Journal of Business Strategies, Vol.13, No.1, 2019, pp 161–182 *DOI:10.29270/JBS.13.1(19).10*

BUSINESS ANGELS AND INVESTMENT REJECTION REASONS: A QUALITATIVE STUDY BY USING EXPLORATORY SEQUENTIAL MIXED METHOD

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ABSTRACT

The main focus of this study is to evaluate the decision-making process of business angels and the reasons for which they reject investment opportunities. According to heterogenetic views of business angels, their investment criteria might be different corresponding to their knowledge and preferences. The data of nineteen (19) business angels from different cities of Pakistan was collected by face to face interviews, through phone calls, and email interviews. The study confirms that the rejection reasons are mostly related to the management team and entrepreneur. However, they do not predict the reasons for rejection of investment opportunities nor do their characteristics clarify the number of rejection reasons. This could be due to the trend of business angels to join groups of business angels and through shared experiences, for which they behave accordingly. Unlike previous studies, this paper provides guidance to entrepreneurs with reference to Pakistani business angels, about which reasons to be avoided to get investment opportunities. Moreover, it provides actual investment criteria for business angels.

Keywords: *Business Angel; Investment Rejection Reason; Opportunities; Entrepreneur.*

INTRODUCTION

Development of new business ventures is highly beneficial for firms and for every economy (Khan & Lew, 2018), but usually there is a stern constraint in starting new business ventures, that is, the unavailability of sufficient funds (Fisch, 2019). It is a fact that angel investors or the Business Angels (BA) are the main sources of financing for new ventures for their start-up and growth (Mason & Harrison, 2015). Business angels are the people who invest their money in businesses to support them efficiently. Several previous studies conducted have also shed light on the impact of business angels on numerous activities of new ventures (Ughetto, Cowling, & Lee, 2019). Nevertheless, a lot of investment actions have been occurred but not managed properly to be documented, thus now these investment activities are being managed by angel groups (Colin Mason, Botelho, & Zygmunt, 2017). Through this, the investments could be documented, just like using associations of national angels. Business angels have dominated the preliminary stages of investment as this evidence is sure about speculative estimates done previously. The network of the Pakistan business angels shows that business angels are ready to invest in the country according to their affordability and preferences. There is no fixed rule about the minimum and maximum amount of investment and every individual sets a fixed amount of investment according to their capability. Nowadays, angel investors are increasing their investment sphere worldwide (Mason & Harrison, 2015).

Investors mostly rely on their relationships and less formal techniques to select ventures for investments. Most importantly, they adopt herding behaviours when they intend to make any investment decisions. Herding behaviour occurs when nearly all business angels select the same investment criteria by considered by other investors without rationality. One business angel takes guidance from the procedure of another business angel's investment criteria. According to Fisch (2019), this type of behaviour occurs due to the reason that managers ignore private information to maintain their reputation and go for imitation of other's procedures. Due to this reason, the procedure for investment rejection becomes the same for most of the business angels which lead to a higher number of rejections of investment opportunities. While investors are sure that they are more rational and getting information more easily, they tend towards excessive confidence and herding behaviour (Prohorovs, Fainglozs, & Solesvik, 2019)

Angel investors are mostly converting into groups, so their financial capacity increases, consequently, they make large investments as compared to investments made individually (Mason, Botelho, & Harrison, 2013; Mason & Harrison, 2015). Business angels prefer to invest in businesses that are innovative, involve more technology, and have more chances of growth. Therefore, the Government emphases on angels to support new ventures (Firms, 2011; Robson, Wijbenga, Parker, & Mason, 2009). If we want to know how the market works, it is important to create more in-depth understanding about the participants of angel investment (angel investors, entrepreneurs, people who make policy, advisors, and potential angel investors) to know the worth of angel investment. The critical issue in this regard is the decision of angel investors because they reject a lot of deals of investments. According to a study conducted in Canada (Haines Jr, Madill, & Riding, 2003), angel investors reject investment opportunities one out of forty of deals presented, 73% deal are rejected on the bases of first impression of ventures, 16% at the screening stage, and 6% at the stage of due diligence, subsequently only 3% deals are accepted.

