During recent decades, venture capital has been an important source of financing of high-growing ventures. Many studies have focused on the question that how venture capital investors select their investment targets. However, there is little attention to the issue that how entrepreneurs select investors. When entrepreneurs select the right investors, the venture's chances of success improve and thus, this issue is also important to study. The successful relationship between entrepreneurs and venture capital investors is indeed a strong indicator of the venture's success.

The purpose of this study is to contribute the research knowledge of how Finnish entrepreneurs select business angels and venture capitalists. The literature review conducts the fundamentals of firm growth and venture capital financing. The empirical data was gathered in five semi-structured interviews from four case companies that have raised venture capital. First, the empirical analysis describes the fundraising process of entrepreneurs. Second, it is discussed that how entrepreneurs select investors in different stages of the process and what is their selection criteria.

The results of this study indicate that Finnish entrepreneurs in early-stage ventures cannot afford to refuse a good offer from the investors. However, the investors should fill certain requirements in order that entrepreneurs view the offer to be good. In fact, this study finds seven issues that entrepreneurs consider important when they are seeking venture capital: valuation, terms and conditions, personal compatibility, trust, ability to invest in future, amount of money invested and value-added services. Entrepreneurs do not value these criteria equally and they are more flexible with certain criteria.

This study extends of research on entrepreneurs' selection process and criteria to a new geographical and cultural context, as this study focuses on Finnish entrepreneurs and the venture capital market in Finland. Overall, this study encourages the future researchers to study the entrepreneur's side of the venture capital market. The understanding of it is still limited.
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1 INTRODUCTION

There are different types of entrepreneurs with different aims and motivations. An entrepreneur can be a small firm owner who aims to merely feed the family and make a profit. These types of entrepreneurs are often satisfied with the status quo and they are not willing to pursue growth aggressively. There are also startup entrepreneurs who want to scale their business and change the world. These growth-oriented entrepreneurs are in the focus of this study.

Growth-oriented entrepreneurs and high-growing firms (HGFs) have attracted considerable attention among policymakers and researchers in recent years. This attention is mainly due to the finding that a small number of HGFs generate a disproportionately large amount of job creation (Coad, Daunfeldt, Hölzl, Johansson & Nightingale, 2014; Henrekson & Johansson, 2010). HGFs can be defined as firms with annualized growth greater than 20% over a three-year period and with at least 10 employees at the beginning of the growth period (Eurostat-OECD, 2007). In Finland, there were 668 HGFs in 2007-2010, and they created more than 50 000 new jobs. This was 50 per cent of employment growth in companies with more than ten employees. (Ministry of Employment and the Economy, 2012.) Therefore, HGFs play an essential role of job creation also in Finland.

Innovative entrepreneurs with high growth orientation do not usually have enough resources to get their ideas into reality and thus, they have to find external source of resources. However, growth-oriented entrepreneurs may have many challenges raising financing from traditional sources, such as banks because of uncertainty about the future, information gap, lack of tangible assets and financial- and product-market conditions (Gompers & Lerner, 2001, pp. 1–20). Venture capital is one answer to this challenge. During recent decades, venture capital has been a significant source of financing and other resources for early-stage ventures (Gompers, Gornall, Kaplan & Strebulaev, 2016; Mason, Botelho & Harrison, 2016).

According to Landström (2007, p. 5), venture capital market can be divided into formal and informal venture capital. This study views informal venture capital as equivalent to business angels (BAs). This is a common practice (Landström, 2007, p.
mainly because BAs collectively comprise the informal venture capital market (Sohl, 2007, p. 347). A typical BA is a wealthy individual with entrepreneurial experience who invests local ventures alone or together with other BAs (Kelly, 2007, p. 318). Gompers and Lerner (2001, p. 254) define formal venture capitalists (VCs) as "independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies." VCs are fund managers who invest the fund's money whereas BAs are private individuals who invest their own money. VCs and BAs are not operating separately from each other but they have complementary roles in financing growing ventures (Harrison & Mason, 2000).

Previous research has many studies that view the venture capital industry from the point of view of investor and discuss the issue that how investors select their portfolio firms. However, there are not many studies addressing the entrepreneurs' side of the venture capital industry, for instance, how entrepreneurs select investors. (Falik, Lahti & Keinonen, 2016; Landström, 2007, p. 4; Lehtonen & Lahti, 2009; Smith, 2001; Valliere & Peterson, 2007.)

Selecting the right investor is important (Bengtsson & Wang, 2010) because a good relationship between entrepreneurs and investors is a strong indicator of the success of the venture (Kaiser, Lauterbach & Verweyen, 2007). Therefore, it is important that suitable entrepreneurs and investors find each other. Smith (2001) points out that entrepreneurs view the selection of VCs important and thus, they are willing to invest their time to gather information of investors before accepting their offer. Studies from the UK, the USA, Canada and Israel show that entrepreneurs indeed make a deliberate choice when they select the source of venture capital (Valliere & Peterson, 2007; Smith, 2001; Falik et al., 2016).

1.1 Research questions and the purpose of this study

The purpose of this study is to contribute the research knowledge of Finnish entrepreneurs selecting BAs and VCs. First, this study describes the fundraising process of entrepreneurs and then, it discusses what Finnish entrepreneurs consider important when selecting BAs and VCs. Overall, this study extends of research on
entrepreneurs' selection process and criteria to a new geographical and cultural context, as this study focuses on entrepreneurs and the venture capital market in Finland.

The main research question of this study is the following:

*How Finnish entrepreneurs select business angels and venture capitalists?*

In order to provide answer to the main research question, it is necessary to understand the fundraising process of entrepreneurs first. Thus, the additional question is provided:

*What is the fundraising process of entrepreneurs?*

To answer these questions, this study first reviews the relevant literature of firm growth and venture capital financing. Based on this review, the theoretical framework is provided.

This study uses qualitative data collection and analyzing method. Empirical data is conducted in five semi-structured interviews. The interviewees were chosen from four case companies, which have raised venture capital financing. The literature review provides the basis for forming themes and questions to interviews. Based on the literature review and the empirical data, this study aims to answer the research questions. Methodology of this study is described in more detail in chapter 4.

### 1.2 Structure of this study

Introduction chapter represents background and the context of this study. It gives a wide picture of phenomenon and introduces towards the aims of this study and the research question.

The following two chapters (chapters 2 and 3) conduct the literature review. Chapter 2 describes the fundamentals of firm growth. First, the growth is defined and the
growth measures discussed. Then, the growth drivers and barriers are described and finally, HGFs are defined and the characteristics of them are provided.

Chapter 3 discusses venture capital financing. BAs and VCs are defined and their complementary roles are discussed. This chapter describes how investors select investment targets and also, how entrepreneurs are selecting investors. Finally, the theoretical framework is presented.

Chapter 4 describes the methodology of this study. Data collection and analysis method are discussed. The overview of Finnish venture capital market is also presented in order to provide the context where these entrepreneurs are located.

In chapter 5, the empirical analysis is presented. First, the fundraising process of entrepreneurs is described. Second section discusses how entrepreneurs select investors.

Finally, chapter 6 summarizes the study and describes the theoretical contributions. Furthermore, managerial implications, limitations of this study and suggestions for future research are provided.
2 FUNDAMENTALS OF FIRM GROWTH

This chapter reviews the literature related to firm growth. This study does not try to create a complete overview of the extensive firm growth literature but to choose the most relevant themes regarding to the aim of this study. First, the definition and measurement of growth are described (chapter 2.1) and then, the drivers of and barriers to growth are discussed (chapter 2.2). Finally, the definition and characteristics of HGFs are examined (chapter 2.3) and the conclusion of this chapter is provided (chapter 2.4).

Increasing interest in firm growth started in 1980s when David Birch point out that the small number of rapidly growing firms, so-called gazelles, were creating a majority of new jobs. In the UK, Storey (1994, p. 113) showed that roughly 4% of small firms create half of the jobs, and these job creators are the fastest growing firms. More recently, between 2010 and 2013, HGFs contribution of job creation was 18% in the UK, even though they accounted only 1% of all job-creating firms (Anyadike-Danes, Hart & Du, 2015). In Finland, 4.4% of companies created more than 50% of employment growth within companies with more than ten employees (Ministry of Employment and the Economy, 2012).

