REPUBLIC OF TURKEY
SAKARYA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

THE DECISION-MAKING PROCESS USED BY BUSINESS ANGELS AND VENTURE CAPITALISTS IN TURKEY AND COLOMBIA

MASTER THESIS

Gerardo CARDENAS BLANCO

Department of Institute: International Trade

Thesis Supervisor: Assoc. Prof. Dr. Umut Sanem Çitçi

APRIL- 2019

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"This thesis is approved by majority vote/consensus of the examining committee on …/…/…"

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LIST OF ABBREVIATIONS

PE : Private Equity

PEF(s): Private Equity Fund(s)

VC : Venture Capital

VC(s) : Venture Capitalists

VCF(s): Venture Capital Fund(s)

BA(s) : Business Angels

EMFs : Emerging Markets Firms

DMFs : Developed Markets Firms

GPs : General Partners

LPs : Limited Partners

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Sakarya Üniversitesi, İşletme Enstitüsü **Yüksek Lisans Tez Özeti**

Tezin Başlığı: Türkiye'deki ve Kolombiya'daki Iş Melekleri ve Girişim sermayelerinin kullandıkları karar alma süreci	
Tezin Yazarı: Gerardo CARDENAS BLANCO	**Danışman:** Assoc. Prof. Umut Sanem ÇİTÇİ
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Fon bulma tarihsel olarak girişimcilerin işlerini kurarken önemsedikleri en kritik alanlardan biri olmuştur. Yıllar boyunca, girişimciler tarafından başvurulan farklı fon bulma yoları yoğun olarak araştırmalara konu edilmiştir ancak Girişim Sermayesi ve Melek Yatırımcılar bu yolların arasındaki en göze çarpanları oluşturmaktadır.

Bu tez, bu iki yatırımcı grubun temel prensiplerinin ve genel niteliklerinin ne olduğunu, yatırım süreçlerini nasıl yürüttüklerini, yatırım süreçlerinde dikkate aldıkları en önemli faktörlerin neler olduğunu ve nihai kararlarında yatırım fırsatının uluslararasılaşma kapasitesinin pozitif bir etkisinin olup olmadığını ortaya koymayı amaçlamaktadır. Bu araştırmanın önemi, özellikle Kolombiya ve Türkiye gibi ortaya çıkan olan ülkelerde yukarıda belirtilen sorulara yanıt arıyor olmasıdır.

Yaklaşık olarak 45-60 dakika süren 8 yarı yapılandırılmış mülakat ile toplanan veriler sınıflandırılmış, analiz edilmiş ve içerik analizi yöntemi kullanılarak bulgular sunulmuştur. Soru seti sekiz tema altında oluşturulmuştur: genel sorular, yatırım süreci, gözden geçirme, yatırım fırsatının detaylı ele alınması ve değerlendirilmesi, anlaşmanın yapılandırılması, yatırım sonrası faaliyetler, çıkış stratejileri ve uluslararasılaşma kapasitesi.

Elde edilen bulgulara göre, ortaya çıkan olan ülkelerde Girişim Sermayesi ve Melek Yatırımcıların oldukça benzer bir karar alma süreci izlediği görülmektedir. Melek Yatırımcıların yürüttüğü bir yatırım sürecinin, Girişim Sermayesinin yürüttüğüne kıyasla daha informel ve öznel faktörlere dayandığı söylenebilir. İkinci bir nokta da potansiyel yatırım fırsatlarını değerlendirirken en önemli kriter hem Girişim Sermayesi hem Melek Yatırımcılar için yönetim ekibi olduğu anlaşılmıştır. Son olarak, Girişim Sermayesi için bir girişimin uluslararasılaşma kapasitesi çok önemlidir ancak zorunlu olarak değerlendirilmezken Melek Yatırımcılar için bir girişimin uluslararasılaşma kapasitesi her açıdan zorunlu olarak görülmektedir.

Anahtar Kelimeler: Yatırım Süreci, Uluslararasılaşma Kapasitesi, Melek Yatırımcılar, Girişim Sermayesi

Sakarya University Graduate School of Business **Abstract of Master's Thesis**

Title Of The Thesis: The decision-making process used by Business Angels and Venture Capitalists in Turkey and Colombia

Author: Gerardo CARDENAS BLANCO **Supervisor:** Assoc. Prof. Umut Sanem ÇİTÇİ

Date: 12/04/2019 **Nu. of pages:** ix (pretext)+ 115 (main body)

Department: International Trade **Subfield:** International Trade

Funding has historically been one of the most critical areas considered by entrepreneurs while building their ventures up. Over the years, extensive research has been carried out in the distinctive funding sources appealed by entrepreneurs, however, the Venture Capital and the Business Angel investment stand out amongst them.

This thesis aims to understand what the main guidelines and generalities of these two investors groups are, how the investment process is conducted, what the most relevant factors taken into account during the investment process are, and conclude on if the internationalization capacity of a venture positively impact the final investment decision given by Venture Capitalists and Business Angels. The relevance of this research goes beyond the limits as it profoundly responds to the above mentioned questions in emerging countries (specifically Colombia and Turkey).

The content analysis was used to collect, group and analyze data coming from a total of 8 semi-structured interviews designed to last around 45-60 minutes. Questions were grouped to collect data in 8 specific areas of interest: Namely, General questions, Investment process, screening, deal screening and evaluation of the investment opportunities, deal structuring, post-investment activities, exit strategies, and internationalization capacity.

According to the results, while it is true that VCs and BAs in emerging economies follow a quite similar making-decision process, it is safe to say, the one conducted by BAs is much more informal and based on subjective factors while compared with the one performed by VCs. Secondly, it seems the most important criterion while assessing potential investment opportunities is the management team for VCs as well as for BAs. Lastly, for VCs, the internationalization capacity of a venture is crucial yet not mandatory, conversely, for BAs, the internationalization capacity of a venture is mandatory from every point of view.

Keywords: Investment Process, Internationalization Capacity of A Venture, Business Angels, Venture Capitalists.

INTRODUCTION

As it is widely acknowledged, entrepreneurship has become one of the trigger factors to enhance a country's economic system as well as the overall welfare of a particular society. It possesses the power to boost new venture creation and therefore, it significantly reduces unemployment and negative pitfalls associated with it (Acs, Desai, & Hessels, 2008: 219). Nevertheless, entrepreneurship is not a straightforward practice, especially when factors like financial backing are being under evaluation by capital-lenders as well as by capital-borrowers. The access to sources of funding is significant because it permits ventures to execute establishment, investment and expansion projects. There is an endless number of finance sources, however, they all vary according to the venture's main characteristics such as the number of employees, sector, potential markets, industrial properties, legal structure, the product of the venture, geographical location, and so many other aspects.

Undoubtedly, the most demanded finance sources by entrepreneurs are the Venture Capital and the Business Angel investments. However, and in spite of multiple studies and researches carried out on these topics (Tyebjee and Bruno, 1984; MacMillan, Siegel and Narasimha, 1985; Khan, 1987; Robinson, 1987; Sandberg, Schweiger, & Hofer, 1988; Hall and Hofer,1993; Duxbury, Haines & Riding, 1996; Mason and Stark, 2004; Zacharakis and Shepherd, 2007; Maxwell, Jeffrey and Lévesque, 2011; Sharma, 2015), there is no solid ground to understand the overall process these two heterogeneous investor groups follow, and what are the crucial factors being considered to make investments decisions, specially in emerging nations (namely Colombia and Turkey) where almost no legit data can be found (Bruton, Ahlstrom & Puky, 2009: 762

Furthermore, Internationalization as a natural step within a venture's development process has been extensively researched in a very general manner. Interestingly, little has been said about the funding sources ventures adopt to fulfill their internationalization objectives, and most importantly, whether this internationalization capacity positively influences either a VC or a BA's financial assessment.