According to a study conducted in the UK by Pedchenko, Strilec, Kolisnyk, Dykha, and Frolov (2018), angel investors affirm that from all proposals, only 30% go beyond the screening stage and the percentage of attracted proposals is less than 3%. According to Geibel and Yang (2018), in Quebec, a group of angel investors accepted that only 2.4% investment opportunities, while (Tenca, Croce, & Ughetto, 2018) noted that only 4% proposals presented to the Italian angel group became successful in screening stages. The high percentage of rejection investment deals induces people to do more research to know the criteria of angel investors so that the factors that cause rejection can be mitigated. Research shows that those proposals which pass the screening stage have more chances of acceptance at further stages, so emphasis is being changed with the passage of time (Brush, Edelman, & Manolova, 2012; Haines Jr et al., 2003; Maxwell, Jeffrey, & Lévesque, 2011; Mitteness, Baucus, & Sudek, 2012; Paul, Whittam, & Johnston, 2003). However, these studies omitted the reasons for rejection of investment opportunities. Although Feeney, Haines Jr, and Riding (1999) noted some reasons for the investment rejection, these reasons show only a small image of rejection reasons. Therefore, the focus should be on rejection reasons because these are most important for entrepreneurs. As compared to the previous literature, this article contributes specifically about rejection reasons. Primarily, a few major issues have been observed inn this essence which include: what are the reasons for which angel investors reject investment opportunities?; Is there a single deal killer, if not then how many reasons are proposed by angel investors?; Whether angel investors reject investment due to the same reasons, or is there a diversity of views? And lastly, to what extent do the personal characteristics of angel investors cause a deal killer?

LITERATURE REVIEW

There is an extensive research conducted in different countries to find out the BAs criteria for investment opportunities based on questionnaire surveys, and by enlisting different factors (White & Dumay, 2017). The actual style of the questions differs; for example, business angels make investments in businesses that close the equity gap and also provide guidance and support to their investee companies. Brettel (2003), asked for factors which are considered, inducing business angels, and making informed investment decisions. In this study, we outline a group of informal investors, their criteria of investment and the nature of their referral network. The study supports the results of earlier studies (Haar, Starr, & MacMillan, 1988) and indicate how well BA's prioritize their criteria for investment (Sudek, 2006).

Many of the researchers consider the angel's investment criteria as a stepwise process. In the early screening stage, it is important to consider what the business agency is about (Mason et al., 2017). On the other hand, according to Prohorovs et al. (2019), angel investors are much more concerned about their contribution to the business than their financial contribution. Some researchers focused on the decision stage to consider the assessment criteria of business angels as highly important in this regard, much importance is given to the abilities and track record of angel investors for the investment process (Feeney et al., 1999; Mason & Harrison, 1996). While coming close towards a decision, angel investors find it difficult to balance between risk and reward. It might be possible that expected results are not as same as our actual results, then how could anyone compare such type of risk with predicted returns? According to Payne, Bettman, and Johnson (1992), an angel investor may face a problem that includes clash, ambiguity, and complications. The clash reflects upon the larger facts of the decision. While on the other hand, ambiguity may arise where provoking doubts about the abilities of entrepreneurs' business abilities evolve. Lastly, the complication problem surfaces when the investment opportunities available will be more than one or the member of investment association has different opinions about the commercial feasibility of the business plan. The prediction of the angel investor about the abilities of the entrepreneur include assessment of the entrepreneurs about the strategies that are used for marketing (Mason et al., 2017), and also the estimated financial values of the business (Franić & Drnovšek, 2019). The angel's needs and requirements connected to the investment opportunity should be settled with the entrepreneur's requirements as an ultimate decision (Block, Fisch, Vismara, & Andres, 2019).

It is reported that some informal investors also directly invest in unlisted companies where they had no prior familiar or formal networks (Reitan & Sorheim, 2000). Some studies based on interviews explored the reasons that influence business angels to invest in an opportunity and asked for what the factors that influence them to invest in the chosen firm (Feeney et al., 1999). The justifications that prompt investors to reject opportunities are not simply the inverse of reasons that prompt them to invest. However, the findings indicate that an angel group's importance is to increase the investment sphere. Tuomi and Harrison (2017) have explored how BAs undertake the decision-making process, observing how it differs from others. There is an evidence available that angel investors not just remain calm with their financial contributions, but they also concern about after investment decisions; about their effective participation based on their skills, abilities and prior experience, to add some value to the business (Mason et al., 2017). The angel investors who have enough finance needs not to wait for perusing other opportunities unless the prior investments give rewards but the angel investor's experience with one firm advocates him about investing in further consequent opportunities.