The role of HGFs as job creators has also been questioned because studies have found a decline during a recent decade in HGF contribution of job. For instance, the portion of job creation by HGFs was 22% between 1998 and 2001 whereas the portion was 18% between 2010 and 2013 in the UK (Anyadike-Danes et al., 2015). Although HGFs' share of job creating firms has declined, Anyadike-Danes et al. (2015) and several other recent studies conclude that HGFs are still an important category of job creating firms (Henrekson & Johansson, 2010; Coad et al., 2014). Thus, it is not surprise that HGFs have attracted considerable attention from policy makers and researchers.
2.1 Defining and measuring growth

2.1.1 Defining growth

The development of growth research has been slow in recent years and one reason is that the growth is a complex, multidimensional phenomenon (Delmar, Davidsson & Gartner, 2003; McKelvie & Wiklund, 2010). Edith Penrose has made a seminal contribution to the field of management. Her book, The Theory of the Growth of the Firm, was published in 1959 and according to Lockett, Wiklund, Davidsson and Sourafel (2011) it is still the most comprehensive theory of growth. In her book, Penrose describes that the term growth has two different connotations. It can be understood as a change in amount such as growth in sales. Furthermore, growth can be understood as a process. In this view, an increase in size is result of a process of development. (Penrose, 1959, p. 1.) Davidsson, Achtenhagen and Naldi (2010) argue that most research papers explain differences in the amount of growth instead of the process of growth.

More recently, McKelvie and Wiklund (2010) classify the growth literature into the three streams: growth as an outcome, the outcome of growth and the growth process. The largest research stream focuses on the growth as an outcome. It tries to explain varying growth rates and increments of growth and often uses growth as the dependent variable. Despite many studies, researchers have not been able to find variables that have a consistent effect on growth across studies. The second stream of growth literature examines the outcomes of growth. It focuses on the results within the organization as a consequence of growth. Third research stream discusses the growth as a process. It examines what goes on within the firm. (McKelvie & Wiklund, 2010.)

These three research streams presented by McKelvie and Wiklund (2010) are ideal situation while in practice, there are many overlaps between these research streams. First research stream can be associated to Penrose's (1959) change in amount, second and third to growth as a process perspective. Next section describes how growth can be measured.
2.1.2 Measuring growth

Decisions about growth measures are important because they may influence findings (Delmar et al., 2003; Shepherd & Wiklund, 2009). Previous research points out four factors that should be considered when measuring growth: the growth indicator (i.e., sales, employment), the time period studied, the calculation method (absolute, relative change) and the type of growth (organic growth, acquisition growth or combination) (Delmar, 1997; Delmar et al., 2003; Shepherd & Wiklund, 2009).

However, before making these decisions, it is important to choose what is the unit of analysis, usually the "firm", studied. This decision is significant for the results, especially when studying firms over 10 years period. It is important to ask if the firm is the same entity as at the beginning of the period. If not, it is not meaningful to calculate growth rate, for instance. (Davidsson et al., 2010; McKelvie & Wiklund, 2010.) Heterogeneity in the firm demographics may also affect the results of growth studies. Delmar et al. (2003) distinguish four variables that are likely to influence the growth pattern of firm: firm size, firm age, type of industry and type of governance.

Delmar (1997) finds in their literature review lists of possible growth indicators: assets, employment, market share, physical output, profits and sales. Sales and employment measures are the most used growth indicators (Delmar, 1997). Other indicators have some weaknesses that limit their relevancy outside of special context. The indicator of asset value is related to the capital intensity of industry. Market share and physical output are only comparable within firms with a similar product range. The relationship of profits and size is not evident in all situations. (Delmar et al., 2003.)

Employment is an important indicator of job creation (Delmar, 1997) but it has also weaknesses as an indicator, for instance, a firm can grow in physical output and assets without growth in employment. Sales measure is not either perfect indicator of growth. Sales are not always leading the growth process; sometimes assets and employment will grow before sales. Sales are also sensitive to inflation and currency rates whereas employment is not. (Delmar et al., 2003.)
The choice between absolute and relative approach to measure growth is important, especially when studying for the relationship between size and growth (Delmar et al., 2003). Absolute growth describes the actual difference between two time points whereas relative growth examines relative difference (percentage). Smaller firms tend to reach high growth when using relative measure whereas absolute measures favor larger firms (Delmar, 1997). Thus, when using relative measure, HGFs are usually smaller than when using absolute measures (Coad et al., 2014).

Different time period used might cause different results because some changes in the organization are lagged (Delmar, 1997). Most previous studies of HGFs have used three- or four-year periods (Henrekson & Johansson, 2010).

Firms can grow by organic growth (internal growth), growth through acquisition (external growth), or a combination of both (Delmar et al., 2003). Penrose (1959, p. 5) defines internal growth as "growth without merger and acquisition." Coad et al. (2014, p. 95) use employment as an indicator of growth when they define organic and acquired growth: "organic growth refers to new employment that is internal to a firm, while acquired refers to gains in employment that occur through external acquisitions or mergers." Hence, organic growth is produced inside the company whereas acquired growth outside the company. Most studies use the sum of organic and acquired growth (Coad et al., 2014). McKelvie and Wiklund (2010) argue that researchers should focus more on "how" aspect of growth before examining "how much" aspect. According to them research should change focus to different growth models, for instance, what mode of growth firms use and why.

In conclusion, the growth can be understood as a change in amount and as a process. This section described four factors to consider when measuring growth: the growth indicator, the time period, the calculation method and the type of growth. Furthermore, it is important to decide what is the firm studied before measuring growth. Next section discusses the growth drivers and barriers.
2.2 The drivers of and barriers to growth

2.2.1 Growth drivers

Previous research finds different factors that drive growth. These factors can be categorized into internal and external. Internal factors include characteristics of the entrepreneur, the firm, and the strategy. External factors are environmental and industry specific. (Dobbs & Hamilton, 2007; Davidsson et al., 2010.) Next this study elaborates the internal factors and then external factors. The characteristics of the firm are discussed later in this study (in chapter 2.3.).

Dobbs and Hamilton (2007) describe the following strategy related to the factors that affect the growth: growth objective, employee recruitment and development, product market development, financial resources, internationalization and business collaboration, and flexibility. These factors may also relate to the entrepreneurs' motivation to growth. For instance, they should decide whether or not to raise external finance in return for ownership. If the entrepreneurs are seeking high growth, they may be more willing to give away the part of their control to investors in return of investment. Gompers and Lerner (2001, p.19) point out that financial resources are indeed critical for growing firms and the high availability of external finance enhance firms to grow faster.

The characteristics of entrepreneurs influence the firm growth because entrepreneurs have strong effect for the culture and behaviors of their firm. This is especially important factor for small firms because the relationship between entrepreneurs or founders and managers tends to be closer than in larger firms. Studies have found four noticeable characteristics of entrepreneur that influence growth: motivation, education, experience and number of team members. (Davidsson et al., 2010; Dobbs & Hamilton, 2007.)

Entrepreneurs' motivations can be distinguished into positive and negative motivations regarding to their effect to firm growth. Positive motivations have been linked to firm growth and they are, for instance, the perception of a market opportunity and desire to earn more money. Negative motives can be a threat of
unemployment and willingness to establish a lifestyle business that provides satisfactory level of income to the entrepreneur. (Storey, 1994, p. 128.) Higher educated entrepreneurs have typically higher earning expectation and hence they are more motivated to grow their businesses. Although entrepreneurs' motivation is important, it does not always convert to actual growth. (Dobbs & Hamilton, 2007.)

Entrepreneurs' past experience and the team size influence also growth. Experienced entrepreneurs are more likely to avoid costly mistakes that novice entrepreneurs make and they tend to be more effective in achieving the performance goals (Dobbs & Hamilton, 2007). Entrepreneurs with different skills and backgrounds can complement each other and hence larger teams are positively related to growth (Davidsson et al., 2010).

In additional to internal factors, external factors influence also firm growth. For instance, firms may grow simply because of their industry grows. The dynamism of the region has also positive effects to growth. (Davidsson et al., 2010.) The firms' choice of environment affects the growth and can be even more important than strategic choices within that industry (Dobbs & Hamilton, 2007).

2.2.2 Growth barriers

The literature about growth barriers assumes that the portion of small firms wants and is capable to grow but is prevented by growth barriers. Growth barriers can distinguish to internal and external barriers to growth (Storey, 1994, pp. 154–155), which are discussed in this section.

One internal growth barrier is lack of motivation. Many small firm managers are not willing to pursue growth. Entrepreneurs can be categorized into two groups according to their willingness to grow: small business owners who are satisfied with the status quo and the entrepreneurs who want to grow their businesses rapidly. (Gundry & Welsch, 2001.) Growth offers owners the opportunity for financial gain and it increases a firm's chance of survival (Dobbs & Hamilton, 2007). However, Wiklund et al. (2003) find out that noneconomic concerns may be even more important than expected financial gain in determining the attitude toward growth.
The effect of growth on employee wellbeing was seen to be the most important determinant of growth motivation. According to Wiklund, Davidsson and Delmar (2003), small firm managers' beliefs about the consequences of growth affect their behavior. The managers often believe that the positive atmosphere of the small organization may be lost in growth (Wiklund et al., 2013).