The first chapter provides a snapshot of the most appealed financing sources by entrepreneurs. Even though most of the main forms of finance have widely been

researched, various inconsistencies are still detected when terms such as private equity, venture capital, and angel investment are subject to study, that is precisely why, a clear set of guidelines will be provided. Ultimately, what the unique characteristics from each of the financing sources are will be an outcome of this chapter.

The second chapter places the loop over the most recurrent financing methods, namely the Business Angel investment and the Venture Capital. In-depth analysis of the underlying components of how both the VC and BA industries operate and make investment decisions is presented.). It is crucial to mention the selection of these two groups was based on the importance and relevance highlighted in previous studies. First of all, some of the most successfull companies accross the globe have received past financial support from either a VC or a BA. From Google to Intel to FedEx, companies financially backed by VC have changed the economy. Secondly, VC and BA, in spite to be quite ancient practices, have acquired tremendous impact due to the Global Financial Crisis. Bankruptcy rates increased significantly and there was a severe contraction in the availability of bank financing. The latter significantly raised the importance level of BAs and VCs as entrepreneurs and young firms were not able to get funding from Banks. Business angels and Venture Capitalist (specially the former one) play an important role in the economy and in many countries substitute the largest source of external funding in newly established ventures (Teker & Teker, 2016). Last of all, the smart investment-based approach of both BAs and VCs in which a capital as well as a knowledge intake is received, motivated the author to focus on these two groups.

From a more numerical point of view, the global VC investment hit record in 2018 with more than US$255 billion according to the KPMG Enterprise Venture Pulse report. The BA industry is somehow problematic as many anonymous BAs operate and invest without being part of any sort of network. This practice has historically been a solid impediment to keep track of the BA invesmtent practice.

During the third chapter, a crystal clear definition of the internationalization term is presented. Furthermore, the approaches through which companies internationalize, how the internationalization in emerging countries takes place, and how one can measure the internationalization capacity of a firm are some of the doubts that will be clarified throughout this chapter.

Last of all, the fourth chapter explains the methodology, data collection, and analysis methods. Additionally, results of 8 interviews conducted with BAs and VCs from Turkey and Colombia in various areas ranging from the generalities to the specifics of the decision-making process are presented. The author presents results and answers the two main questions of this thesis.

A very large amount of research has been conducted to understand the decision-making process and the most crucial factors taken into account by both BA and VC. Nevertheless, this research has been manipulated in developed economies and in countries where these two investment sources have been extensively used. This thesis enormously contributes to the existing finance entrepreneurship literature as it builds the foundations on the process Business Angels and Venture Capitalists follow while making investment decisions in emerging countries, namely in Turkey and Colombia. Another remarkable contribution is the investment criteria used by BAs and VCs, again, in emerging countries. Ultimately, the association between the internationalization capacity of a venture with the investment propensity of BAs and VCs is explored, and results are noteworthy.

CHAPTER 1: SOURCES AND STAGES OF ENTREPRENEURIAL FINANCE

The process of creating ventures is nothing but arduous. In he vast majority of the cases, entrepreneurs seek funding from a wide variety of available options, starting with the capital provided by their families and close friends to more complex financing strategies such as the Business Angel investment and Venture Capital investments. Naturally, as ventures grow in the market more capital from a more structured organization is expected. An outright description of the sources, as well as the stages of of entrepreneurial finance, is showcased hereafter.

1.1 Sources of entrepreneurial finance

1.1.1 Private Equity

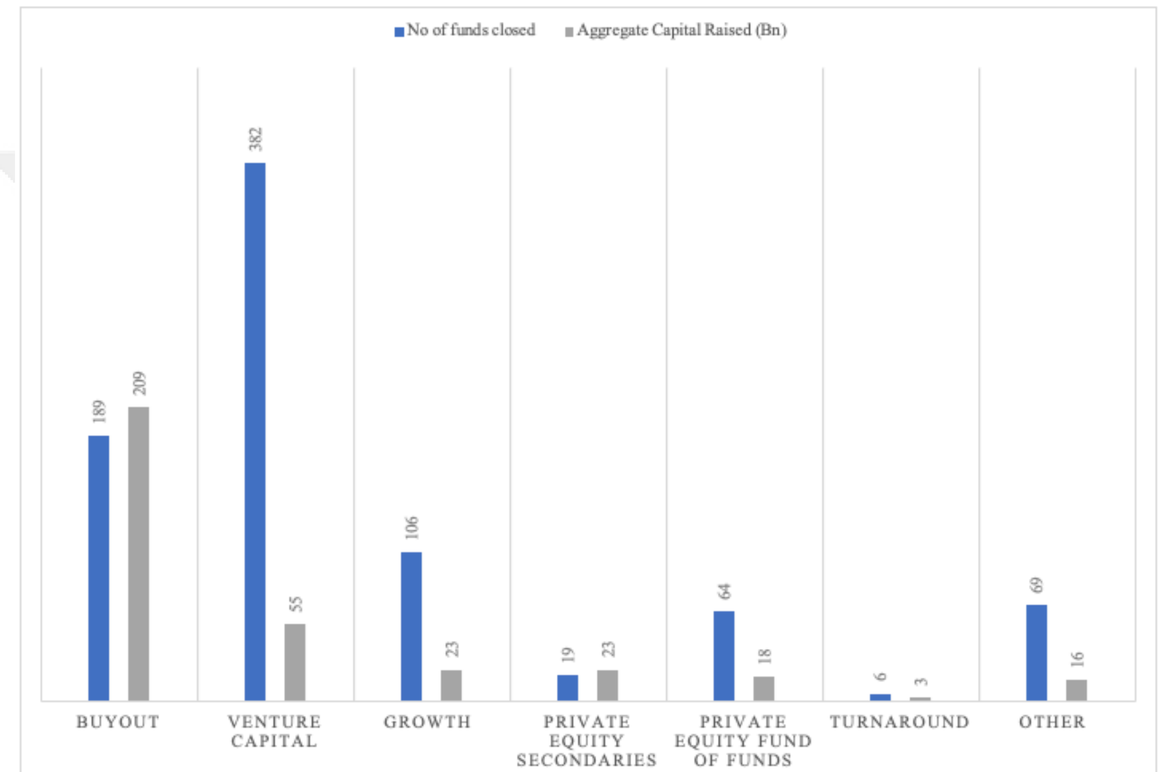
The PE concept has historically been a challenge to academicians due to absolute margins have not been established when addressing its formal definition, because of this, the terms Private Equity (PE) and Venture Capital (VC) are used interchangeably and it seems the distinction between these two have blurred (Wright & Robbie, 1998: 523). The latter situation generates the scientific community to wonder what exactly can be addressed while talking about PE. The root of this disorientation lies on the no separation between the Private equity "industry" and a Private Equity "fund". For instance, while mentioning the Private equity, one may be describing a PE fund but referring to the PE industry and viceversa.

The Private Equity term is a generic term. *Firstly*, Private Equity is an *industry* that is formed by different types of funds such us: Distressed PE funds, Venture Capital funds, Buy-out funds, Funds for funds, Mezzanine funds, Infraestructure funds, Secundaries funds and others; *Secondly*, Private Equity is a *type of fund* which is found within the PE industry. The latter deals exclusively with growth equity and other later-stage investments mainly made through buy-outs (Kaplan & Stromberg, 2008: 123). The previous paragraph summarizes why one should be extremely careful when discussing Private Equity.

On the one hand, Sahu, Nath & Banerjee (2009: 128) and Metrick & Yasuda (2010: 2303) define the term PE as a huge industry in which investments in companies at a medium stage of development (venture capital) as well as more complex investment instruments

like Buy-outs are conducted. Similarly, Jen & Wells (2000: 243) interprets the term "Venture Capital" as one of the types of financial investments within a set acknowledged as Private Equity. Finally, In the United States, the National Venture Capital Association (NVCA, 2014) accepts a viewpoint in which Venture Capital investments and Buy-outs are found within an industry commonly known as Private Equity.