Evaluation of Investment Opportunities

Tenca et al. (2018) suggest some essential points about the evaluation of investment criteria. It is observed that when angel investors come to know about an investment opportunity, their first question is to check how good that plan meets their investment criteria. This criterion may involve knowledge of the entrepreneur about the market, finance required for investment, and maybe the location of the proposed business(Kafeshani, Rezvani, Chitsazan, & Kazemi, 2018). Business angels thus quickly screen out what plans fall under their criteria. This quick assessment is to decide if the proposed plan is valuable enough to spend time for its further assessment (Pedchenko et al., 2018). Angel investors beforehand develop their mind due to their prior experiences. Therefore, they try to find rejection reasons; these are called "three strikes, and you're out" (Mason & Rogers, 1996; Mason & Rogers, 1997). According to Mason et al. (2017), angel investors look for a little flaw to reject investment opportunity, but it is strongly believed that rejection is not based on a single typical deal-killer, rather it is comprised of multiple reasons

(Pedchenko et al., 2018). At this stage, product and monetary factors are not as important as the importance of market and abilities of an entrepreneur. There is no doubt that angel investors always show reservations about financial projections for the new businesses. However, they want to see the potential of a return on investment and the purpose for which they are investing their money. Some investors will be stretchy and want to compensate it as a criterion but others will see it as non-compensatory (Kafeshani et al., 2018).

Angel investors first screen out specific opportunities so that they spend time on such opportunities that have some capacity for financial returns. Besides this, there are also some techniques to evaluate the business plan. Angel investors go through the details of the whole business plan, the commercial values, see the locations, using their special references to collect better information about the market and more than this. The most active part of the process is to conduct a formal or informal meeting to know about owners personally (Bessière, Stephany, & Wirtz, 2019). There might be telephone calls, special summits, documentation, queries, enquiries, and questions (Argerich & Cruz-Cázares, 2017). It is also observed that many angel investors use their intuitive feelings and perceptions to decide on investment rather than implementing the whole official procedure (Block, Fisch, Obschonka, & Sandner, 2019). Angel investors focus on entrepreneurs at this point, concentrating on the requirements, personal references, trustworthiness, cultural, reliability, and frankness (Geibel & Yang, 2018).

Rationale for Rejection

They may be willing to trade off financial returns if they know the products are socially beneficial. It is also important to note that most BAs undertake inadequate research and due diligence before investing and spend fairly little time on discussion and negotiation (Mason & Harrison, 1996), making their assessments more on "feeling than analysis" (Mason et al., 2017). Although the qualitative study explored the significance of motivation, integrity, and competence of the entrepreneur (Pedchenko et al., 2018), there are slightly fewer suggestions about the rejection of investment opportunities; as it is a subjective matter. However, mostly, it is accepted that the investment opportunities are rejected due to the deficiencies of entrepreneurs. Croce, Tenca, and Ughetto (2017) noted that 80% reasons of rejections related to the angel's lack of confidence upon managerial skills of principals and due to their typical deal killer;

including poor personal chemistry, absence of belief, hopelessness, irrational expectations, absence of eagerness to share possession and accept the involvement by the venture capitalist (Franić & Drnovšek, 2019). The failings of an opportunity and the appropriate traits of an opportunity, while overlying is not similar to others. The primary deal killer is poor management rather than the ability of management, irrespective of its importance. In its place, angels mostly emphasize the opportunity that is growing and not seeing the skills of the entrepreneur. It is not just the opposite of poor management to enable the potential of the business (White & Dumay, 2017). When opportunities come, their investment criteria change according to the different stages of the investment process (Croce, Tenca, & Ughetto, 2016; Feeney et al., 1999; Riding, Duxbury, & Haines Jr, 1995). It is possible that angel investors reject a business plan just because the return expected is not enough according to their requirements. There are also chances that business angels reject investment opportunities due to the high risk expected. The business angel's assessment risk is the possibility of failure to succeed. The risk might include technology risk, peoples' risk, or financial risk.