External growth barriers are, for instance, institutional barriers and lack of finance. Firms usually need external financing when starting to grow and while growing. Raising financing is often more challenging for smaller and fast-growing firms than slower growing firms (Lee, 2014). This study discusses financing of growing firms in more detail in chapter 3.

Institutional barriers are issues related to government support, legalization and taxation (Gupta, Guha & Krishnaswami, 2013). Institutional barriers vary across space, time and industry (Davidsson et al., 2010). Reducing these barriers facilitates the scaling-up process of a firm. Eesley (2016) encourages societies to sufficiently reducing institutional barriers to growth because it may attract better individuals to entrepreneurship. Societies can increase entrepreneurship rates by lowering barriers to entry but it may only result more small businesses while scaling up firms remain difficult. For generating more HGFs, societies should focus on lowering barriers to growth. (Eesley, 2016.)

Storey (1994, p. 155) notice that the main barriers for HGFs are related to matters of finance, markets and employment matters. More recently, Lee (2014) point out six main growth barriers of HGFs: recruitment, skills shortages, obtaining finance, cash flow, management skills and finding suitable premises. He also studies the barriers of growing firm that are not yet HGFs potential HGFs and finds them to be economy, managerial skills, finance and cash flow.

We have now described the growth drivers and barriers. Both of them can be distinguished into internal and external drivers and barriers. Next, we define HGFs and describe the characteristics of them.
2.3 High-growth firms

2.3.1 Definition

There are two generally used methods to define HGFs. First method is to define HGFs as the share of the firms in a population that have the highest growth during a certain period, for instance, the 5% of firms with the highest growth rate. By using this method, it is difficult to compare the share of HGFs across time and countries. Second method is to take firms that grow at or about a certain pace. The growth can be measured between a start and end year or annualized growth over a certain time period. (Coad et al., 2014.) According to Henrekson and Johansson (2010), there is no consensus on the definition of high-growth firms.

Eurostat and the Organisation for Economic Co-operation and Development (OECD) define HGFs as firms with annualized growth greater than 20% over a three-year period and with at least 10 employees at the beginning of the growth period. They also suggest that gazelles are the portions of HGFs, which are under five years old. (Eurostat-OECD, 2007.) This is commonly used definition of HGFs.

2.3.2 Characteristics

Even though previous research differ in the definitions of HGFs and the growth measures, there can be found characteristics that HGFs have in common. These characteristics are discussed in this section.

Firstly, HGFs tend to be younger than other firms. Young age is more associated with rapid growth than small size. Small firms may be overrepresented but HGFs are not necessarily small. (Henrekson & Johansson, 2010; Coad et al., 2014.) In Finland, HGFs are typically younger and smaller than other firms. (Ministry of Employment and the Economy, 2012).

HGFs are often associated with high-technology industry. Therefore, many HGF promoting policies are directed towards high-technology industry (Coad et al., 2014). However, Henrekson and Johansson (2010) did not find any evidence that HGFs
would be overrepresented in high-technology industries but instead; their results show that HGFs may be overrepresented in services. Daunfeldt, Elert and Johansson (2015) study the industry distribution of HGFs by using data from Swedish firms in 1997-2008. Their findings demonstrate that HGFs are overrepresented in knowledge-intensive service industries, not in high-tech industries, for instance, firms with high R&D intensity. In Finland, more than 70% of HGFs are in service sector. Knowledge-intensive service industry was found to have the highest prevalence of HGFs, roughly 25%. High-technology industry represents only 10% of HGFs. (Ministry of Employment and the Economy, 2012.)

Daunfeldt and Halvarsson (2015) characterize HGFs as "one-hit wonders" because high growth is not persistent over time. They notice that firms that have suffered job losses in one period are most likely to become HGFs in the next period. Therefore, firms with high employment growth in one period usually had job losses in the previous period. (Daunfeldt & Halvarsson, 2015.)

Most firms do not grow at all (Davidsson et al., 2010) and only a few of growing firms grow rapidly (Coad et al., 2014). The HGFs' share of all over 10 employee firms has been 4-6% in Finland during recent years, when using the definition of Eurostat and OECD (Ministry of Employment and Economy, 2012). While HGFs are rare and they lack persistence, it is difficult to predict which firms are going to grow (Coad et al., 2014).

2.3.3 Summary of this chapter

Thus far, we have discussed that growth is a multidimensional phenomenon and the main ways to understand it is as a change in amount and as a process. We noted four important choices that are important when measuring growth: the growth indicator, the time period, the calculation method and the type of growth. In addition, the unit of analysis and firm demographics was found to influence findings when studying growth.

We have also noted growth drivers and barriers that growing firms face and discussed that lowering the growth barriers can attract better individuals to
entrepreneurship and hence generate more HGFs (Eesley, 2016). In the end of this chapter, the definition and characteristics of HGFs were examined.
3 VENTURE CAPITAL FINANCING

This chapter reviews the literature related to venture capital financing. First, venture capitalists (VCs) and business angels (BAs) are defined and their roles are discussed (chapter 3.1). Second, it is discussed that how venture capital investors select investment targets (chapter 3.2.) and then, how entrepreneurs select investors (chapter 3.3.). Finally, the theoretical framework of this study is presented (chapter 3.4.).

Entrepreneurs need resources in order to get their ideas into reality. However, many rapidly growing ventures face fundamental problems that limit investors' willingness to invest capital, such as uncertainty about the future, the information gap, soft assets and market conditions. (Gompers & Lerner, 2001, pp. 1–20.) The main alternatives to get financing are BAs, VCs, corporations, banks, government and self-financing (Hellmann & Puri, 2000). As Gompers and Lerner (2001, pp. 1–4) point out, many entrepreneurs do not have the enough capital to develop their ideas, thus, self-financing is rarely the option. Commercial banks are also rare source of financing for entrepreneurial firms (Hellmann & Puri, 2000) because of high risk. Growing ventures may also have many years of negative earnings so it is difficult to pay principal and interest for a bank loan (Gompers & Learner, 2001, p. 11).

VCs and BAs have been a significant source of financing for innovative companies over the past 30 years. In addition to financing, they provide many value-added services, which help entrepreneurs to grow their ventures. (Gompers et al., 2016.) Gompers and Lerner (2001, p. 21) emphasize the role of venture capital by stating that "Ninety percent of new entrepreneurial businesses that don't attract venture capital fail within three years." Kaplan and Lerner (2010) estimate that roughly 50% of firms that achieve initial public offerings have obtained venture capital. However, only roughly 0.25% of companies receive venture capital funding (Kaplan & Lerner, 2010).

Previous research has emphasized the issue that how investors select their portfolio firms but there is not much research on the topic of how entrepreneurs select investors (Falik et al., 2016; Landström, 2007, p. 4; Lehtonen & Lahti, 2009; Smith,
This is important to study because selecting the right investor significantly improves the venture's chances of success (Bengtsson & Wang, 2010). A successful investor-entrepreneur relationship is usually a signal that the venture will be a success (Kaiser et al., 2007).

3.1 Defining business angels and venture capitalists

3.1.1 Business angels

This study uses Harrison and Mason's (2008, p. 309) definition of BAs. They define it as "a high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors." A typical BA is wealthy, middle-aged man with entrepreneurial experience, who invest local ventures and often with other angels (Kelly, 2007, p. 318). They hope to achieve a substantial financial gain through some form of exit (Mason et al, 2016) but they often have other motivations as well (Kelly, 2007, p. 325).

BAs are the important supply of very early-stage capital (Sohl, 2007, p. 347) but they have attracted much less research attention than VCs because of the invisible nature of them (Mason et al., 2016; Kerr, Lerner & Schoar, 2014). However, angel investing is changing from an invisible, mostly individual process to organized and managed angel groups, in which angels invest collectively. This change began in the late 1990s and is evident throughout the world, though it has proceeded furthest in the US. (Mason et al., 2016.)

Estimates suggest that BAs' investments in early-stage ventures equal or surpass that of formal venture capitalists (Fili & Grünberg, 2016). Maxwell, Jeffrey and Lévesque (2011) also argue that BAs are more important investors than VCs among the early-stages ventures, BAs are especially important in peripheral regions (Mason et al., 2016) because they invest also there where the access of formal venture capital is limited (Harrison, Mason & Robson, 2010). Policy makers have also noticed the
importance of angels' support and have encouraged them in many ways, such as supporting business angel networks and providing tax incentives (Mason et al., 2016). Lahti (2011) notices that tax incentives have increased the supply of BAs' investments in Finland.

