
C	Entrepreneur	The founders "piggybacked" on the "goodwill" and "helpfullness" of the industry		
A	Entrepreneur	The new venture continued to "please" the investors after the investment is closed	Longevity and Familiarization—building rapport	
C	Angel Investor	The angel investor acted as a mentor before he invested		
C	Entrepreneur	The CEO says that the angel investor trusted them as a team as he had followed them for some time		
C	Entrepreneur	The new venture used the investor as a mentor before he invested in the company		
C	Entrepreneur	The team wanted a culture where the founders and angels buildt something together		
C	Entrepreneur	Entrepreneur C said that frequent contact was important, and it took time to build a relationsship		
C	Entrepreneur	The new venture were concious about building a relationsship with the investors as mentors before they invested		
C	Entrepreneur	It was "alfa omega" that they had a relationsship buildt on trust over long time		
D	Angel Investor	Founder D sent out regular reports. Angel A said this puts the new venture back in his mind		
D	Entrepreneur	The new venture's CEO sent out a monthly update email with sales numbers and general progress		
D	Entrepreneur	The Founder talked with the angel investor on the phone on average bi-monthly		
A	Angel Investor	The angel investor said that they did not feel to perform a huge due diligence, they only needed to like the founders	Sociability, Decency, Likability, and Personal Chemistry	
C	Angel Investor	The angel investor has to like the people, that is what it "boils down to"		
C	Angel Investor	The CEO and the others were nice people, that meant a lot		
C	Angel Investor	Angel C felt that the team had the guts to commercialize the product		
C	Angel Investor	Angel C felt that the team had the guts to commercialize the product		
C	Angel Investor	The angel investor said that the founders being "honest and decent people" made him trust them		
C	Entrepreneur	Entrepreneur C had a personal social tone with Angel C		
C	Entrepreneur	The angel investor saw that we worked hard and he liked us as persons		
D	Angel Investor	Angel D said that the founders reminded him of himself—providing a positive assosiation		
D	Angel Investor	The team—in addition to a high IQ—had a sufficiently high EQ to navigate the strategical landscape		
D	Angel Investor	The angel investor told us that he really became fond of the CEO		
D	Angel Investor	The CEO was a likable person		
D	Angel Investor	The CEO was able to get people "with him"		
D	Entrepreneur	According to Fonunder D, the most important factor for investment was that the investor liked the founders		
A	Angel Investor	The angel investor mentioned his criteria regarding environmental value	Social Value and Sustainability	
A	Angel Investor	The angel investor mentioned his criteria regarding environmental value		
B	Angel Investor	The angel investor had a requirement that the business idea should bring societal value		
B	Entrepreneur	The business idea contributed to environmental value		
C	Angel Investor	The angel investor required that the product brought social value to humans		
C	Angel Investor	The angel ivnestor emphasized the importance of social value in the product		
C	Angel Investor	The angel investor said that it was nice that the product has social value in addition to being good business		
C	Angel Investor	The angel investor liked that the product did something in addition to money, it had value beyond that		
C	Entrepreneur	The founders "piggybacked" on the helpful culture of the aid industry		