Graphic 1: Global Private Equity industry by type of fund 2017



Source: Bain & Company, (2017: 9)

The latter graphic displays the PE as a whole industry in which contrasting financial strategies can separately be observed. The graphic 1 showcases the fact that various types of funds directed toward different segments are usually found within the PE industry when is being addressed as an overall industry.

On the other hand, Aizeman and Kendall (2008: 2) point out Private Equity fund(s)(PEFs) are transactions made in companies with recurrent earnings, an established product/service, and a well-defined set of clients. Correspondingly, the European Private Equity and Venture Capital Association (EVCA, 2014) is aligned with the latter definition in which a PEF is constituted by investments made in stable and mature companies.

Gilligan and Wright (2014) contribute with a view which is coherent with the current study's direction: "In this sense, Private Equity is a generic term that incorporates venture, growth and Buy-out capital. However, although all these cases involve Private Equity, the term is now generally used to refer to later-stage development capital but mostly Buy-outs and Buy-ins of established businesses. These are generally the focus of our commentary. Private Equity therefore usually contrasts with Venture Capital, which is used to describe early-stage investments." (p.14)

It is crucial to bear in mind that the previous interpretation provided by Gilligan and Wright will dictate the direction of the ongoing research, thus, PEFs solely directing their attention to companies at a later stage of development (mainly buy-outs), while the VC focusing on companies going through growth and expansion stage.

The PE is a type of fund that is invested into a private company in exchange for equity in that business (Arango & Durango, 2014: 175). The relevant characteristic to be remembered is the place where investments are deposited, in plain English, this sort of investments can only be placed in private companies with private ownership and most importantly, their shares do not trade on public exchanges (Kaplan & Schoar, 2005: 1791).

Liquidity plays a remarkable role due to, since the underlying idea is to acquire companies and hold them for multi-year periods, investors must wait until the acquired company's valuation is higher. According to a research conducted by Lerner and Gurung (2008), the majority of PE investments remained out in the financial market for at least 5 years.

To finish with, PE has the highest expected returns of both traditional and alternative investments, therefore it is riskier when compared with other financing methods (Forestner, 2015). A PEF is primarily adopted when buy-out, and recapitalization objectives are being pursued by a venture.

It is crucial to understand there are, on the one hand, VC firms exclusively specializing and placing its collected capital in VCFs and PE firms concentrating only on PEFs. On the other hand, there are financial institutions formed with the objective of concentrating its operations in either VCFs or PEFs, however, they diversified over time, and PEFs, VCFs and other type of funds can be found. The latter may explain why public in general

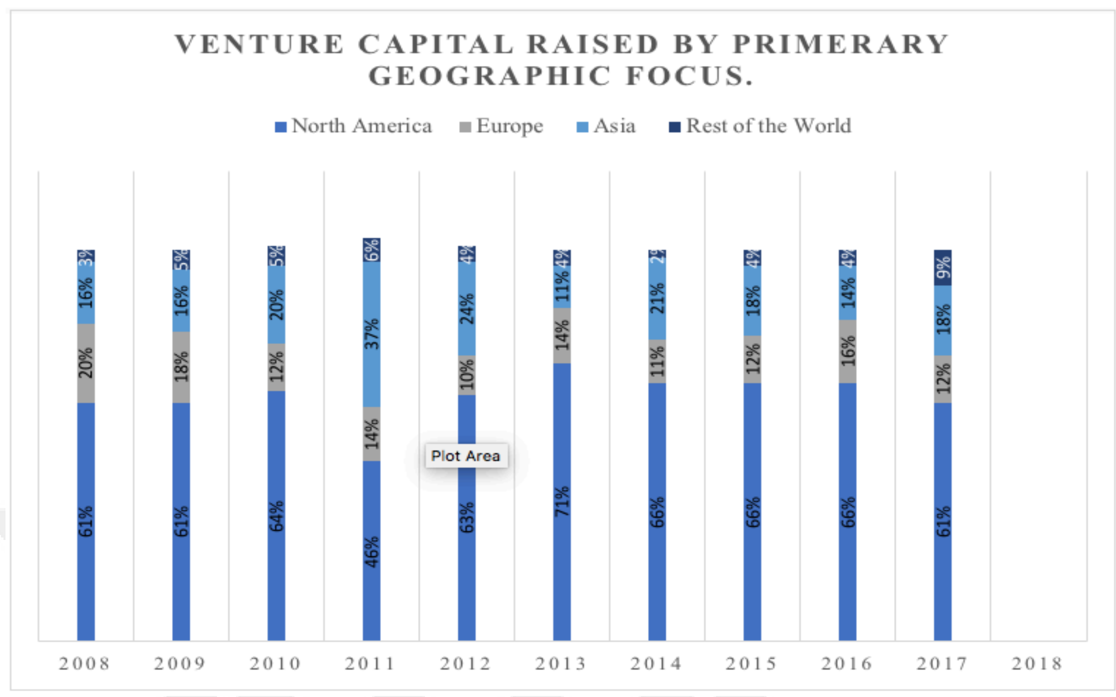
struggle when they attempt to define both Venture Capital firms' structure as well as Private Equity firms' structures.

1.1.2 Venture Capital

A second form of finance has in recent years acquired unmeasurable relevance due to countless profitable companies have invoked to it as a powerful tool of financing. The Venture Capital (VC) has brought along an infinite number of potential advantages to entrepreneurs, for instance, Hellman & Puri (2015: 960) reported that ventures being financially supported by a Venture Capitalist are likely to bring their products in the market faster than those without a Venture Capitalist's backing. The phenomena of the VC has extensively been researched due to its relevance and association with development processes of the most prestigious enterprises in the globe.

The VC has historically been associated with investments made within companies being in one of the following stages of development: Startup, early stage, and expansion stage. Nevertheless, recent studies like the one conducted by Bygrave & Timmons (2009) demonstrated Venture Capital has been shifting its investment orientation from ventures at an early stage of development towards more well-established companies. According to them, there are some reasonable explanations: Firstly, the emergence of new financial strategies focusing on short-term gains, secondly, it appears the VC has lost its business-building background, in plain English, it has shifted from forming mentors who are familiar with the process of creating a company to mentors exclusively concern about maximizing profits for investors and lastly, the Business Angel (BA) proliferation, Foremski (2008) noted the Venture Capital has been outsourcing much of the Seed stage investments to Angels.

Graphic 2: Venture Capital raised (Fundraising) by Primary Geographic Focus



Source: Prequin, (2015: 4)

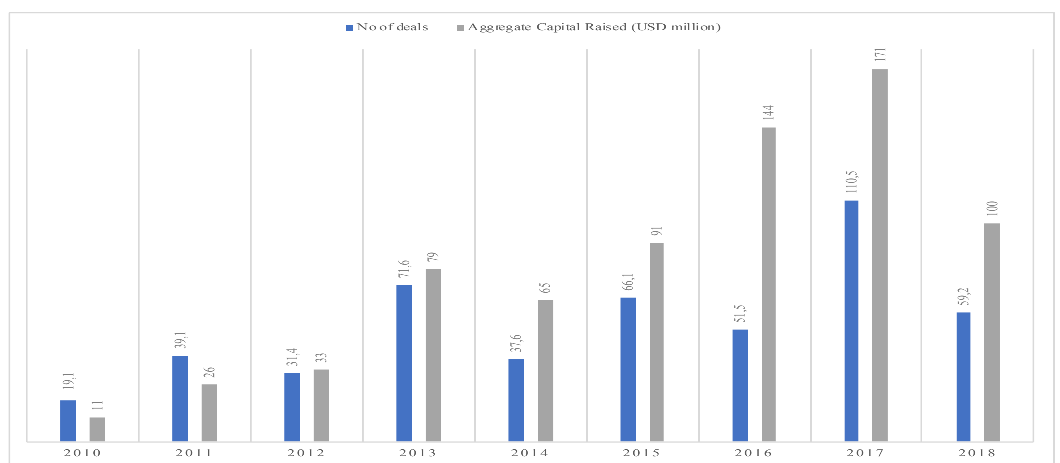
As reported by the figure 2, capital raised in Unites States has led the global VC industry with approximately 35 billion USD raised in 2016, however, North America is not the only region presenting a positive trend, Europe's Venture Capital activity has tremendously grown passing from 3,6 billion USD in 2010 to more than 9 billion in 2016. On the other hand, the Asian region was performing at its best, but it seems it has entered into a state of economic downturn. In regard to the "rest of the world", their lack of VC activity when compared with North America and Europe is evident, thus, space for improvement is expected.