3.1.2 Venture capitalists

Gompers and Lerner (2001, p. 254) define VCs as "independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies." This pool of capital is named a venture capital fund (De Clercq et al., 2006) and its legal structure is usually limited partnership (Metrick & Yasuda, 2010, p. 3). VCs are the fund managers who are responsible for investing the funds' money and they act as general partners. Funds raise capital typically from institutional investors who act as limited partners. (Sahlman, 1990; De Clercq et al., 2006; Kalidas et al., 2014.)

Private equity can be defined as business investments in unlisted companies. As VCs invests only in private companies, it can be seen as a type of private equity that focuses on the investments in early-stage companies. (Dias & Macedo, 2016.) Gompers et al. (2016) distinguish them in a way that private equity industry focuses on later-stage companies whereas the focus of the venture capital industry is on earlier stage companies.

Venture capital firms are usually small organizations. On average, they employ 14 people on, in which five are senior partners that make decisions. Other employees are junior deal-making personnel, entrepreneurs in residence, analysts and back-end office personnel. Venture capital firms that invest in early-stage ventures tend to be smaller and have fewer junior personnel than firms that invest later stage because there is more information available for analysis of later stage companies. (Gompers et al., 2016.)

VCs are active investors and provide many value-adding activities that are not normally provided by financial intermediaries, such as monitoring, professionalization and certification (Gompers et al., 2016; Denis, 2004). They
usually take at least one position of the board of directors, which allows them to monitor and give advices to the company (Metrick & Yasuda, 2010, p. 3). The main purpose of their investments is to maximize the financial gain from each investment (Bengtsson & Wang, 2010) by exiting through an acquisition or an initial public offering. Therefore, VCs want to invest in firms that have high growth potential and avoid firms that have little opportunity for a successful exit. (Metrick & Yasuda, 2010, pp. 3–5.) In general, growing ventures have many rounds of funding and hence it is normal that VCs invest more than once to the same company. The capital invested takes the company to the next stage when it will require additional capital in order to go further. (Sahlman, 1990.) According to Gompers et al. (2016), 72% of venture capital firms help their portfolio companies to connect with investors in future rounds.

VCs can also share in the investment with other VCs and thus, entrepreneurs can receive financing from more than one VC at the time. This syndication of investments allows VCs to diversify and reduce risks of one individual investment. It also improves the due diligence process and value-added services. (Gompers & Lerner, 2001, p. 51.)

VCs are sometimes confused with BAs and especially BA groups. However, there are substantial differences between them. The main difference is that BAs use their own money whereas VCs use mostly institutional investors' money (Landström, 2007, p. 10). The cost of capital from BAs is lower as they can keep all returns and hence some deals are attractive to BAs but not VCs (Metrick & Yasuda, 2010, p. 4).

In general, VCs are referred to be formal investors and BAs informal. The legal form of the venture capital firm is usually limited partnership whereas BAs are private individuals. VCs have larger investment capacity and they do more extensive due diligence of the investment targets than BAs. (Landström, 2007, p. 10.) VCs are mostly motivated of financial gain whereas angels have more often also other motivations (Kelly, 2007, p. 325). Furthermore, VCs typically have more generalist background than angels who are often previous entrepreneurs (Bonnet & Wirtz 2012). The characteristics of BAs and VCs are compared in table 1.
Table 1. The comparison of business angels and venture capitalists

<table>
<thead>
<tr>
<th>Business angels</th>
<th>Venture capitalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal venture capital</td>
<td>Formal venture capital</td>
</tr>
<tr>
<td>Private individuals who invest their own money</td>
<td>Fund managers who invest the fund's money</td>
</tr>
<tr>
<td>Invest earlier</td>
<td>Invest later</td>
</tr>
<tr>
<td>Small investment capacity</td>
<td>Large investment capacity</td>
</tr>
<tr>
<td>Light due diligence</td>
<td>Extensive due diligence</td>
</tr>
<tr>
<td>The cost of capital is lower</td>
<td>The cost of capital higher</td>
</tr>
</tbody>
</table>

There are also strategic investors who have other motivators than merely financial return. These investors include, for instance, financial VC, corporate VC and government VC. Financial VC is affiliated with financial corporation such as a bank or insurance company. (Bengtsson & Wang, 2010.) In addition to bank loans, these investment banks make venture capital investments (Hellmann & Puri, 2000). In many cases, financial VCs have other motivation than only maximizing financial returns (Bengtsson & Wang, 2010).

Corporate venture capital is equity investments by incumbent firms (Dushnitsky & Lenox, 2005; Gompers & Lerner, 1998). One purpose of these investments is to pursue strategic objectives (Anokhin, Peck & Wincent, 2016). In fact, major purpose for their investing is often to gain a window on new technologies (Dushnitsky & Lenox, 2005). Government VCs has also many different objectives than only financial gain, for instance, pursuing entrepreneurship, innovation and public policy goals such as employment (Bengtsson & Wang, 2010).

3.1.3 The collaboration between business angels and venture capitalists

BAs and VCs have complementary roles in the venture capital market and for good reason: their collaboration can increase and improve both parties performance. In their study, Harrison & Mason (2000) distinguish four types of complementarities: sequential investing, co-investing, provision of finance, and deal referring. (Harrison & Mason, 2000.)

Firstly, VCs and BAs invest in different stages of business development. The role of BAs is often to do initial screening and prepare the firm for more professional VCs.
(Harrison & Mason, 2000). BAs are typically between the finance provided by the entrepreneurs, family and friends and the finance provided by the VCs (Harrison et al., 2010). However, some angel groups have the capability to do multiple rounds of financing and take the company to a sale or an initial public offering without involvement of VCs (Harrison & Mason, 2008).

Secondly, VCs and business angels can co-invest. VCs can benefit from BAs' experience and hence, they can reduce the costs of making small investments. On the contrary, BAs benefit by receiving better quality investment opportunities and reducing risk. This form of collaboration is most frequent for BAs. (Harrison & Mason, 2000.)

Thirdly, VCs can get capital from BAs who are not able or willing to identify their own investment opportunities. Thus, BAs are one source of finance for VCs and BAs get their money invested. Finally, deal referring relates to deal flow between angels and VC firms. Both parties can refer investment opportunities that do not meet their own investment criteria. For VCs, this is the most common way to collaborate. (Harrison & Mason, 2000.)

### 3.2 How investors select investment targets

We have now defined VCs and BAs and discussed their complementary roles. This section describes how they choose their investment targets. First, the investment process is described and then the selection criteria are discussed.

#### 3.2.1 The investment process of business angels

Investment process can be seen as a series of activities or stages from the time the venture is first proposed until the exit (Zacharakis & Shepherd, 2007, p. 177). This study distinguishes the investment process into pre-investment and post-investment phase. Pre-investment phase is from the first contact to the investment and post-investment phase is from the investment made to the exit.
Paul, Whittam and Wyper (2007) develop a five-stage investment process of BAs, which are familiarization, screening, bargaining, managing and harvesting. In their study, the time from first contact to investment was ranged from three to 18 months. The investment opportunities come typically from business associate, business angel networks and investment syndicates. (Paul et al., 2007.)

In the familiarization stage, a BA meets an entrepreneur and learns about the opportunity. Many BAs want to read an initial business plan first. If the business plan is acceptable, they contact the entrepreneur, mostly by phone, and have an opening discussion and arrange a first meeting. BAs emphasize the importance of the entrepreneurs in their selection process. (Paul et al., 2007.)

In the screening stage, further meetings occur between the entrepreneur and the BA. During these meetings, the BA tries to understand the entrepreneur and the venture, and verify their first impressions. They often use their network to check out the background of the entrepreneur. BAs also study the business plan thoroughly. Next, in the bargaining stage, they complete their due diligence. Finally, a formal agreement between the entrepreneur and the BA is made. (Paul et al., 2007.)

After the investment has made, in the managing stage, BAs take an active post-investment role because they want to maximize the value of their investment before an exit. Fili and Grünberg (2016) distinguish their post-investment activities into five governance processes through which BAs engage with their ventures: boundary spanning, structuring, leadership, doing and monitoring. Boundary spanning refers to activities for managing capacities related to the environment, such as facilitating additional financing and providing business intelligence. Daily venture operations are seen as doing, and they include for instance, selling and marketing. Structuring relates to activities that identify roles, processes and output in a systematic way, such as cash flow planning and developing long-term strategy. Leadership influences team members’ behavior through coaching, mentoring and group leadership. Monitoring is interwoven with the other processes and it underlies the entire BA's investment process. It provides feedback for evaluating performance and it includes both formal and informal monitoring. (Fili & Grünberg, 2016.)
In the last stage, harvesting, the BA realize the investment. BAs hope to achieve a financial gain from their investment through some form of exit (Mason et al., 2016).