Many past studies have found that BAs' decision about the rejection of investment is based on managerial risk. They study the characteristics, abilities and skills of entrepreneurs team members properly to assess whether they are capable because the current behaviour of entrepreneurs may predict their future behaviour (White & Dumay, 2017). The appearance of unnecessary characteristics of entrepreneurs shows their bad decisions in future, which might reduce their chances of getting investment. It is understood just as an expression of overconfidence, which increases regulatory risk. Another important reason for rejection is unnecessary relationship risk, due to which an entrepreneur will likely to put his interest over and above the interest of an angel investor. BAs judge this risk by evaluating the expression of trust from the heretical behaviours of entrepreneurs, which may decrease the assurance of relationship and will increase the insight about excessive relationship risk. It can happen due to the lack of trust-building behaviours or due to the extravagant trust-breaking behaviours. Trust-building behaviours can be increased by showing his control upon trust-breaking behaviours. Moreover, there is a difference between trust-breaking and trust violence. In trust violence, the person intends to be involved, while in the trust-breaking behaviour, the intent of the person is not to be involved (Croce et al., 2017). Investment opportunities are mostly affected by the source of investment opportunity, whether they should proceed further or not. The opportunity that comes with referrals keeps fewer chances of rejection as compared to the opportunity that comes from an unfamiliar source.

Rejection at Different Stages

The business angels that are experienced look carefully at each stage to make their decision better and to assess the investment opportunity efficiently (Payne, Bettman, & Johnson, 1988). But some researchers are of the view that at a later stage, angel investors need more cognitive power to evaluate investment opportunities because some opportunities remain under consideration. In the early stages, business angels mostly use non-compensatory techniques, where one flaw is enough to reject investment opportunities (Maxwell et al., 2011). If business angels in the start evaluate that the return would not be enough, then they might reject such a business plan. Return of business angels is calculated as the amount they would receive at the end when they can exit, divided by the initial investment by the business angel. Angel investors mostly rely on referrals from familiar people because in this way, the people who refer proposal, their credibility might be at risk. Referrals from familiar venture capital funds are more likely to pass through a screening stage (Sun et al., 2016). After this, they see whether the proposal matches with their knowledge and criteria (Mason & Rogers, 1997; Mitteness et al., 2012). After the screening stage, the criteria become easier and the chances of proposal acceptance increases. According to Mitteness et al. (2012), the significance of entrepreneur matters considerably at the screening stage, but when angel consider whether he should move towards the due diligence, its importance declines. It is also important that at the screening stage, angels mostly rely on computable criteria but after increasing analysis, it depends on less computable criteria, such as the passion and commitment of entrepreneur and their credibility (Brush et al., 2012). The opportunities that do not pass through screening stage, are mostly due to accumulation of lacking factors, Mason et al. (2017) called it a “three strikes & you are out” approach but Mason and Harrison (1996), reported that if opportunities fail at later stages, it is due to one deal killer.

Angel’s Tough Criteria

Due to the agency problems, angels put great emphasis on entrepreneur related to the tough criteria and typical deal killer. There are two reasons: first, according to agency theory, there might be a goal conflict between principal and agent because in this case, the agent (entrepreneur) may adopt opportunistic behaviour that may damage the financial interest of the angel investor. According to Landström (1992), there is no such opportunistic behaviour between these two parties. But their relationship mostly relies on interactive trust (Kelly, 2007). Secondly, there are information irregularities; either information is so expensive or difficult to understand, or even unavailable. In this situation, for an angel, it is tough to know the competencies of the entrepreneur or may the agent misrepresent himself in front of an angel investor, the whole risk is on the angel's shoulder. To mitigate this risk, angel investors directly involve with their investee firms (Levratto, Tessier, & Fonrouge, 2018). Besides this, the background of the entrepreneurs' matter. In short, the agency problem is reflected due to the angel's focus on choosing the right entrepreneur (Hsu, Haynie, Simmons, & McKelvie, 2014). According to Tuomi and Harrison (2017), angel investors focus on certain points: they make fewer investments as compared to venture capitalists so they do not focus on more analysis, but they mostly rely on the entrepreneur to manage market risk. As a result of this criterion, they focus on agency problem by emphasizing on finding a trustworthy and competent person.

The Impact of Angel's Individualities

One of the major issues is to find out how BAs differ in the evaluation of investment opportunities. As the angel investors are human beings with different minds, their differences in decision making may be due to the heterogeneity of human capital. According to Grilli (2019), decision-making standards are related to the individual's minds and may differ according to their assessments about the new venture. The industry experiences of different angel investors can have strong effects on their decisions about funding opportunities (Hoyos-Iruarrizaga, Fernández-Sainz, & Saiz-Santos, 2017). The differences in their requirements do not seem to be large enough because mostly they follow shared experiences. Most of the BAs share their experience with other BAs, and those requirements become selection standards; due to which, the chances of different opinions are less.