Appendix A: Complete Data Structure Inspired by the Gioia Approach

Case	Informant	1st-Order Label	2nd-Order Code	Aggregate Dimension
A	Angel Investor	The angel investor liked that the team was talented at collecting soft funding	Business Develpment Skills	Skills and Talent
A	Angel Investor	The team had credibility due to their competency, energy, and engagement		
B	Angel Investor	The angel investor wanted to meet the team and assess the people		
B	Entrepreneur	The new venture had the right competencies to commercialize products and grow the company		
B	Entrepreneur	NTNU School of Entrepreneurship had given two of the founders great business understanding		
D	Angel Investor	The new venture performed well when answering questions		
D	Angel Investor	The angel trusted the founders to pivot or adjust the business model in the future without problems		
A	Angel Investor	The founders gave a well-prepared presentation	Communication and Presentation Skills	
A	Angel Investor	The angel liked the founders' communication skills; the product was presented understandably		
A	Entrepreneur	The founders delivered a convincing pitch at the investor meeting		
A	Entrepreneur	The founders got "prepped" by angel investors with pitching, due diligence, and "the tough questions"		
B	Angel Investor	The angel investor has been in a relevant industry for 40 years		
B	Angel Investor	The angel investor has been in a relevant industry for 40 years		
B	Entrepreneur	The new venture connects to the interest areas of the angel		
B	Entrepreneur	The new venture manages to balance humbleness and honesty with "selling"		
C	Angel Investor	The angel investor had to understand the product and what it will be used for		
C	Angel Investor	The product had to be understandable, that was crucial		
D	Angel Investor	The CEO was specific and clear in what he meant; he communicated well		
A	Angel Investor	The investor did not perform a huge due diligence, he said: "in many ways you invest in the people"	Team Completeness—having a complementary and unified team: "the whole package"	
B	Angel Investor	The angel investor sayd that it was first when he met the team he was convinced that this idea had potential		
B	Angel Investor	The angel praised the founders' communication skills		
B	Angel Investor	The angel praised the founders' communication skills		
B	Angel Investor	The team were unified and had a common understanding of the company's vision and strategy		
B	Angel Investor	The angel praised the completeness of the team		
C	Entrepreneur	The team had a wide background, they complimented each other		
D	Entrepreneur	The team was complimentary, people with different skills		
D	Entrepreneur	The team didn't miss one of the key roles, such as a CTO.		
D	Entrepreneur	According to the CEO, the angel investor had on several occasions said that he believed in the team		
A	Angel Investor	The angel investor liked that the entrepreneurs were "good with numbers"	Financial and Accounting Skills	
B	Entrepreneur	The founders are good with business and "the numbers"		
A	Angel Investor	The angel investor said that they did not feel to perform a huge due diligence, they only needed to like the founders	Intelligence, Talent, and Business Acumen	
B	Angel Investor	The angel wanted to assess the founders in the new venture and what "lived" in them		
B	Angel Investor	The angel investor mentioned that the people affect him the most when assessing a new venture		
B	Angel Investor	The angel investors tested the founders' skills by having them perform business analyses		
B	Entrepreneur	Founder B responded to the angel investors "business tests"		
B	Entrepreneur	The founders are good with business and "the numbers"		
B	Entrepreneur	The new venture acted professional in front of the investor		
C	Angel Investor	The angel investor praised Founder C commercialization talents		
C	Entrepreneur	The team wanted a culture where the founders and angels buildt something together		
D	Angel Investor	The team consisted of smart people, who are intelligent. High IQ		
D	Angel Investor	The team—in addition to a high IQ—had a sufficiently high EQ to navigate the strategical landscape		
D	Angel Investor	They way the team talked gave a signal of intelligence and the ability to think		
D	Angel Investor	The angel investor got a positive gut feeling after experiencing how the team assessed challenges		
D	Angel Investor	The angel investor got an impression that the team were intelligent		
D	Angel Investor	The angel investor described the CEO as skilled and throrough		
D	Angel Investor	The angel investor described the team as smart		
D	Angel Investor	The angel investor described the team as smart		
D	Angel Investor	The team answered questions well		
D	Angel Investor	The angel investor described Founder D as obviously intelligent		
A	Angel Investor	The founders possessed logos; the right degree of technical competency	Technical Skills	
A	Angel Investor	The founders convinced the angel that they had the required technical skills		
B	Angel Investor	The angel investor emphasized that the team had practical experience from a student organization		
B	Entrepreneur	The founding team had practical experience from a student organization		
B	Entrepreneur	The founders have relevent academic backgrounds		
D	Entrepreneur	The CTO had a cool/funny backstory where he hacked away his abscence marks from high school		