The investment process of angel groups is slightly different than the process of individual angels. There are more people involved and the entrepreneur has to persuade more people. There are often gatekeepers and the entrepreneur needs to get past him or her in order to reach BAs. In general, the investment process of angel groups is more extended and includes more stages. (Mason et al., 2016.)

3.2.2 The investment process of venture capitalists

Most potential deals of VC firms pass through multi-stage selection process before being funded. This process is often called the "deal funnel". Gompers et al. (2016) describe the stages of the deal funnel as follows: (1) considered, (2) met management, (3) reviewed with partners, (4) exercised due diligence, (5) offered term sheet and (6) closed.

First, the individual originator who could be a partner or an associate considers a potential deal. Potential investments continue to the next phase, in which the management of the company and a VC firm member meet each other. After that, the other partners at the VC firm evaluate the company. Next, a formal process of the analysis of investment targets is started. This analysis is called due diligence. It can include industry analysis and peer comparison for instance. After passing this process, the term sheet is presented, in which the conditions for a financing are written. If the company agrees to the term sheet, the deal closes. (Gompers et al., 2016.)

In general, VC firms consider about 100 potential deals for each deal closed. On average, 28 of those firms met management, 10 were reviewed with partners, 4.8 proceed onward to the due diligence stage and 1.7 were offered a term sheet. Typically deal takes 83 days to close, the firm spends 118 hours on due diligence and call 10 references. (Gompers et al. 2016.)
Gompers et al. (2016) also study where the closed deals came from. They find that deals come from the following sources: professional network (31%), proactively self-generated (28%), referred by other investors (20%), inbound from company management (10%), referred by portfolio company (8%), qualitative sourcing (2%). Therefore, we can conclude that most of the closed deals come from the VC's networks.

After the VCs have made the decision to invest, they start to add value to their portfolio companies. This time period is called post-investment phase, and it continues until successful exit. VCs are typically active investors (Kaplan & Strömberg, 2004), 60% of them report that they interact at least once a week with their portfolio companies. Gompers et al. (2016) find that VCs provide strategic guidance, help to connect with investors in future rounds, help to connect to customers, operational guidance and help in hiring. Among the early-stage investors, connecting with investors and help in hiring are more important than among the late-stage investors. (Gompers et al., 2016.)

The investment processes of VCs and BAs are presented in figure 1. In practice, the stages of the investment process overlap and there are not clear boundaries between them (Paul et al., 2007). However, figure 1 gives the overview of how the typical investment process occur.
3.2.3 The selection criteria of investors

Selection criteria are the screening tools that BAs and VCs use when they are selecting the investment. They try to invest in companies that have both strong management and strong business but in practice, they place more weight on one or the other (Kaplan, Sensoy & Strömberg, 2009). Zinecker and Bolt (2015) find that the investors value characteristics of the product and market more than the management team.

In contrary, Gompers et al. (2016) find that especially early-stage investors value the management team as the most important factor. In their study, the VCs rank following factors as important in their selection of investments: management team, business model, product, market, industry, valuation, ability to add value and fit. Their results show that 47% of VCs rated the management team to be the most
important factor, whereas 37% of them rated business-related factors to be most important for success. (Gompers et al., 2016.)

Kaplan et al. (2009) suggest that the investors should focus more on the business side because it is more stable than the management. According to them, firms rarely change the initial business idea whereas it is a common practice that firms replace their initial managers. They argue that the investors are able to find capable management for good businesses.

It is important to consider that it is difficult for investors to articulate their own decision process. They often overweight less important factors and underweight more important factors and hence, the actual investment criteria may be different than what they say they use. (Zacharakis & Shepherd, 2007, p. 180.)

3.3 How entrepreneurs select investors

We have now discussed the investors' investment process and criteria. In this chapter, we take the entrepreneurs' view as we discuss how they select investors.

Entrepreneurs can be viewed as the most influential members of independent businesses (Westhead, Ucbasaran & Wright, 2005). There are different types of entrepreneurs and their selection criteria for VCs typically differ according to geographic region, industry, experience and age (Smith, 2001). There are studies regarding to the entrepreneurs' selection criteria of VCs and they are examined entrepreneurs in the US, Canada, the UK and Israel (Smith, 2001; Valliere & Peterson 2007, Falik et al. 2016).

According to Smith (2001), entrepreneurs usually consider four types of criteria when choosing a VC: valuation, value-added services, reputational factors and venture capital attributes. Later, with the help of Smith's (2001) study, Valliere and Peterson (2007) categorize seven types of criteria: valuation, value-added services, reputation, terms and conditions, skill and independence, personal compatibility and ease of deal making.
Valuation is the price of the entrepreneur's company and it determines how much equity the entrepreneur has to give to the investor in return for their investment. Most entrepreneurs consider valuation to be important and there were no differences between entrepreneurs with different experience levels. (Smith, 2001; Valliere & Peterson, 2007.) However, Valliere and Peterson (2007) argue that entrepreneurs consistently underestimate the importance of valuation. Entrepreneurs may want not to be seen so price-motivated and they may want to appear to be considering many criteria (Valliere & Peterson, 2007). Smith (2001) finds the reputational factors to be even more important criteria. However, this may not reflect entrepreneurs' actual behavior as they may understate the importance of valuation.

Investors have different ability to perform value-adding services (Luukkonen, Deschryvere & Bertoni, 2013) and therefore, entrepreneurs see this important to consider when selecting investors (Valliere & Peterson, 2007). According to Gompers et al. (2016), 61% of the VCs interact with their portfolio companies at least once a week. They also study what value-added activities the VCs do in each portfolio companies and they find following activities to be most common: hire board members, hire employees, connect customers, connect investors, strategic guidance and operational guidance. Furthermore, they find that connecting to investors and hiring employees are more common activities for early-stage than late-stage investors.

The reputation of the VC firm is also important selection criterion (Smith, 2001; Valliere & Peterson, 2007; Zheng, 2011). Valliere and Peterson (2007) argue that the valuation is unique criterion and there are not other criteria that can compensate for a poor valuation. However, Hsu (2004) argue that entrepreneurs are willing to give up higher valuation offers if they can affiliate with more reputable VCs. He finds that VCs with high reputation get equity at a 10-14% discount and the offer from a high-reputation VC is roughly three times more likely to be accepted by an entrepreneur. Smith (2001) studies many reputational factors and finds the VCs track record of successful investments is the most important criterion. While the track record of a VCs is important, Hallen and Pahnke (2016) find that entrepreneurs often have difficulties in evaluating potential partners' track records. They argue that evaluation
is especially inaccurate in the situations when high-quality partners may be most needed.

Terms and conditions refer to the covenants the entrepreneur has to accept and they typically include cash flow, control and liquidation rights (Gompers et al., 2016). Cash flow rights means the share of a portfolio firm's equity value that investors and entrepreneurs have the right to use. These rights are used when the value of the venture is high but when the value is low the liquidation cash flow rights take place. These rights can include, for instance, redemption rights, which give the investor the right to demand the repayment of the original investment. Control rights describe the right to control and to make decision. Kaplan and Strömberg (2003) find that when the venture is performing well entrepreneurs have more cash flow rights and control rights but if the venture is performing poorly, the investors get full control of it. (Kaplan & Strömberg, 2003.)

Terms and conditions are one of the most important selection criteria along the valuation. Novice entrepreneurs tend to emphasize terms and conditions and value-added services and give only a little weight to the other criteria. (Valliere & Peterson, 2007.) Gompers et al. (2016) find that VCs are not flexible on negotiating terms and thus, it can be difficult for entrepreneurs to negotiate good terms for them.

Valliere and Peterson (2007) argue it is difficult for entrepreneurs to articulate their own decision-making process when choosing a VC. They use conjoint analysis to study the entrepreneurs' actual behavior. In practice, entrepreneurs tend to use a bundle of criteria and conjoint analysis provides examples that simulate real decision-making situations (Falik et al., 2016). Valliere and Peterson (2007) compare the results from the conjoint analysis and entrepreneurs' espoused criteria and their study indicates that entrepreneurs' selection criteria are often different in reality than what they claim. They also notice that experienced entrepreneurs' espoused criteria are more likely to reflect their actual behavior than novice entrepreneurs. (Valliere & Peterson, 2007.)

Valliere and Peterson (2007) find that valuation, personal compatibility and terms and conditions were the most important conjoint criteria, whereas value-added
services and skill and independence were the least relevant criteria. They found that novice entrepreneurs are significantly different from the other entrepreneurs and they state different criterion than others. For instance, the novice entrepreneurs were rated terms and conditions ahead of personal compatibility. (Valliere & Peterson, 2007.)

In general, entrepreneurs with fewer experience of seeking VC money, have more favorable view of a VC than entrepreneur with more experience. Entrepreneurs view that corporate, financial and government VCs have worse abilities than independent VCs because they face fewer investment restrictions than other types of VCs. (Bengtsson & Wang, 2010.)