RESEARCH METHODOLOGY

The main purpose of this research was to find the correspondent responses toward the business angel's rejection criteria of investment opportunities. For this purpose, the philosophy used in this study is interpretivism (there is interference in research data or things), and inductive approach is applied to access the problem and provide a solution, as the research is started from specific and made general. The method used in this research is qualitative related to the subjective thoughts of respondents. The nature of the study is analytical in which the earlier research was conducted in different country business angels, and this research is conducted on Pakistan's business angels. The data was collected at one time from multiple respondents.

To fulfil the research purpose, all the business angels of Pakistan were targeted. This sector is related to the services of business angels toward entrepreneurs and venture capitalists. The reason for choosing this sector is that this sector has much expansion today, and they are further moving towards growth, moreover it is a vibrant sector as these business angels have invested in almost 50 industries in Pakistan. The researchers had known chances to select the sampling because only registered BAs in Pakistan business angels' list were chosen. For this purpose, a systematic sampling technique was adopted. For qualitative research, no predefined sample size is required. The procedure to use data collection was interviews. Interviews with 19 business angels that were listed on the Pakistan business angels list were conducted

The first source was face to face interviews with ten business angels based in Pakistan undertaken during the first quarter of 2017. The second source was phone calls and email interviews with nine angels based in Pakistan undertaken during the second quarter of 2017. The participants in the interview survey were mostly middle-aged (average age 48 years), and 90% of the respondents were male participants who had a university degree, whereas, 50% had a professional qualification. Remaining 10 % were female participants. The questions were adapted from the previous research of (Mason et al., 2017) and modified in the local context. For analysis, NVivo software was used as the analytical tool. The frequency of the word, matrix query and coding query through the NVivo software were checked. Under the ethical protocol, permission was sought from the authors through e-mail to use their questions in this research study. It was decided that the current authors will be responsible for business angels' confidentiality in the current research.

Data Analysis

The data for this study is collected by two sources. The first one is face to face interviews from 10 angel investors, and the second source is data collected from 9 angels through phone calls and emails. This analysis shows that on average, the age of angel investors was 34 years, which means, the angel investors were mostly young people and most importantly, all investors were men. The angel investors believed that to become an angel investor age is not important, but it should be at least 18 years so that a person is mature enough to make a good decision. In the research sample, the least aged person was 27 years old, and the person who was the highest age was 42 years old. They were all energetic, and they respond to the authors appropriately.

Analysis about qualification in which it is observed that 90% of the investors hold a university degree and most of them did MBA, but all of them were with the same view that for this purpose, qualification is not necessary. But they affirmed that they should know the market and should have experience about how to judge the behaviours of entrepreneurs to evaluate whether they have certain capabilities, or they are exaggerating. It does not mean that qualification does not give them benefits. but they mostly decide investment according to their experience and gut feelings. Some of the investors hold a professional degree relating to business investments. The investors on aggregate entertained 152 investments and on average entertained eight investment opportunities, and by average, they have been involved in investment for almost seven years.

In the past, angel investors were not involved in groups, but nowadays, they prefer to join a group so that they can participate in big investments. For new ventures, it is a good advantage because the businesses that require a huge amount of money can procure it easily, however they must prove that they are capable of getting investment. The number of business angels who join BA groups is increasing day by day. But in Pakistan, it is still at a low level as there are a lesser number of angel investors, and mostly they are working alone. Amongst all angel investors, only 34% of the investors engaged in an angel group, and they do so to increase their capacity to invest in big business plans, but 64% of the investors like to invest alone.

Angel investors are the people who are investing in different businesses as they provide investment, so most of the angel investors do not show confidence in many business plans presented. They mostly prefer to modify business plans according to their preferences. BAs have much information about the market and the businesses in which they go for investment. There are sporadic chances that they invest in such businesses about which they did not know before. It happens when they are strongly convinced by entrepreneurs. They mostly avoid managerial risk, excessive relationship risk, and financial risk. If people come with plans that are rigid and cannot be changed, mostly, such plans are rejected. Therefore, the plans should be flexible that can be altered according to the preferences of business angels.