Appendix A: Complete Data Structure Inspired by the Gioia Approach

Case	Informant	1st-Order Label	2nd-Order Code	Aggregate Dimension
C	Angel Investor	The angel emphasized the importance of market validation	Acquired Customers, and Market Validation	Traction
C	Angel Investor	The angel emphasized the importance of market validation		
C	Entrepreneur	The new venture secured their first customers; market validation		
C	Entrepreneur	The new venture secured their first customers; market validation		
C	Entrepreneur	The new venture secured their first customers; market validation		
D	Angel Investor	The angel investor emphasized the importance of customers		
D	Angel Investor	The angel investor emphasized the importance of customers		
D	Entrepreneur	The team had a total revenue of 1MNOK, proving they had some customers		
D	Entrepreneur	The team had a total revenue of 1MNOK, proving they had some customers		
D	Entrepreneur	The new venture had recurring customers		
A	Angel Investor	The angel investor emphasized importance the EU soft funding grant	Granted Soft-Funding	
A	Angel Investor	The angel investor said that the EU soft funding grant proved that this was a sellable case		
A	Angel Investor	They felt confident in their investment as the founders had shown skills in collecting soft funding grants		
A	Angel Investor	They felt confident in their investment as the founders had shown skills in collecting soft funding grants		
A	Entrepreneur	The new venture has generally been collecting relatively large amounts of soft-funding		
A	Entrepreneur	The new venture have been granted financial support from Norwegian grant providers		
A	Entrepreneur	The new venture have been granted financial support from European grant providers		
B	Entrepreneur	The new venture have been granted financial support from Norwegian grant providers		
B	Entrepreneur	The new venture have been granted financial support from European grant providers		
C	Angel Investor	Soft-funding in Norway was important, as it gave some extra pulling power		
C	Angel Investor	Soft-funding in Norway was important, as it gave some extra pulling power		
C	Entrepreneur	The new venture have been granted financial support from Norwegian grant providers		
D	Entrepreneur	The new venture has collected soft funding from a Norwegian soft funding grant		
A	Angel Investor	The angel investor recalled a sense of urgency. They used 10 minutes before confirming that they were on board	Momentum, Accomplishments, and Sense of Urgency	
A	Entrepreneur	The new venture have been granted financial support from European grant providers		
C	Entrepreneur	The new venture have been granted financial support from Norwegian grant providers		
C	Entrepreneur	During the investment round the new venture released their first product		
D	Angel Investor	The angel investor said that he joined a second round of investments as the new venture had wind in their sails		
D	Entrepreneur	The new venture collected another round on investment utilizing the wind in their sails		
D	Entrepreneur	They had accomplished much, even though there was a tough market		
D	Entrepreneur	The team referred to previous accomplishments to show they were a serious investment case		
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor	Raised Hard-Funding	
A	Angel Investor	The angel emphasized the importance of his relationship to a previous investor		
B	Angel Investor	The angel noted the importance of a harmonized board of directors		
B	Entrepreneur	The new venture have collected hard funding		
D	Angel Investor	The angel investor told us that there was a "sheep mentality" when other investors agreed to invest		
D	Entrepreneur	The new venture secured hard funding from an investment readiness program		
A	Angel Investor	The new venture brought a prototype to the pitch meeting	Showcasing Prototype	
A	Entrepreneur	The new venture brought a prototype to the investment meeting		
B	Entrepreneur	The new venture had created prototypes and conducted a proof of concept—with positive results		

Appendix B: Interview Guide for New Ventures

1 Formal Introduction

- "This is us," a quick intro about the authors and the thesis.
- We are recording and transcribing the interview.
- All files and transcriptions are confidential. They will not be published or handled by others. We will delete the files when we complete the thesis.
- Data included in the thesis is anonymized.
- The angel investor will not see or hear this interview, and vice versa.
- Do you have any questions for us before we begin?

2 Questions

2.1 Introduction

- What is your name, and how old are you?
- What is your academic background?

2.2 About the New Venture

- What is the name, and what is the business idea of the new venture where you work?
- In which "phase" or "stage" is the new venture in currently?
    - E.g., research, prototyping, commercialization, scale-up
- What is your role in the new venture?
- How long have you been working there?
- How long has the new venture existed?