3.4 The theoretical framework of the study

Based on literature review, this study develops a theoretical framework, which is presented in figure 2. Empirical data will be analyzed against this framework.

First, the literature review examined the fundamentals of firm growth. One growth barrier of growing ventures is financing and venture capital provides one solution to that. There are informal venture capital with BAs and formal VCs. They do not act separately in the venture capital market but have complementary roles in the fundraising process of ventures. Finally, the selection process and criteria were discussed from the point of view of investors and entrepreneurs.
Figure 2. The theoretical framework of this study
4 METHODOLOGY

In this chapter, the methodology of this study is discussed. This chapter gives the overall picture how this study has been executed and how the conclusions are formed.

4.1 Empirical research design

This study uses qualitative data collection and analyzing method. Before collecting empirical data, the literature review was written. It was mostly based on the peer reviewed research papers which all are presented in the end of this study. They were found by using databases, such as Ebsco and ProQuest. The purpose was to present the most relevant and significant research on the topic of this study. Critical literature review also ensures that the study does not merely repeat the previous research. The critical view includes the evaluation of what the studies are proposing and how they relate to other available information. The empirical dataset and methods of previous studies were also examined. The initial research question and objections were also presented and refined based on the literature review. (Saunders, Lewins & Thornhill, 2009, pp. 58–63.)

Data collection of this study was conducted by semi-structured interviews. Semi-structured interviews can be defined as interviews in which the researcher has a list of themes and questions before the interview. In structured interviews the researchers uses identical set of questions whereas in unstructured interviews, there are not predetermined list of questions. (Saunders et al., 2009, p. 320.) The purpose of the interviews of this study is to gather data that helps to answer the research question. A list of themes and questions were formed based on literature review. The five interviewees were chosen into the four case companies that have raised venture capital funding. Interviewees can provide their own perspective to the same issues and thus, their answers can be compared and conclusions formed.

In the interviews, first, the story of the case company and the interviewee were asked. The purpose of these questions was to understand the background of interviewee and his answers. Next, the interviews move to questions related to
financing. The aim was to get the picture of the fundraising process and how the entrepreneur has done the selection of investors. There were many open questions, which allows interviewees to describe their process and action without interviewer restricting them by using too strict questions.

These interviews were recorded and transcribed. Interviews were held in Finnish but then they were later translated into English. The citations of the interviewees were also translated as this study is written in English. After transcribing interviews, the data were summarized and categorized as the Saunders et al. (2009, pp. 490–491) suggest. The short summary of each interview was written and thus, it was easier to get coherent overview of the data. After summarizing, the data were arranged into meaningful categories based on interview questions and the theoretical framework of this study. After all data were categorized under categories, the data were written again in a plain language. Then, interviews were compared and the findings were captured. Finally, these findings were reflected based on the theoretical part of this study.

4.2 Data collection

This section provides the overview of Finnish venture capital industry in order to describe the context where the case companies operate. After that, the case companies and interviewees of this study are presented.

4.2.1 Overview of the Finnish venture capital industry

Finnish financial system has been strongly bank-dominated and entrepreneurs have been reliant on funding from banks. As many growing ventures have difficulties to obtain bank loan, the public organizations came to help this financing challenge. For instance, the Finnish Funding Agency for Technology and Innovation (TEKES), the Finnish Innovation Fund (Sitra) and the Fund for Developing Regions (Finnvera) gave birth between 1960 and 1980 and are still in the market for financing ventures. Overall, public organizations have still a strong role in financing of early-stage ventures. At the beginning of 1990s, the financial system started to move from bank-dominated system towards system, in which ventures raise capital by the sales of
equity and the Finnish venture capital industry started its development at that time. (Lahti, 2011.)

Recently, the interest towards HGFs has risen further and the investment amounts have increased. According to the Finnish Business Angel Network (FiBAN) and Finnish Venture Capital Association (FVCA) (2017), the total amount invested in Finnish early-stage ventures was 383 million euros in 2016, whereas it was 270 million euros in 2010. This is mainly due to increase in foreign direct investments (from 21m€ to 216m€), BA investments (from 8m€ to 53m€) and other sources (from 2m€ to 34m€). Other sources include crow funding for instance. However, Finnish VC investments have decreased from 87 million euros to 80 million euros during these six years. (FiBAN & FVCA, 2017.)

This study has referred studies of entrepreneurs' selection criteria, which were conducted in the US, Canada, the UK and Israel. In table 2, the VC investments of these countries in 2016 are presented. The data is obtained in OECD's (2017) report and it includes only formal venture capital investment and thus, it excludes BAs. The data gathering method also may differ from the other reports but these numbers are relevant in the comparing purposes. The total amount of venture capital investments in Finland is considerable small when comparing it to the USA, Canada, the UK and Israel in 2016. Average VC investments per company are also the smallest in Finland. When we compare the investments as a percentage of gross domestic product (GDP), the UK get the smallest number 0.025% whereas the number of Finland is second smallest, 0.05%. Israel, the USA and Canada have multiple times bigger percentage than Finland.
Table 2. Venture capital investments in 2016 (OECD, 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>VC investments (million $)</th>
<th>VC investments as a percentage of GDP</th>
<th>Average investments per company (million $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>66627</td>
<td>0.36</td>
<td>11</td>
</tr>
<tr>
<td>Israel</td>
<td>1165 (in 2014)</td>
<td>0.38</td>
<td>7.3</td>
</tr>
<tr>
<td>Canada</td>
<td>2377</td>
<td>0.15</td>
<td>5.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>761</td>
<td>0.025</td>
<td>2.8</td>
</tr>
<tr>
<td>Finland</td>
<td>120</td>
<td>0.05</td>
<td>0.8</td>
</tr>
</tbody>
</table>

In conclusion, Finnish VC market is still reasonably young. Public organizations have strong role in financing of growing ventures in Finland. The average investment by formal VCs are considerably small comparing to the USA, Canada, Israel and the UK.

4.2.2 Case companies

Interviewees were selected in four case companies who have recently raised venture capital. Interviewees were founders and entrepreneurs who have been responsible of their fundraising. Furthermore, there was one interviewee chosen in case company 3 who has been responsible of funding together with the entrepreneur. Interviewees did not have previous experience of venture capital financing but interviewee D had theoretical knowledge of it. Case companies and interviewees are presented in table 3.
Table 3. The empirical data of this study

<table>
<thead>
<tr>
<th>Case company</th>
<th>Interviewee</th>
<th>Duration</th>
<th>Date</th>
<th>The platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 1</td>
<td>Interviewee A: Founder &amp; CEO</td>
<td>58 min</td>
<td>May 9th 2017</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Company 2</td>
<td>Interviewee B: Founder &amp; CEO</td>
<td>50 min</td>
<td>May 9th 2017</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Company 3</td>
<td>Interviewee C: VP &amp; Global Operations</td>
<td>35 min</td>
<td>November 24th 2017</td>
<td>Skype</td>
</tr>
<tr>
<td></td>
<td>Interviewee D: Founder &amp; CEO</td>
<td>27 min</td>
<td>February 6th 2018</td>
<td>Skype</td>
</tr>
<tr>
<td>Company 4</td>
<td>Interviewee E: Founder &amp; Chairman of the Board</td>
<td>35 min</td>
<td>February 8th 2018</td>
<td>Google Hangouts &amp; Phone</td>
</tr>
</tbody>
</table>

Company 1 was founded in 2015 and it develops health technology product. Interviewee A is the founder and CEO. One of the founders noticed the problem and they started to make a solution for that. First, they made a prototype and at the time of the interview, they were launching their first product. They have raised one round of funding and they are negotiating the second round. Total sum of raised funding is roughly 1 million euro and it has come from BAs, VC, corporate VCs and public organizations, namely TEKES and ELY-centrum (Centre for Economic Development, Transport and the Environment).

Company 2 was founded in 2013 and it develops innovative design products. The price of the product is under 100 euros. Interviewee B is the founder and CEO. The founders noticed the problem in which he and a few of his friends have skills to solve. The knowledge and skills of the entrepreneur has come from his previous job in Nokia. Firstly, they had five owners. They put their own money in and got bank loan and money from ELY-centrum. They have had one funding round in which a VC and a few BAs were involved. The total sum of funding is approximately 0.5 million euros.

Company 3 manufactures and sells health technology products. There are two interviews in this company. Interviewee C is the vice president and he is responsible of global operations. He is not one of the founder members but has been executing the rounds of funding except the first round together with the interviewee D who is...
the founder and CEO. The company was founded in 2011. At the very early stages, they were able to finance their growth by income financing but then they could not develop their product further and go abroad without external funding. The total sum of raised capital is about 10 million euros at the time of interview. They have raised three funding rounds and the financing has come from, for instance, BAs, VCs, corporate VCs, crowd funding, TEKES and Sitra.