Graphic 3: Venture Capital in Colombia 2018 (June).

Source: Colcapital, (2018: 24)

In 2018 (until June), Colombia has raised USD 91,8 Million as VC funds, representing 7,9% in the South American Region. Even though the VC fundraising was around USD 90 Million, only 32 million have been commited, this leaves Colombia with around USD 60 million to be invested in companies going through Seed, Startup, Early stage, and Expansion stage. Despite of the positive trend of the VC in Colombia (Colombia has presented a constant development since its Private Equity Industry's creation 11 years ago. Nowadays there are 9 Venture Capital funds dedicated particularly to invest in venture, the latter index seems insignificant when compared with regions like United States with more than (35 Billion) and Europe (7,3 Billion) (Colcapital, 2017).

Graphic 4: Venture Capital in Turkey 2018.



Source: Startups.watch, (2018: 1)

The scenario in Turkey presents a great progress particularly in the last 10 years, nevertheless there is still an enormous place for improvement. 2017 was definitely a record-breaking year for Turkey, however, 110 million as a fundraising metric is still quite low. Furthermore, according to GlobalTürk Capital (2017), corporate VC are opening up and have gained relevance in the entrepreneurial ecosystem. The second metric to be considered is the number of funds dedicated to VC across the country with an increment of more than 90 % in the last 5 years. Sectors such as Technology, SaaS-based models and marketing technology are the three sectors receiving the largest amount of investment from VC (Ünsal, 2018).

The latest description is a concise picture of the basic elements comprising the venture capital sector, a more elaborated explanation of how the VC industry operates will be presented during the second chapter of the current examination.

1.1.3 Business angels

After understanding PE and VC on the surface, the third form of funding is brought to light: Business angels (BAs) constitutes another remarkably essential form of finance being especially relevant for companies at a very early stage of development, similar to VC especially in the involvement level they try to acquire within an investee company, that is to say, BAs do not only seek ventures where they can invest their money but companies where a knowledge intake may be well-received by young entrepreneurs. BAs do not solely invest their money, they invest their time and take every investment as a new personal challenge where they can contribute with previous exclusive experience,

and therefore, the majority look up for investments within the economic sectors in which they have previously worked (Aernoudt, 1999: 188). The function of BAs has become a fundamental cornerstone not only for startups, but it has helped entire countries to develop their entire economic scheme, in fact, various national, as well as regional governments, have placed a significant effort with the objective of promoting venture's formation and growth through the angel investment industry. "Angel investment activity is encouraged in a variety of ways, notably through tax incentives and support for Business Angel networks (BANs) and other types of intermediary which 'introduce' angel and entrepreneurs seeking finance to one another" (Mason, 2009: 540).

BAs are, in most of the cases, former entrepreneurs who may act alone or in formal or informal syndicates and invest large amounts of money. They make investments with their own money in ventures where they have no family connection **(**Gray, 2015). The existing relationship between the entrepreneur and the BA is constructed as an active cooperation due to, once an investment is made, the BA becomes part of the venture by working on the board of directors and by providing consultancy to the firm when required (Politis, 2008: 130).

BAs represent what many scholars refer as "financier of last resort", that is to say, they serve as the last option after traditional funding sources have been used, and after banks and VCs reject to invest in ventures at an early stage of development due to the lack of track record, therefore its importance for entrepreneurs (Aernoudt, 1999: 187). Business Angel investment has rapidly been evolving from an invisible practice dominated by high net-worth individuals investing on their own, to one characterized by groups of investors making investments together through syndicates or managed angel groups. Following a general overview of the Angel Business activities is presented:

Table 1: Business Angel outlook in Colombia (2015)

	2005-2011	2014	2015
Total Invested amount	USD 26 Million	USD 6,5 Million	USD 16 Million
Number of investments	99	57	97
Average transaction amount	USD 265,000	USD 115,000	USD 165,000
BANs with operations	ND	66%	65%

Source: Wbaforum,(2015: 5)

Table 2: Business Angel outlook in Turkey (2013-2017)

Country	United Kingdom	Germany	France	Spain	Turkey
No. BANs	67	40	70	46	15
No.Bas	8000	1963	5000	3149	1560
No. Inv	864	192	509	213	354
Total BA Inv. 2017 M(Euro)	107.7	77	63	56.4	52.3
YoY	9.2%	51.0%	47.54%	-14.4%	11.28%
Total BA Inv. 2016 M(Euro)	98	5	42.7	66	47
YoY	2.1%	15.9%	2.4%	20%	51.6%
Total BA Inv. 2015 M(Euro)	96	44	42	55	31
YoY	10.3%	18.9%	10.5%	4.5%	38.4%
Total BA Inv. 2014 M(Euro)	87	37	38	52.6	14,7

Source: Eban, (2017: 11)

The Business Angel activity in Colombia is minimal when compared with Turkey's, nevertheless, it has shown a positive increasing tendency during the last two years by doubling its fundraising capacity from USD 6,5 Million in 2014 to USD 16 Million in 2015. The Panorama for Turkey is quite promising, it counts with more than 14 Business Angel Networks (BAN) and more than 1500 angels who invests individually, moreover, it deposited more than 52 Million Euro in 315 investments (European Business Angels Network (EBAN), 2016).

1.1.4 Governmental initiatives

The forth detectable form of finance is what many accept as governmental initiatives. These refer to initiatives and special programs created and launched by countries' governments with the ultimate objective of promoting and boosting entrepreneurship and therefore, encouraging the improvement of factors such as new venture creation and growth, making this way unemployment rates lower. A special mention should also be made to the fact that these actions do not exist in every economy and may change

according to governments' priorities, for instance, the Colombian government realized entrepreneurship's usefulness within countries' economic scheme, given the fact that formal financial institutions were not open to provide financial backing to many of the ventures' proposals due to its absence of track records, it began creating its own entrepreneurship-driven division in order to help these sort of projects to stay afloat. These initiatives are not restricted to written proposals, most governmental initiatives are supported by physical spaces where they offer an infinite number of services and encourage the creation of networks and innovation ecosystems. California's Silicon Valley is a notorious illustration of what is likely to happen when such kind of programs are supported by national governments (World economic forum WEF, 2014).

In Colombia, various programs developed by regional governments can be recognized as alternatives to traditional finance forms (family, banks, friends, and others). Many startups and ventures appeal to these programs because they cannot guarantee a repayment proof. Furthermore, prosperous cases becoming world-wide companies opened the Colombian government's eyes by showing how relevant it is for a startup to be financially backed, especially during the first development stages.

To be more precise an illustration is given as it follows: One of these alternatives in Colombia is widely acknowledged as "Ruta N", the latter is a program launched and supported by the regional government of Medellin (second biggest city in Colombia), its objective is to improve the region's life quality by promoting innovation and entrepreneurship. Ruta N is funded by the government of the city and therefore only provides financial support to ventures operating in this area. If Ruta N detects there is a lack of medical services, by using an online platform it launches an initiative with basic requirements and conditions to be fulfilled by participants in order to counteract the absence of a particular medical service, at the end of the selection process a proposal gets selected and is funded (Ruta N, 2017).