2.3 Investments and Funding

- How much funding have you collected, and from whom?
- Did you have a relationship with the persons from which you received funding?
- How did you approach the funders?
- When did you contact the investors or funders, and how long did it take before you received the funding?
- How did you ensure progress in the investment process?
- How often did you have contact (phone, mail, face-to-face) between initiation until the funding was secured?
- How did you "convince" the investor or funder to grant you an investment?
- What was the feedback from the investor on you business case?
- What actions did you take to for the angels to perceive you as a "serious" investment opportunity?
- Which parts of you business case did the investor like?
- Which parts of you business case did the investor not like?

2.4 Legitimacy in a New Venture

Before continuing, we described the definition of legitimacy to the interviewees in a digestible format. We told them that legitimacy is what you do to be accepted by others. Actions that spark feelings of credibility and trust.

- How did you take action to build the legitimacy of the new venture?
- Which factors contribute to the new venture's legitimacy?
- How conscious were you of building legitimacy?
- Which examples can you think of that increased the venture's legitimacy?
- How did your team's background and experience affect the legitimacy of the new venture?
- How have you personally taken action to improve legitimacy?
- Which attributes about you and your team made it difficult to build legitimacy?

2.5 Legitimacy Towards Angel Investors

- How will you describe the angel investor?
    - E.g., professional, experience, industry insight
- What are you thoughts on legitimacy towards angel investors?
- Which actions did you take to build legitimacy towards the angel investor?
- When you were seeking investor capital, how big was the focus on legitimacy?
- Which parts of your new venture do you think the angel perceived as legitimate?
- What did you feel you have to "prove" during the investment process?
- Which factors were decisive for convincing the angel investor in you and your case?

3 Formal Outro

- Which questions do you have for us?
- Is there something you would like to say or discuss?
- Do you wish to read the thesis when we finish it?
- Remind the interviewee of the formalities regarding confidentiality.

Appendix C: Interview Guide for Angel Investor

Note: We adapted the interview guide for each of the four angels, based on the interview with the new ventures held before meeting with the respective angels. Thus, only a part of the questions was the same in all interviews.

1 Formal Introduction

- “This is us,” a quick intro about the authors and the thesis.
- We are recording and transcribing the interview.
- All files and transcriptions are confidential. They will not be published or handled by others. We will delete the files when we complete the thesis.
- Data included in the thesis is anonymized.
- The founders will not see or hear this interview, and vice versa.
- Do you have any questions for us before we begin?

2 Questions

Reminder to the angel investor: When we ask you these questions, we want you to consider the time when you assessed the new venture and the founders. The relationship, what happened in practice between you and the entrepreneurs, and your thoughts and perceptions are what is relevant for the thesis.

2.1 About the Angel Investor

- Who are you, and can you tell us about you background? Both professionally and as an investor?
- For how long have you been an investor, and how many new ventures have you invested in?
- How well do you know the industry in which the new venture operates?

2.2 About the Relationship and the Investment in the New Venture

- How did you first meet the founders, and how was the meeting?
- What were your first impressions of the new venture and the founders?
- What was it about the new venture that sparked an interest?
- How did the relationship between you and the new venture progress?
- What were you most skeptical about when assessing “yes” or “no?”
- Which practical actions did the founders do to spark more interest from your side?

2.3 About Legitimacy

Before continuing, we described the definition of legitimacy to the interviewees in a digestible format. We told them that legitimacy is what you do to be accepted by others, and actions that spark feelings of credibility and trust.

- What did the founders to build legitimacy in your eyes?
- How conscious were you on the notion of legitimacy when you assessed the new venture as an investment opportunity?
- What convinced you to invest?
- What was most important: the team or business idea—and why?

2.4 Case-Specific Questions

2.4.1 New Venture A

- You had recently met the founders, where they gave a presentation. What made you think, “we want to continue working with these people?”
- How significant was the influence of the investors from an earlier round of investments?
- How did it affect you that they had been granted EUR 2 million in soft funding?
- Founder A had a feeling that you enjoyed the pitch they gave. Is this true? What was it about the pitch that convinced you?