Company 4 is in service industry and it was founded in 2011. Interviewee E is the founder and chairman of the board. First, it was financing growth by income financing, such as company 3. The total sum of raised funding is little under one million euros. It received first funding round two years ago when it started to go abroad.
5 ANALYSIS OF HOW ENTREPRENEURS SELECT INVESTORS

In this chapter, the empirical analysis is provided. First, the fundraising process of entrepreneurs is described and then their selection process and criteria are discussed.

5.1 Fundraising process

5.1.1 Activities in the process

Entrepreneurs go through the investment process of investors when they seek financing and thus, their fundraising process has the same elements than the investment process of investors. The fundraising process is presented in figure 3 and it is formulated based on the interviews of this study. It describes what activities are done in each stage of the process. In practice, entrepreneurs have often several funding negotiations going on with different investors at the same time. Furthermore, entrepreneurs typically raise many funding rounds and thus, the fundraising process may be repeated many times during the lifetime of the venture. The investment process of VCs (Gompers et al., 2016) and BAs (Paul et al., 2007) are also illustrated in the same figure. They are elaborated in more detail in chapter 3.
Figure 3. The fundraising process of entrepreneurs

Entrepreneurs argue they find new investors by themselves. According to them, investors rarely take the initial contact. Entrepreneurs find potential investors whom to contact through their network, startup events and from different local organizations and business angel networks. They highlight the importance of networks when finding new investors. Initial contact takes place by phone call, email or short face-to-face meeting in startup events, such as Finnish startup event named Slush. For instance, interviewee C was arranging lots of short 15 minutes meetings with new investors in the Slush. During the initial contact, entrepreneurs present their company shortly and try to arrange the meeting.

After contacting phase, the meeting takes place in which entrepreneurs and investors get to know each other better and the negotiations start. Interviewee A mentions that he often prepares and sent a comprehensive pitch deck to investors before meeting. The Pitch deck is the presentation in which the valuation and predictions of returns are presented. In the meeting, entrepreneurs present their pitch deck to investors and start to negotiate. Interviewee D argues that negotiation is similar than normal sales
process. In the end of the meeting, investors make an initial approval and then they start to analyze the company more precisely.

During the analyzing stage, entrepreneurs send needed information to investors and arrange meetings if necessary. Interviewee C tells that it is important to send good news during the whole fund raising process in order to keep good "momentum". Interviewee B tells how important it is to honestly tell all needed information to the investors. If the investors are still interested after analysis, they make an offer. Entrepreneurs consider the offer and they start to negotiate with investors about the final terms and conditions. Entrepreneurs do not necessarily accept the first offer and the investors may have to prepare another one.

Analyzing stage can be very short, especially with BAs. Interviewees argue that some BAs act spontaneously and make an offer already in the first meeting. They can come from the network of entrepreneurs and merely ask that can they invest without any longer analysis. However, the analyzing stage usually takes at least a few days and it can be also much longer.

There are usually one or two lead investors in the funding round who invest the largest portion of the money. Interviewee D argues that it is easier for other investors to do due diligence after the lead investor has decided to invest. They can merely trust that the lead investor has done its work properly. Interviewee A discusses that after they have found the lead investor, they negotiate the same valuation level and terms with other investors and the investors merely accept them or not. Thus, the fundraising process with other than the lead investors may be much shorter.

After the venture receives money, they report usually regularly to investors about their situation. Entrepreneurs also can utilize the value-added services, which investors offer, such as expert services.

5.1.2 Duration of the process

The fundraising process took more time than entrepreneurs though at first. Interviewee A reveals that one of the biggest lessons he learned during the
fundraising process is that how much it takes time. He claims that entrepreneurs should start fundraising process at least 6 months before they need money. Interviewee E describes their process of getting money from one VC. He contacted investor and they arrange a meeting. Investors were interested to invest but they wanted to wait because they had other cases going to exit soon. After 5 months they had another meeting and the investors decide to invest. They had followed the activities and progress of the venture during five months and it has grown such as the entrepreneur has promised. After a few weeks entrepreneur got the money.

In order to get good overall picture of the duration of the funding process, we review more closely at the fundraising process of participant A. It is presented in figure 4. For protecting the privacy of the interviewee, we assume that their first fundraising process started in January 2015 when initial contact took place. First investor decided to invest in March, second in May, and third and fourth in July. Their first funding round was separated in two parts. In order to get the first part of the money, the venture should meet certain criteria that investors put them. The first part of the money came in September 2015 and second part in March 2016.

In June 2015 four investors have decided to invest and they have accepted the certain valuation. It took almost three months to negotiate and accept the shareholders' agreement. After that the venture received money 8 months from the initial contact. The venture received the second part of the round of funding 6 months after the first part. All four investors invested also in the second part and three additional investors came in.

Figure 4. The duration of the fundraising process of Case Company 1
5.2 Selecting investors

We have now described the fundraising process of entrepreneurs. Next, we discuss how entrepreneurs make selection.

It was interesting to discuss that if the entrepreneurs can afford to make a choice in where they take venture capital or do they merely take money wherever they get it. It seems that later, when business is running profitable, there is more capital available than in the very early stage. Interviewee A argues that the first funding round is typically the hardest one because you do not have necessarily much to show investors. Interviewee D discusses that there are many investors who can invest below 200 000 euros in risky early-stage ventures but it is almost impossible to find Finnish investors who can invest one million euros in the early stage when the business model is not proofed yet. In the early stage of development, it seems that Finnish entrepreneurs cannot afford to refuse a good offer from investors, as the following comment discusses:

"In the early stages those persons who invest and give any sensible offer, probably there are not quite many of them so you cannot afford to say no if you can get a sensible offer from someone." Interviewee E

The entrepreneurs want that the investor fill several requirements but in the reality, there are not always ideal investors available or the investor is not able to invest at the time. When the entrepreneurs need money, they do not want to wait for ideal investors too long time and thus, they should take capital somewhere. However, it seems that investors should anyway fill certain requirements, such as trust as interviewee A describes:

"Definitely, there should be trust... that it is quite hopeless situation that we take [money without trusting investor], really hopeless situation." Interviewee A

Entrepreneurs view investors as important partners. They want to raise capital and other resources from investors but in addition, they want that they can get along with investors. Interviewee D describes his view of choosing the investor as follows:
"Choosing the investor is like choosing colleague or recruiting situation that they can bring money and possibly something else but if you cannot get along with individuals, then it is not good thing." Interviewee D

Entrepreneurs get value-added services from the investors but not always the kind they wanted. Interviewees argue that it is hard to find investors in their industry that can add value in the way they want. For instance, interviewee A argues that it would be very beneficial to find the investor who has experience and network in their industry but they did not find one who were also able to invest. However, their company has got expert services such as lawyer services and he claims it has been very beneficial for them. Interviewee B also describes that they have not found the value-added services they wanted but they accepted the offer anyway. Case company 3 has received help in sales and marketing and in addition, investors have taken important positions inside the firm. They were seeking these things during the investor selecting.

There is also "dumb money" available as the interviewee D describes it. "Dumb money" means that entrepreneurs do not expect any other value-added resources than money. For instance, they might accept offer from business angel and in that way merely increase the total sum of invested in the same round of funding. However, interviewee D adds that most investors should be usable also in other way than money. Interviewee A also discusses how they take a few business angels to increase the total amount. Entrepreneurs do not expect any value-added services from these "dumb money"- investors and, on the other hand, they do no want to get any bad terms and do not want to spend too much time to deal with these investors. These types of investors who invest only a small amount of money may have different requirements to fill, as the following comment addresses:

"When we are selling small shares, then in a way the risk is not the problem but of course if we are really selling major shares or they are going to take place in the board of directors or some bigger investment demands the place in the board of directors, then you should review the company closely that what the firm is and so on." Interviewee C

Hence, value-added services are important thing to entrepreneurs but it seems that very rarely they refuse investors who cannot provide value-added services they want.
For instance, interviewee E argues that he does not put much weight on value-added services and argues that the money is the issue that matters in the end.

Most investors get refused at the beginning of the process. During the initial contact, investors who are not interested or who do not have money to invest are refused. In the first meeting, entrepreneurs can see the issues such as the personal compatibility. Interviewee A describes how he does selection during the meeting. If he feels that potential investors do not understand where they are going to invest in and do not understand the risk, then he does not want them. He argues that there is a big risk that they retreat later before the venture gets money.

"If the investor wants just easy money so it is not... I present my presentation in a way that I am not very active and they automatically close away. Yes, in that way we select." Interviewee A

During their first funding round, interviewee A contacted approximately 50 investors. In the end, they get funding from seven investors. Most investors were eliminated at the contacting phase or in the first meetings. Interviewee get offer from a few business angels but he refused them because the amount of money was not relevant comparing to the effort he should have been make in order to get the money.