Presently, besides the fact that by encouraging these initiatives an unemployment level drop as well as competition level increment will unquestionably occur, there is no certainty in regards to what governments obtain by launching these strategies to the public. Even though many claim governments are solely interested in non-profit benefits, there is a strong assumption stating governments support such a trend due to profitability is sought. In fact, future research should be carried out to understand the underlying

reasons why national governments support this sort of initiatives. As it was mentioned before, it is challenging to assess objectives set by local governments because motivations and incentives may vary from country to country.

1.1.5 Bank lending

Bank lending simply makes allusion to scenarios where entrepreneurs and capital-seekers, having run out of financial sources provided by close relatives, friends and their own saved capital, appeal to banks to obtain financial backing either to institute and commence their business ideas or to grow their on-going venture. Bank lending is a remarkable form of financing for entrepreneurs, and spectacularly, a more appealing source of funding by entrepreneurs when compared with Venture Capital.

Banks have historically rejected loans solicited by ventures at early stages of development due to the absence of legit track records and because paperwork and processing cost involved in servicing loans for these companies are too costly (Entrepreneur, 2017). Nevertheless, in recent years, the previously nonexistent accord between banks and modest ventures have shown significant improvement, Firstly, due to particularly small banks excelling at lending to entrepreneurs because they specialize in judging ventures' financing based on soft information, in other words, they base their decision criteria not on quantitative methods (track records), but they rely on qualitative factors like the entrepreneur's passion and confidence in the project to measure whether an investment is likely to be fruitful or not (Wiens, & Materson, 2015)**.** Secondly, Banks have developed covenant systems to restrict the entrepreneur's attitude towards risk and in order to raise their control level, this advancement has conceived a staged financing practice within the bank lending's universe, thus, by following the newly-created staged financing practice and covenants systems banks have tremendously increased their control over investments and reduced risk (Winton & Yerramilli, 2008: 51).

In spite of recent improvement, amendments within the bank lending system, and having more alternative forms of entrepreneurial finance, Murray (2016) found, it continues to be troublesome for entrepreneurs to access required capital from banks by virtue of an existing absent of four remarkable aspects. Firstly, ventures do not count on business assets easily convertible into cash to repay business loans. Secondly, collateral cash not being present when a loan is requested by an entrepreneur would obligate lenders to request personal assets or a co-signer to secure their investments in case it is on the wrong

track. Third, an absence of capacity has been recognized as the most deciding factor when a venture is being screened by a bank. The vast majority of new ventures do not possess appropriate track records and therefore, are likely to be rejected even without being deeply analyzed by bank officers. Finally, the last missing element in the puzzle of bank lending touches upon the owner's personal track record. Given that the greater part of ventures at an early stage of development do not hold a track record, banks will likely evaluate a loan based on the owner's personal track record, thus the lack of a categorical and positive/negative track record by the entrepreneur might be the cause of acceptance or rejection by a particular bank.

In spite of the difficulty of attaining bank lending, the vast majority of ventures insist on trying due to complete control remains on the entrepreneur's hands (Kaplan & Stromberg, 2008: 121), in other words, entrepreneurs should not yield control by sharing companies' equity with lender banks. Furthermore, bank lending, unlike BA and VC, contributes with financial backing regardless of the economic sector where the capital is being employed.

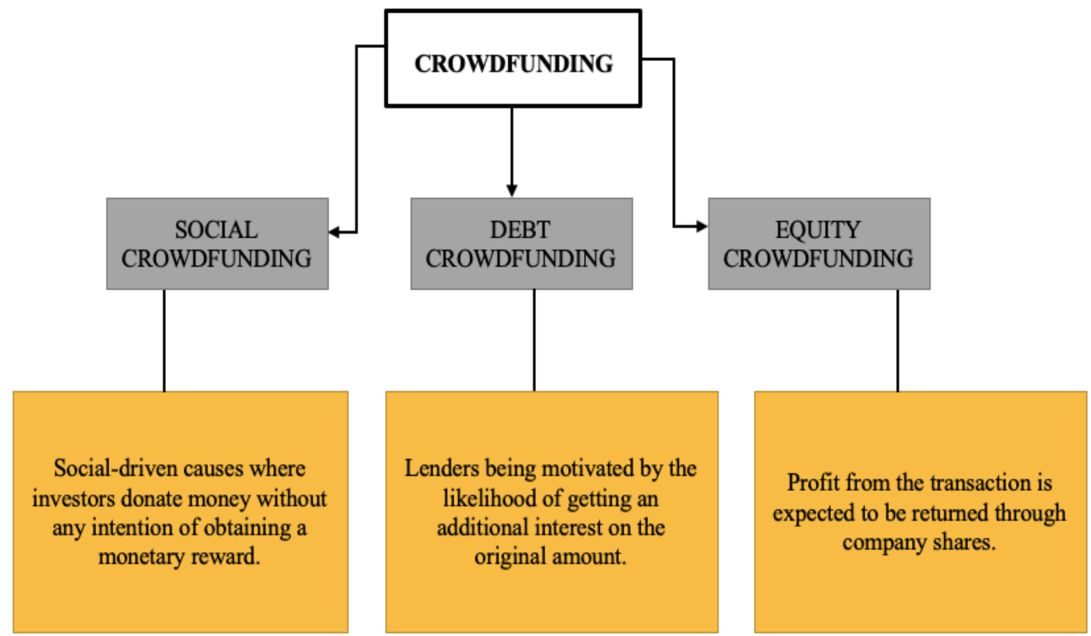
1.1.6 Crowdfunding

From the historical point of view, the first manifestation of crowdfunding was generated by musicians and artists who openly asked their fans to back new albums and tours (Gerber, Kuo & Hui, 2012). After the global financial crisis, crowdfunding emerged as a probable solution because traditional lenders were not open to provide financial support. The crowdfunding phenomena was initially experienced by entrepreneurs in developed economies (United States, Netherlands, United Kingdom, and Australia), then adopted by emerging economies (World Bank, 2013).

Crowdfunding is a financial alternative where investors pool small amounts of money to cover the funding requirements of a particular venture by using a social media platform containing detailed information related to investment proposals. There are three observable approaches within the complex crowdfunding's universe. First of all, pro-social crowdfunding is displayed, the latter encompasses social-driven causes where investors donate money without any intention of obtaining a monetary reward. Secondly, debt or lending crowdfunding refers to lenders being motivated by the likelihood of getting an additional interest on the original amount. In fact, debt crowdfunding is currently the form of alternative finance entrepreneurs and capital-seekers draw on the most (Bruton, Khavul, Siegel, & Wright, 2015: 10). To finish with, equity crowdfunding

can be seen as the most arduous type to be understood considering it may differ in accordance with political and regulatory measures. It touches upon the subject of equity within a venture when an investment is made, that is to say, when one invests in a singular venture, profit of the transaction is expected to be returned through company shares. Nevertheless, and as mentioned before, equity crowdfunding is tied up with strict political standards, therefore, its implementation and acceptance seem to be more slowly when compared with pro-social crowdfunding as well as debt crowdfunding.

Figure 1: Crowdfunding structure



1.1.7 Peer-to-peer lending

Peer-to-peer lending and lending crowdfunding are usually regarded as one. Peer-to-peer lending refers to scenarios where by using an online platform an investor's capital is matched to either a company or a person in need of money. As previously commented, a particular amount of money is given with a repayment promise over a defined term, logically an interest is added over the original value. It is crucial to mention risks associated with peer-to-peer lending are lower, for instance, Ratesetter, a significant peer-to-peer lending website has so far provided around £1.4 billion of loans, but no investor has ever lost their authentic investment (Marston, n.d.).

A general perspective of the existing forms of finance has been produced throughout the current chapter. Logically, there are countless financial instruments not mentioned,

however, our intention was directed towards the most-used sources of funding. A more profound focus will especially be directed towards business angels and venture capitalist during the second chapter.

