# Business angel early stage decision making

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## ABSTRACT:

Using 150 interactions between entrepreneurs and potential investors, we study early-stage business angel decision making. We show that contrary to the majority of past research that suggests they should, angel investors do not use a fully compensatory decision model wherein they weight and score a large number of attributes. Rather, they use a shortcut decision making heuristic known as elimination-by-aspects to reduce the available investment opportunities to a more manageable size. If an opportunity is diagnosed with a fatal flaw, it is rejected in the first stage of the decision-making process, but all opportunities with no fatal flaws do progress beyond that stage.

## KEY FINDINGS:

- Business angels use elimination-by-aspects (EBA) to trim the set of business opportunities looking for investment.
- Once the set of business opportunities looking for investment has been trimmed (i.e., after the selection stage), business angels consider different factors and use different decision-making processes.

## IMPLICATIONS FOR MANAGERS:

- Entrepreneurs aware of each of the eight most common causes for rejection at the selection stage (i.e., a C score for adoption, product status, protectability, customer engagement, route to market, market potential, relevant experience, or financial model) can find ways to eliminate or reduce them prior to pitching their ideas to a potential investor.
- entrepreneurs are made aware of the importance of these factors; they will likely present more relevant information to potential investors and reduce the potential for rejection due to miscommunication.

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