2.4.2 New Venture B

- Founder B said that you—compared to other angel investors—perform a more thorough due diligence. What is the main driver behind this?
- Founder B had a hypothesis that when they behave professionally and are responsive, this improves their legitimacy. What do you think when you hear this?
- How big of an influence was the reputation and brand of the sought-after accelerator program in which they participated?
- Founder B mentioned that you sometimes sends a link to an article and ask for a quick analysis of another new venture. What is the purpose behind this?
- There was an episode where the CTO shared challenges and risks with product development. He was maybe a bit “too honest.” What do you think about this?

2.4.3 New Venture C

- Founder C had a hypothesis that as they appeared as “honest and decent” people did that you could trust them. What do you think when you hear this hypothesis?
- How big of an influence was the first customer?

2.4.4 New Venture D

- What convinced you most about the new venture in the investment readiness program in which they participated?
- How did you feel the new venture managed to convince you and the other angels in the investment readiness program to invest?
- Founder D told us that some of the angels in the investment readiness program had a relationship with the board members in the new venture and had a conversation during the program. How big of an influence do you think this had?
- Founder D mentioned that they focused on receiving feedback and often followed up on the next occasion. How did this affect you?
- How great of an influence did the "quality screening" of the investment readiness program have on you in this process?
- The team's background is relevant to what they are doing. How has that influenced your perception of the business case?
- Founder D mentioned that they wanted to use their momentum and "wind in their sales" to raise a new round of investments, where you also participated. What made you want to join this following round of investments?

3 Formal Outro

- Which questions do you have for us?
- Is there something you would like to say or discuss?
- Do you wish to read the thesis when we finish it?
- Remind the interviewee of the formalities regarding confidentiality.