The analysis also shows the rational decision making of business angels. They carefully observe all points about an investment opportunity, entrepreneurs, premises etc. It should be noted that if they feel that the entrepreneur is not genuine rather trying to exaggerate, does not portray openness, integrity, trustworthiness, and honesty; they do not entertain such business proposals. Mostly, business angels were of the view that rejecting an investment opportunity due to the reason that angel investors dislike a person is completely an irrational decision. They carefully see each and everything about a business plan. If a business plan is attractive and according to their requirements, they entertain such projects because they are mostly concerned about their returns rather than their likeness or dis-likeness. They conduct detailed evaluation criteria to make a choice of a perfect plan that meets their requirements. BAs do not like any unrealistic plans which do not have genuine feasibility, financial projections, and other important things. As they are experienced persons, they can easily identify unrealistic plans. Entrepreneurs should develop each and everything according to the market and should include realistic figures in their business proposals.

The data in the study is coded systematically using an axial coding approach in which the process of development of categories and linkage of subcategories with them is involved. The basic purpose of this technique is to identify how many deal killers were stated and to assess the description of that deal killer. There were two levels of a coding system. The first one is investment criteria, and the second one is comprising on the detail of investment criteria, to know in-depth about the investment rejection reasons. An independent t-test was conducted to compare the means of rejected investments for a particular reason with those investments which were rejected due to any other reason.

Reasons for Rejection Investment Opportunities

Thirty-three deal killers were provided by 19 angel investors. Therefore, averagely 1.7 deal killers were provided by each investor. Most of the reasons were related to people's factor, and the other factors were related to market, product, finance, and investor interest. There were four types of responses given by investors. Following were the statements extracted from interviews:

1. The first was related to people who were not straight, honest, and trustworthy.
   - You do not trust people if they are not straight forward and trustworthy that is always a worrying situation.
   - It is extremely uncomfortable when people do not tell the truth or tell half-truth and half lie.
   - If they hide some material information, obviously they do meet not satisfactory criteria, but it is also important to learn the motive behind the lack of disclosure. Answering "why" someone does something helps to improve my approach (either about people, due diligence on investments, or reward mechanisms).
   - If I feel any sign of duplicitous behaviour, it is a huge deal killer.
   - If they are open and answer questions without exaggeration, there are many chances of getting an investment of such persons, but the business idea also matters.

2. Angel investors select the persons who are well-informed and competent.
   - If people come here and do not exhibit enough knowledge and understanding about the market on which they are focusing, it would be a deal-killer because if they are not much aware about market or competition, they cannot run a business successfully.
   - I cannot trust a non-professional who engage without payment.
   - I ask some questions according to my experience; if they give answers quickly without searching, it means they are not lying, and they know each and everything, but if I realize that they are lying, I do not invest in their business.
   - As I am investing in different business plans from past 16 years, I have much experience in businesses that are related to my interest. Therefore, in every business plan, I make modifications if I feel any deficiency. It means I do not accept any inflexible proposals.

3. Entrepreneurs should exhibit reality.
   - The purpose of the business plan is to put together the entire thought process. The outcome, or plan, is not important. What I am looking for is if the entrepreneur has understood the need, a

clear solution that is better than the competition, knows how to sell it and what resources it will require.

- I know better about the market and competition, so in case of the wrong valuation, I would prefer to reject such business plan.
- It is not fine to be unrealistic in making a business plan. The business plan should be realistic otherwise I reject such proposals which lead towards any unrealistic information

4. Angel investors find their rapport with entrepreneurs.
   - Mostly, I prefer those persons with whom I have personal rapport, but if a business proposal fulfils all my requirements, I would surely invest in such business.
   - It is not rational to reject those people that you do not like, but you must be able to have an open conversation constructively.

Impact of Personal Characteristics

Some studies suggest that the personal characteristics of business angels can affect their criteria of investment, but according to this study, the personal characteristics of angel investors do not affect their investment criteria. One reason is that this study includes all experienced and professional persons for interviews. They chose rational decision making; therefore, their values and traits do not affect investment criteria.