Interviewee E contacted roughly 10 investors and get money from one investor in the end. Five of investors close off at the very beginning but interviewee E negotiate with other five. Four of them were refused because of valuation, amount of money, investors' lack of interest and terms and conditions.

"We contacted maybe five, little more than five places and then we decided to choose this [VC]. It felt the most suitable option for us." Interviewee E

Interviewee D has also refused several investors for many reasons. Investors have had terms and conditions that were not suitable for the case company 3. Interviewee D also emphasizes the importance of personal compatibility and that the investors are easy to work with. Interviewee C refused a few Business Angels from Asia because they did not do what was agreed. He adds that the background of Finnish BAs is reliable and they do not need usually to evaluate them. Furthermore, they generally
refused to investment offers, which come between funding round especially if the amount of money is not that significant. Entrepreneurs sometimes make background check of investors before accepting the offer. Interviewee A and D took phone calls to CEOs of portfolio firms before accepting the VC’s offer. Interviewee E argues that the networks are small in Finland and they certainly can hear if somebody has had problems with certain investors.

Table 4 represents the selection criteria of entrepreneurs and it combines the findings of this study and the study of Valliere and Peterson (2007) and Smith (2001). The criteria found in this study are categorized into seven categories and each of them came up with at least two interviews. These issues are valuation, terms and conditions, personal compatibility, trust, ability to invest in future, amount of money invested, and value-added services. These are very close to the selection criteria addressed in previous research, which are discussed in more detail in Chapter 3.

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6 SUMMARY AND CONCLUSIONS

In this chapter, the conclusions of the study are presented. First, the summary of this study is provided, and then theoretical contribution is described. Third, the managerial implications are presented, and finally the limitations and suggestions for future research are discussed.

6.1 Summary of the study

The purpose of this study was to contribute to our knowledge of Finnish entrepreneurs selecting BAs and VCs. The research question of this study was as follows:

*How Finnish entrepreneurs select business angels and venture capitalists?*

Previous research had focused on the topic that how investors select portfolio firms. This study aimed to contribute our knowledge in the entrepreneurs' side of the venture capital market as it studied the topic that how entrepreneurs select investors. This was seen important to study because when entrepreneurs select the right investor, the venture's chances of success improve (Bengtsson & Wang, 2010). The successful relationship between entrepreneurs and venture capital investors is a strong indicator of success (Kaiser et al., 2009).

In order to answer the main research question, it was necessary to understand the fundraising process of entrepreneurs. Thus, the following additional research question was asked:

*What is the fundraising process of entrepreneurs?*

The literature review of this study was divided in two chapters. Chapter 2 was the first chapter of literature review and it presented the fundamentals of firm growth. First, the growth was defined and it was discussed that how the growth can be measured. Then, the growth drivers and barriers were described. Final section of this chapter defined HGFs and described the characteristics of them.
The lack of resources is one growth barrier of growing firms and next chapter (chapter 3) of the literature review focused on this as it discussed venture capital financing. First, BAs and VCs were defined and the collaboration of them was discussed. Next, the selection process and criteria of investors and entrepreneurs were described. Finally, the theoretical framework of this study was presented.

Chapter 4 described the methodology of this study. This study used qualitative data collection and analyzing method. The empirical data of this study was collected in five semi-structured interviews in four Finnish companies that have raised venture capital. The overview of Finnish venture capital market was provided in order to understand the context in which the case companies are operated. Finally, the case companies and interviewees were presented.

Chapter 5 consisted empirical analysis of this study and it was divided in two parts. First section answered the additional research question as it described the fundraising process of entrepreneurs. Second section of this chapter discussed how entrepreneurs select investors and it answered the main research question.

6.2 Theoretical contribution

The main contributions are made to the topic of how entrepreneurs select venture capital investors. Previous research have studied entrepreneurs from the US, Canada, the UK and Israel and discussed that how they select VCs (Smith, 2001; Valliere & Peterson, 2007; Falik et al., 2016). This study elaborated the research in new context as it studies Finnish entrepreneurs.

This study finds seven selection criteria that entrepreneurs view important when they are selecting venture capital investors: valuation, terms and conditions, personal compatibility, trust, ability to invest in future, amount of money invested and value-added services. These criteria are largely similar than previous research has found. This study recognizes four same criteria than Valliere and Peterson (2007) used in their study: valuation, terms and condition, personal compatibility and value-added services. Furthermore, two same criteria than Smith (2001) were found: valuation and terms and conditions. In addition, other criteria provided by Valliere and
Peterson (2007) and Smith (2001) have similar attributes than the criteria of the entrepreneurs of this study.

Entrepreneurs want certain qualities from ideal investor but in the reality, there are not always ideal investors available. In fact, it seems that Finnish early-stage entrepreneurs cannot afford to refuse a good offer from investors. The entrepreneurs argue that there is a lot of capital available in later stages when the venture is running profitable but in the early risky stage, it is harder to raise as much venture capital funding as they want. Thus, entrepreneurs are willing to select investors who do not fill all their requirements.

Entrepreneurs do not value each of their selection criteria at the same importance. It seems there are certain basic requirements that all investors should fill. On the other hand, they are more flexible with other criteria. It was found that value-added service is one criterion that the entrepreneurs are flexible. In fact, the entrepreneurs take sometimes "dumb money" from a few investors in order to increase the total amount of invested in certain funding round and they are not expecting any value-added services from them. On the other hand, it seems trust is one criterion that all investors should fill and entrepreneurs are not flexible with that.

Valliere and Peterson (2007) find in their study that valuation, terms and conditions and personal compatibility are the most important selection criteria. These selection criteria were repeated very often times in the interviews of this study and thus, it might indicate that they are indeed the most important criteria.

This study also finds how entrepreneurs make selection in different stages of the process. Entrepreneurs argue that they take mostly the first contact to investors and find them trough their network and thus they make choices that which investors to contact. In the first meeting, the entrepreneurs are able to evaluate investors more. Most investors close off in the contacting or meeting stage. When the process proceeds forward, entrepreneurs often search more information of investors. It seems that entrepreneurs seek information of investors from the other entrepreneurs and their network. The entrepreneurs argue that networks in Finland are so small that they can hear if the investor is trustful or not. Furthermore, they sometimes call the
CEOs of the VC's portfolio firms and ask their experience of the venture capitalist. Finally, they should reach an agreement of valuation and terms and conditions in order to accept the investment offer.

6.3 Managerial implications

Results of this study inform investors how entrepreneurs do selection in the different stages of the process and what they consider important when seeking venture capital financing. Entrepreneurs indeed have selection criteria that investors should fill before entrepreneurs accept the investors' offer. When investors understand the entrepreneurs better, they can change their operations in a way that they better meet the needs and desires of entrepreneurs and the relationship between them is likely to be good which indicates the success of the venture. Growth-oriented entrepreneurs can get benchmarking benefits by understanding how other entrepreneurs are operating and they can change their operations accordingly.

This study noted earlier, that societies should focus on lowering growth barriers in order to generate more HGFs (Eesley, 2016). One growth barrier is lack of financing and other resources. For generating more HGFs, the venture capital industry should operate efficiently. It is important that suitable entrepreneurs and investors get together because then, the venture's chances of success improve. We have research knowledge of the investors who select their investment targets but it is also important to understand the entrepreneurs' side of the process. This study gives that information and overall, raises interest to look the venture capital industry from the point of view of entrepreneurs.

6.4 Limitations of the study and suggestions for future research

The empirical data of this study consisted five semi-structured interviews from four companies who have raised venture capital funding. The empirical data is small compared to previous studies. Smith (2001) gets answers from 143 entrepreneurs, Valliere and Peterson (2007) get 59 valid responses and Falik et al. (2016) have 144 completed questionnaires. However, the data gathering method is also different, as the previous studies have used the survey method and this study used semi-structured
interviews. The results from the small sample of this study give good guidelines but may not be generalized to the entire population of entrepreneurs. However, the same themes were discussed in each interviews and thus, entrepreneurs' answers could be compared. Therefore, the issues started to repeat themselves and thus, conclusion could be made.

One limitation is that the entrepreneurs do not necessarily act in the same way than they argue. The future research can address this challenge by using research techniques called conjoint analysis that Valliere and Peterson (2007) used. It helps to identify the actual importance of selection criteria through simulated choice scenarios. (Valliere & Peterson, 2007.) In the future research, the data set can also be elaborated and consider using survey method. Overall, this study encourages the future researchers to study the entrepreneur's side of the venture capital market. The understanding of it is still limited.
REFERENCES