1.2 Stages of Entrepreneurial finance

Nowadays, each stage in a company's development is associated with a particular financial source. As mentioned before, ventures start their journey by spending the personal capital of the founding team and relevant people around them (Family, friends, and fools), after this source is completely exhausted, Business Angels, Venture Capital, and Private Equity come into the picture in order to keep a company's constant growth. This overview may be seen as oversimplistic, however, a significant proportion of companies which raised Venture Capital has previously raised Angel Capital (Freear & Wetzel, 1990: 85). The latter stresses the importance of comprehending the financial process companies go through while looking for external capital.

Considering the fact that every company goes through various stages before reaching a thriving state, we would like to connect the distinctive phases of a firm's development with the numerous existing sources of funding. It is clear the presented association is not absolute considering financial policies may differ according to with the place where an investment is being made.

There are four dominant phases to be considered within the entrepreneurship's life cycle: Seed, start-up, expansion stage (also known as growth stage) and Buy-out financing stage. This Classification is aligned with the one suggested by De Clercq, Fried, Lehtonen, and Sapienza (2006: 93) who created a model to explain underlying associations between sources of financing and stages of development for a particular company. It is clear the presented association is not absolute; thus, many understandings and interpretations can be found in previous as well as in recent literature. Main features of every phase of development can be openly discovered by observing the Table 3.

Table 3: Life cycle of a venture.

	Seed Financing	Start-up Financing	Expansion Financing	Buy-out Financing
Characteristics of the venture	• 1-2 entrepreneurs. •Undeveloped technology and business concept. •Business plan is not validated	•Management team in place •Product ready for marketing •A pilot and other information about the product is available	• Marketing has been started • Venture is ready to start growing and expanding	• Established company
Main purpose of the funding	•Enabling research and develoment. •Developing business concept	•Establishing the marketing and sales activities.	• Launching full scale marketing activities.	•MBO •LBO •Delisting
Typical venture capital investor	• BA (Business Angel) •Family and friends.	•VC •CVC •Sometimes BA	• VC • CVC • PE	•VC •PE
Main expertise or benefit beyond money provided by investors	•Structure, discipline, sounding board and attaction of additional (external) founding (BA) •Insights how to establish the venture's legal form (BA) •Technological insights (BA)	•Marketing experience, recruiting help, contacts, help with follow-on financing (VC). •Technological insights, test marketing and piloting possibilities (CVC) •Reputation benefits (VC, CVC)	• Marketing experience, recruiting help, contacts, help with follow-on financing, help to plan and execute the exit (VC). • Technological insights, test marketing and piloting possibilities (CVC) •Reputation benefits (VC, CVC)	•Legal and other expertise how to execute a buy-out deal (VC)
Major trouble spots of venture capital funding from entrepreneurs point of view	•Time consuming to locate, negotiate and close the deal. • Involvement (e.g. reporting requirements and governance) with a VC requires a lot of time. • Early stage company does not have very much to back up the valuation of the venture and the valuation may be very low.	•Time consuming to locate, negotiate and close the deal. • Involvement (e.g. reporting requirements and governance) with a VC requires a lot of time. • CVC might want to direct the strategy of the venture.	•Time consuming to locate, negotiate and close the deal. • Involvement (e.g. reporting requirements and governance) with a VC requires a lot of time. • CVC might want to direct the strategy of the venture.	•Time consuming to locate, negotiate and close the deal. • Involvement (e.g. reporting requirements and governance) with a VC requires a lot of time.

Source: De Clercq, D., Fried, V. H., Lehtonen, O., & Sapienza, H. J. (2006: 93)

There is a remarkable alteration from the original table, that is, we added Private Equity since the original study was merely directed towards the Venture Capital industry and Business Angel industry.

The first stage of financing a venture goes through is the Seed/Angel Financing: Commonly, ventures in this stage have a business idea/concept. The main objective of the funding is to develop a business idea by conducting research activities. Moreover, ventures in this phase have not previously received any sort of external funding from PE or VC. Entrepreneurs leading ventures almost always obtain funding from 2 sources: Firstly, their families and friends, and secondly, from BAs. The amount invested are normally small and channeled toward development of a new product. The debate here start as there is not congruency as amounts may vary from venture to venture considering factor such us: Industry, investor internal policies. Equity, amongst others.

After having received the Seed/angel Financing, then it comes the Start-up Financing. During this phase a product/service has been developed and is ready to be out in the respective market. During this phase the majority of the efforts conducted by the venture are directed towards advertising the product and building the customer base. Investors providing capital during this phase are VC (the vast majority) and rarely BAs organized

in syndicates or Networks. Rounds of investments found within this phase are usually Series A or B.

Subsequently, the expansion funding comes into picture: During this phase, the growth of the venture is exponential due to marketing has been shared and the venture may be expanding its operation into another market. Investment made during this phase is aimed at reaching the scale of industrial production, upgrading the production facilities and hiring new employees. Again, the capital to ventures in this stage comes mainly from VCs. Rounds of investment during this stage are tipically under either a Series C or D or later classification.

Last of all the Buyout-stage is found, after the venture has reached a mature status, the possibility to go public may be contemplated. Funding during this phase is used, in the majority of the cases, to: Financing the requirements of a venture to go public, M&A of other ventures (an acquisition of a competitor) or sell completely the venture to a competitor.

Figure 2: Stages and actors of venture funding.

Source: Rehm (2016: 8)

Firstly, the Business Angel industry is directed towards investments made in Seed and Start-up phases in which business concepts are evaluated, where business plans are not validated, and where products are being developed. The Venture Capital industry is wider than the Business Angel's, it covers investments made from the Seed stage until the last sub stage of the growing and expansion phase, however, as it was previously described, Venture Capitalists are outsourcing a limitless quantity of ventures at very early stages of development to Angels and concentrating on young companies. Finally, Private Equity through Buy-out funds and other financial strategies focus on buying the majority of an existing or mature company to be sold when its valuation is high. A special remark should remain in mind, the private equity is enormous and flexible, thus, there have been numerous cases of investing companies making investments in the most innocuous companies and performing a leveraged Buy-out by using different types of funds during the same year. The previous figure only provides a general overview of the cycle.

CHAPTER 2: VENTURE CAPITAL AND BUSINESS ANGELS

Even though each and every source of financing possesses a relative importance within the entrepreneurial ecosystem, the ongoing research will particularly focus on two methods: The Venture Capital (henceforth referred to as the VC) and the Business Angel (henceforth referred to as the BA) industries. The primary intention of the second chapter is to deepen in underlying components to yield a complete picture of how both the VC and BA industries operate.

2.1 Venture Capital

2.1.1 A Brief History of Venture Capital

Maritimes expeditions can be seen as the primitive form of VC. Ship owners were today's Venture Capitalists and ship captains were today's entrepreneurs. Ship owners invested their capital, by lending their ships, with the final aim of obtaining profit from journeys to unexplored latitudes. Even the term "carried interested" was originated from that time. Ship captains were accredited with 20 percent of the cargo they carried on their vessels.

Even though the practice had been used in innumerous formats in the past, the first official manifestation of a VC's movement was the establishment of the first VC firm, American Research and Development Corporation, created in 1946 by Georges Doriot, it raised more than 3 million Dollars with more than 50 % coming from institutional investors, nevertheless, there were two more remarkable events that led the VC industry towards the emergence of professionally-managed VC companies : Firstly, the passage of the Small Business Investment Act in 1958 which presented a tax extension directed to investment companies making investments in small and medium-sized enterprises, and secondly, the Prudent Man Rule in 1959.

Throughout the 1960s and 1970s technology-driven companies the size of American microsystem, Xerox and Intel started to be financed by the VC industry due to they were unable to raise capital neither from banks nor from the public.