Appendix D: Examples of the Intangible People-Centric Mechanisms

Intangible, people-centric mechanisms from dataset Practical examples from case study results
Coachability and humility – "not acting like a world-champion" Case A: The angel investor perceived the founders as confident, yet humble. He also said that "There are many companies who have given me the impression that they already own the world. In those cases, I become very skeptical." Case B: The new venture had a conscious approach to coachability and said that "if they [angel investors] feel like they never 'break through' with their contributions, they lose motivation to help out further." Case C: The founders actively strived to make the angel investors valued through mentoring, for example by going to them and asking for mentorship within their area of competency Case D: The team were conscious in their approach to coachability by assessing feedback thoroughly. Angel Investor D said that their coachability gives him the feeling of "a hard-working, dedicated team, who "deliver" to investors and other team members, and showing signs of intelligence, mental flexibility, and non-laziness."
Intelligence, talent, and business acumen Case B: Angel Investor B sends small “analysis tests” to the CEO to test his business acumen, with two motivations: get to know the CEO better, and to discuss things he generally finds interesting. Case D: On several occasions Angel Investor D describes the team as smart, intelligent or with a high IQ
Drive, energy, and industriousness – being responsive and alert Case B: The new venture answered emails and inquiries from the angel investor quickly. Angel Investor B said this builds credibility towards the new venture. Case C: The entrepreneurs worked hard, giving Angel Investor C the perception that they had the guts to make this happen. Case D: The entrepreneurs showed good energy, drive, and accomplishments, even though the market was resistant. Angel Investor D described the entrepreneurs as “hard-working hustlers.”
Professionalism, orderliness, and thoroughness Case B: The team had a conscious approach to “being professional.” The CEO said they received praise from Angel Investor B on their professionalism, which increased the angel’s trust in the new venture. Case D: The CEO sends out a monthly newsletter updating all investors, and the new venture managed to fill all key positions and have “no missing parts” in their business case, i.e., be thorough.
Sociability, decency and likability; personal chemistry Case A: The angel investor told us that “contrary to VCs who search through all existing data on these guys [the founders], we meet them, and if we like them, we give them 2 million over the table.” Case B: Angel Investor B is fond of the founder’s manners: “You have to be punctual, clear in your message and polite. You need to have ordinary politeness.” Case C: The angel investor told us that he perceived the founders as nice people, and that gave him the belief that they possessed the abilities required for the new venture to become a success. Case D: Angel Investor D told us that he became fond of Entrepreneur D and called him a likable person.
Openness, honesty, transparency and trust Case B: The CTO presents product weaknesses to the angel investor, resulting in increased trust in the new venture, and an increased perception of their attitude towards quality. Case C: Entrepreneur C is open about negative news and challenges, not only positive news. For the new venture, it has been “alfa and omega” to build a relationship with the angel investor based on trust.
Complementary and unified team; team completeness; "the whole package" Case B: Angel Investor B was first convinced to invest after he met the team. The founders complemented each other, they were aligned, they were good at communicating, and they collaborated well. Case D: The new venture managed to fill all key roles of the team, such as a CTO.
Longevity and familiarization; building rapport Case B: Angel Investor B is interested in finding out what “lives” in these people, by getting to know them better and asking many questions. Case C: The new venture used Angel Investor C as a mentor before he became an investor. The CEO told us that it is “alfa and omega” that the investor knows the team, that frequent contact is important, and that it takes time to build a relationship.
Communication and presentation skills Case A: The founders gave a convincing pitch during their first meeting with the Angel Investor A. Case B: The new venture was able to communicate the social value of the product.
Social value and sustainability Case A, B, and C: The angel investors said that they care whether the new venture contributed to either social or environmental value. Case A: The angel investor is interested in investing in technologies considered “green tech.” Case C: The social value of the product is equally as important to him as the market potential.
Dedication, personal risk, and sacrifice Case B: The founders personally invest by having low salaries, loans, and being guarantors. Case C: The angel investor praised the founders’ dedication through low salaries. Case D: The entrepreneurs prioritized the new venture above academic results during the exam period.
Relevant academic background None of the angel investors emphasized the formal education of the new ventures' founders. All new venture informants possess a master’s degree from a highly regarded Norwegian University.
Business development skills Angel Investor A said that he liked that the team was talented at collecting soft funding grants. Entrepreneur A, B, and C have all completed NTNU School of Entrepreneurship, providing them with a foundation of business development understanding.

Technical skills
Case B: The founding team have five years of practical experience from a university engineering association. Angel Investor B put a lot of emphasis on this practical experience in his decision. Case D: The CTO does not have a strong academic background but is mostly self-taught. Angel Investor D said he is well equipped for the job he is supposed to do. In high school he hacked the school's data system to remove his absence marks, i.e., the days he did not show up for school.
Ambition, vision and "hunger"
Case A: The CEO, "the visionary," impressed the angel investors with his vision for the company Case D: Angel Investor C described the team as "ambitious" and "hard-working hustlers."
Frugality and resource effectiveness
Case B: The CEO said they have a generally "low spending approach" to show investors that the new venture spends their money effectively. For example, they took low salaries and rented cheap office spaces. Case C: Angel Investor C said the entrepreneurs understand the difference between 1$ and 50 cents. Case D: The angel investor noticed the new venture had a low burn rate and managed to get stuff done for a small amount of money.
Relevant or practical domain experience
Case B: The founding team have five years of practical experience from a university engineering association. Angel Investor B put a lot of emphasis on this practical experience in his decision. None of the other angel investors emphasized the practical or domain experience of the founders.
Financial and accounting skills
Case B: The angel investor praised the founders for understanding the economic aspects of the business, not only the tech.
Common values and/or interests
Case B: The new venture's operations coincided well with the interests of Angel Investor B. The new venture contributes to societal value, they are doing product development, and hardware. Case C: Angel Investor C felt that he shared some of the founders' values in the context of creating products that provide social value.
Grit, stamina, strength of character
Case C: Entrepreneur C convinced the angel investor that they had the stamina to "make it happen." Case D: Angel Investor D never doubted the team, even though the market was resistant.

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