DISCUSSION & CONCLUSION

Discussion

Most of the investment opportunities that business angels receive are rejected. This paper is particularly extracting the points about what are the criteria of investment of business angels and why business angels reject most of the investment opportunities. This study provides almost all the reasons that occur during the decision process of angel investors due to which proposals are rejected. New ventures can benefit from avoiding those reasons. According to Thiault et al. (2018), it is human nature that when he feels any decision complicated, he converts that decision process into small stages and makes small decisions according to those stages. Mason et al. (2017), also proved that when individuals get complication in the decision-making process, they make it a step by step job to achieve it. That is the reason that angel investors look at investment opportunities at various stages. They spend less time on the screening stage to immediately realise whether this opportunity is good enough to spend more time for detailed investigation. Most of the investment opportunities are rejected in the initial stage, and less are rejected in the next stages. They receive several investment opportunities, and most of them are rejected due to which they develop a negative perception in their mind about every new opportunity. Therefore, they try to find faults to reject opportunities. New ventures should beforehand complete all their requirements so that business angels cannot get any chance to reject it.

CONCLUSION

Business angels are the main source of funding for new ventures. They provide resources and valuable information to which entrepreneurs use to make their businesses successful. They receive multiple investment opportunities, but most of them do not meet their requirements due to which they reject those investment opportunities. This study guides the selection criteria of business angels and what are the reasons due to which they reject most of the opportunities. In this study, a sample of 19 business angels was selected from Pakistan, and one criterion was adopted for selection of the sample, and that was to add only registered angel investors. The data was collected through interviews. Ten interviews were conducted face to face while the remaining nine were through phone calls and emails. Substantial research studies are available that elaborate the investment criteria of business angels, but very few are particular to rejection reasons. According to White and Dumay (2017), it is illogical not to refer to rejection reasons with investment criteria of business angels. This paper elaborates many reasons for rejection, but it is found that entrepreneurs are the main reason of rejection of investment opportunities when they are not experienced, trustworthy, straightforward, realistic (particularly about financial projections), honest, and believable. Angel investors make investments based on experience; therefore, if they feel any dishonesty, they reject that investment plan. It shows that most of the investment opportunities are rejected due to one or two reasons only, and most opportunities are rejected at the first stage. If investments pass the initial stage, they are less likely to be rejected from that investment. However, there is no association between angel characteristics and their decision criteria about rejection opportunities. That is because the sample consists only of experienced business angels. Therefore, we can argue that their approach is differentiated according to their earlier experiences. Besides this, the shared experience of angel investors with other investors makes a standard, and most of the angel investors then make decisions according to that shared experience. Most importantly, their characteristics differences do not differentiate their investment decisions.

In Pakistan, business angels do not have any particular criteria for the minimum and maximum amount of investment. They take this decision according to their affordability and attractiveness of business and entrepreneurs. In this process, affordability matters considerably, thus many investors nowadays prefer making groups to enhance their financial position. According to Tenca et al. (2018), the increasing number of business angels are giving rise to the practising community. Most of the business angels are linked with each other, and their continuous engagement in investment opportunities provide them ideas, experience, repetitive tools, stories, and methods that become standard of investment for other business angels. These experiences are shared with other members (Bonini et al., 2018). Angel investors are personal in this sense that they reject investment opportunities not due to their characteristics but due to characteristics of entrepreneurs. The main deal killer is the lack of skills, abilities and knowledge that is required for that particular business. Angel investors possibly try to avoid managerial risks that is why they seek people that are honest, professional, trustworthy, and straight forward. Besides this, if they feel less probability of success, they do not step forward to consider those business plans.

RESEARCH IMPLICATIONS

Most business angels take action according to the standards that are built due to continuous engagement in experiencing investments and sharing experiences. They also post some requirements on their websites as standard for exciting investment opportunities. This study guides entrepreneurs to create those characteristics (trustworthiness, confidence, straight forward, experience, realistic, proper analysis etc.) that are particularly required to get investment. This study has specifically mentioned approximately all the reasons due to which angel investors reject an investment opportunity. It is most important that BAs look for those persons to whom they already know. Therefore, entrepreneurs should include such persons in their team who have a convincing profile, knowledge about the market, and knowledge about business.

STUDY LIMITATIONS & RECOMMENDATIONS FOR FUTURE RESEARCH

There are some limitations in this study, as the sample size is small so the results cannot be generalized in other countries. The future researchers could select a large sample size to make it more appropriate. This study has included only experienced business angels, but the future researchers can select both experienced and non-experienced business angels and compare their investment criteria regarding rejection reasons. This study is particularly conducted in one country. Future researchers can conduct this study in more than one country at a time to make it closer to generalization. Moreover, in this study, only one method of collection of data is used and also collected it one time. Future researchers can collect data in more than one way and more than once to compare the results.

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