In 1979, a huge shift in the Employee Retirement Income Security Act occurred, pension funds were legally allowed to allocate 10 % of their capital into high-risk assets, including Venture Capital. The latter explains the increment the VC industry went through, passing

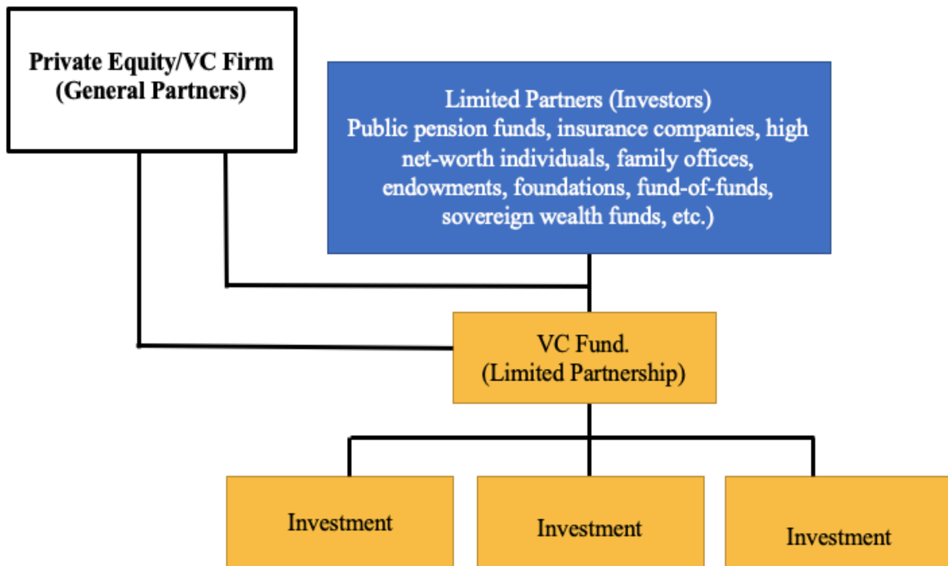
from $100-200 million during the 1970s to $4 billion by the end of the 1980s (Cohen, 2013).

In the 1990s, the emergence of the internet provided venture capitalists with a new, larger platform on which they could grow up and screen more opportunities faster: The Internet. From that point on, the VC industry keeps growing prosperously (Colin, 2016).

2.1.2 Venture Capital Structure

General Partners (also known as managing GPs or managing directors), principals, associates, and analysts are found within a VC firm, nevertheless, the most prominent role is played by the GPs who are investment professionals responsible firstly, for pooling capital from numerous sources such as pension funds, endowments, foundations, banks, corporations, private family offices, and high-net-worth individuals (called limited partners, or LPs in industry jargon), secondly, for taking investment decisions, and lastly, for generating profits. In the second line of importance, associates and analysts who often support the GPs in due diligence and monitoring activities are found. Logically, the size of investment teams fluctuates according to amounts of capital. For instance, the job tittle of head of deal sourcing has been created as VC has evolved over the years.
Apart from the strategic team, an administrative team is also encountered within a VC firm, this team is in charge of duties such as the day-to-day operational, investor communications, taxes and financial aspects (Ramsinghani, 2014).

Figure 3: Venture capital firm's structure

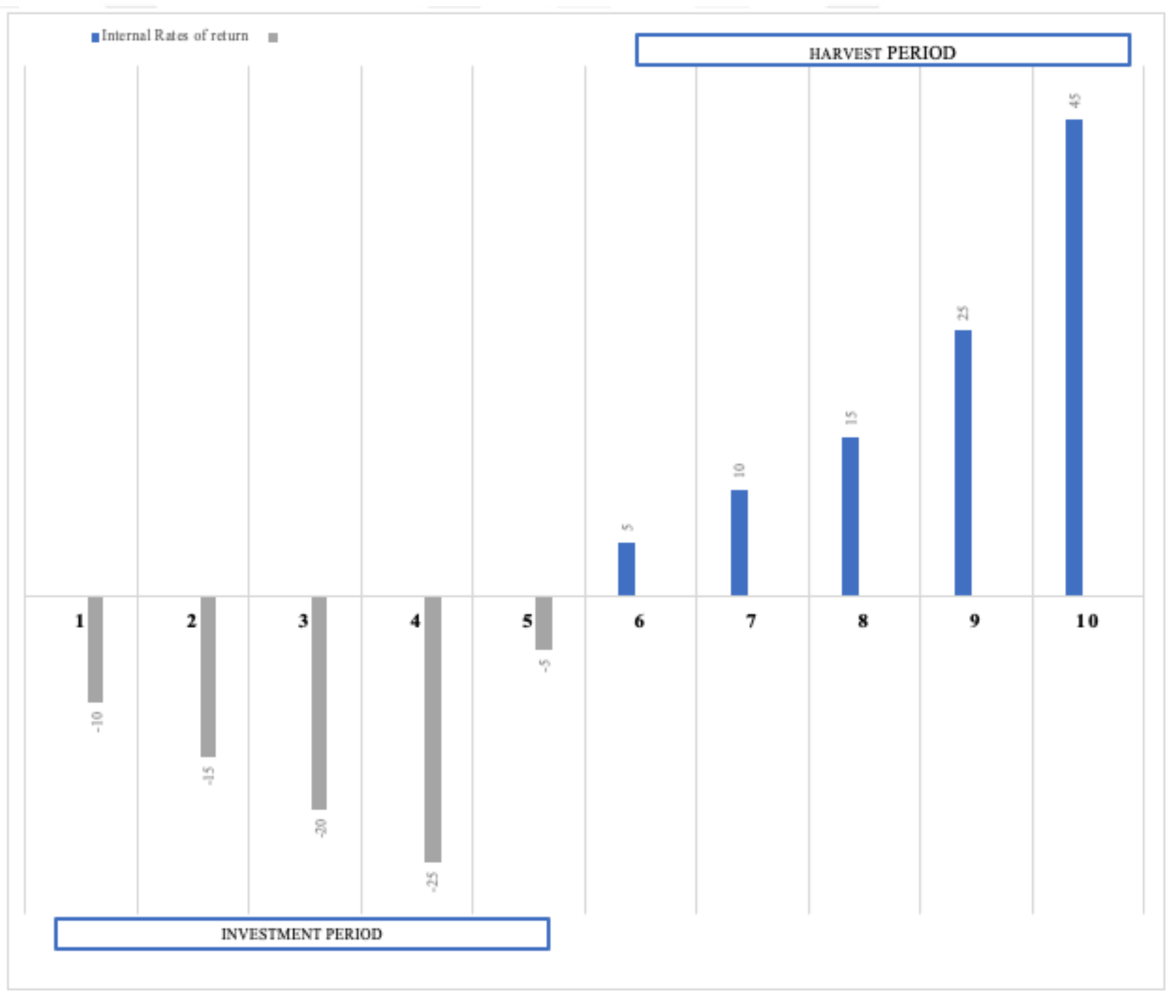


Source: Brait (2010: 1)

2.1.3 Venture Capital Funds

VC funds are the channel by which VCs collect capital. With the aim of pooling capital, VCs should pitch and present their fund to potential LPs. These funds are initially created to last at least 10 years. The process of collecting money from LPs is acknowledged as fundraising, this may take as much as 18 months, however, this duration is likely to change according to the firm's reputation. Firms with a solid reputation are able to gather capital in less time than firms with no positive feedback from the industry (Drover, et. All, 2017: 1827).

Graphic 5: Venture Capital Fund's Cycle



Source: Colcapital (2018: 26).

Once the VC fund has met its original threshold, VCs are under pressure as they need to employ the collected capital. This is the stage in which VCs actively seek the right investment opportunities, therefore, terms sheets, lawyers, valuations, due diligences, and entrepreneurs seeking capital appear. The latter phase may take from three up to five

years. It is necessary to mention a fund does not invest the whole capital in only one venture but creates a portfolio of investments (frequently from 10 to 30 companies) in order to reduce the risk involved (Sahlman, 1990: 480). VC firms have various funds under their management, each of which may be specialized by industry or stage of development.

2.1.4 Venture Capital Investments

Literature concerning the type of companies where VCs place their investments is broad. Traditionally, VC has been associated with investments in companies at an early stage of development. For instance, Gompers, Gornall, Kaplan & Strebulaev (2016: 2) state the VC industry spot companies at an earlier stage of development with technological and operational risks. However, Murray (1995: 1078) note that investment direction has gradually advanced from early-stage companies towards later stage companies.

To explain the existent shift, I would like to appeal to Foremski (2008) who analyzes this change as a consequence of the spreading Business Angel Networks:

> "Venture capitalists have outsourced much of the seed investing to angels. The angel investors are now a more important generator of the next wave of startups than ever before". (p.2)

Another possible explanation is the one provided by Bygrave and Timmons (1992): The VC industry can be grouped into two contrasting groups: Classic and merchant. The classic VC refers to early-stage investments and includes abilities that add value to the funded company, while merchant VC lie towards more mature companies and is concerned with more short-term objectives.

Given the development and expansion of the VC industry, we cannot assure where investments are placed, we summarize by saying some VC funds are simply dedicated to emerging companies while others are directed towards more mature companies.

The ongoing study supports Sahlman (1990) in his view of the VC's investment nature:

> By venture Capital I mean a professionally managed pool of capital that is invested in equity-linked securities of private ventures at various stages in their development.

2.1.5 A Venture Capital Profits and Compensation

The VC firm is economically rewarded by the applicability of two methods: Management fees and share of profits (also known as carry). On the one hand, VC organizations obtain from their LPs an annual management fee, typically from 1 to 2.5 percent of the committed capital. On the other hand, The VC firms frequently acquire 20 percent of the profits of the funds (some well-known firms may get even 30 percent due to its brand name and reputation in the market), while GPs or investors take home 80 percent (De Clercq, Fried, Lehtonen, & Sapienza, 2006: 95).

2.1.6 Venture Capitalists' Criteria

In history, countless investigations addressing the criteria used by VCs while screening business opportunities, have been conducted, (Wells 1974; Tyebjee & Bruno 1984; Silver 1985; Hall 1989) however, critical examinations have pointed out the fact that not all Venture Capitalists follow the same evaluation process, consequently, the evaluation criteria may tremendously change in accordance with innumerable factors such as the sector and stage in which investee companies are, for instance, a VC investing in a company at an early stage of development is likely to place more value on managerial abilities and management teams than on financial metrics since this type of company is unlikely to count with sufficient track record (Monika & Sharma, 2015: 468). Furthermore, numerous criterions are likely to acquire importance as the process continues, thus, proposals have to satisfy different criteria at each stage of the decision-making process before they receive funding (Boocock &Woods, 1997: 51).

It is essential to mention the following information is a framework built based on previous research and should be interpreted as a general view, contrasting grouping and sorting can be found.

With the objective of clarifying the latter dilemma, definite, understandable and unambiguous criteria used by the majority of Venture Capitalists as well as a complete description of the different phases a potential deal should go through before its successful funding, will be displayed.

Table 4: Comparison of Venture Capital Evaluation Criteria.

Evaluation Criteria	Wells	Poindexter	Tyebjee and Bruno	MacMillam et. al	MacMillam et. al	Robinson	Timmons et. Al	Hall and Hofer
	-1974	(1976	-1984	-1985	-1987	-1987	-1987	-1993
Methodology	Personal interviews	Questionnaire	Phone survey and questionnaire	Questionnaire	Questionnaire	Questionnaire	Unstructure interviews	Verbal Protocol
Sample size	8	97	87	100	67	53	47	16
Characteristics of the entrepreneur								
Management Skill and Experience	X	X	X	X	X	X	X	X
Venture team				X	X	X		X
Management stake		X	X					
Personal motivation	X					X		
Entrepreneur personality				X				
Product/service Characteristics								
Product attributes	X	X	X	X				
Product differentiation		X					X	
Propietary	X			X	X			
Growth potential			X					
Market acceptance				X			X	
Prototype				X				
Market characteristics								
Market size	X		X				X	X
Market growth	X		X	X	X	X	X	
Barriers to Entry			X				X	
Competitive threat				X	X		X	
Ventures Creates new market				X				
Financial characteristics								
Cash out method	X		X					X
Expected ROI		X	X	X			X	
Expected risk		X						
Percentage of equity		X						
Investor provisions		X						
Size of investment	X	X						
Liquidity				X	X	X		
Other								
References	X					X		
Venture Investment	X	X	X					
Venture Capitalist criteria								X

Source: Hudson(2015: 8)

> "An inspection of Table 1 reveals that only six factors – (1) management skill and experience; (2) the venture team; (3) product attributes; (4) market size; (5) market growth; and (6) expected ROI had 50% or more of the eight studies agreeing (four or more out of eight studies". (Hudson & Evans, 2005), (P. 5)

Supporting the last result, literature indicates a VC mainly focuses on **(i)** the management team, **(ii)** the market, **(iii)** the product/ service, **(iv)** the venture's financial potential, **(V)** VC fund-related motives, and **(Vİ)** VC management time when making investment decisions.

With regard to the management team, VCs prefer managers who count with industry and management experience. Regarding the potential market, VCs prefer markets with growing possibilities and an appreciable size. In terms of the product/service, VCs search for innovative products/services with an added value, competitive advantage over the rest of products/services, patents or intellectual property in some degree, and the level of need by customers. In terms of financial potential, VCs look up for ventures where simultaneously, rates of returns are high and risk-associated levels low. With regard to the VC fund-related motives, these are rejections due to no alignment between the VC and the enterprise is found, for example, a venture offering a project in economic sectors where the Venture Capital organization has no experience. Finally, in terms of VC management time, VCs rarely do not have the time to properly screen a possible investment. The last two parameters' influence (V and VI) had not been extensively researched, however were found to drastically affect VC's assessment (Petty & Gruber, 2011: 184).

2.1.7 Venture Capitalists' Decision Making

The making-decision process in which VCs analyze elements associated with business plans, the profitability of investee companies and size of investments is carried out in different phases (Hall & Hofer, 1993: 38). Despite an immense number of previous investigations on this matter, the decision-making process is widely accepted in the literature as a five- or six-stage process. A summary of categorizations elaborated by various authors in regards to the stages contained within the decision-making process can be seen in table 5.

Table 5: Phases in Venture Capital's evaluation process

Process Stage	Wells (1974)	Tyebjee & Bruno (1984)	Silver (1985)	Hall (1989)
1	Search	Deal Origination	Search	Generating Deal Flow
2		Screening	Initial Screening	Proposal Screening
				Proposal Assessment
3	Evaluation	Evaluation		Project Evaluation
			Due Dilligence	Due Dilligence
4		Deal Structuring	Deal Structuring	Deal Structuring
5	Venture Board Meeting and operations	Post-investment activities	Monitor Progress	Ventures Operations
6	Cashing out		Cashing out	Cashing out

Source: Hall & Hofer (1993: 28)

Table 5 shows a parallel of different reviews in which decision-making process's stages are organized. Regardless of contrasting denominations given by various authors, a common path seems to be followed. Since countless categorizations in the actual literature can be found, we would like to appeal to the sequential model proposed by Hudson (2005: 3) to finally establish the phases within the Venture Capitalists' Decision-making process. They considered various classifications from well-known scholars on the matter and lastly concluded:

> "In broad terms, there appears to be at least agreement on the following stages: 1) deal generation; 2) initial screening of proposals; 3) project evaluation and due diligence; 4) deal structuring; 5) post- investment activities; and 6) cashing out or exit activities." (p.3)

(I) The first step is the deal generation/origination (also known as generating deal flow) in which VCs receive investment proposals through various channels. A network of referral gains value due to it acts as a filter for the VC. Referrals may come from investment bankers, consultants who have previously worked in a Venture Capital firm, family and friends. These referrers play a critical role because firstly, referred deals are more easily accepted and are likely to pass the first stage, and secondly, they are likely to recognize what sort of investment the VC find engaging. Furthermore, the network of referrals is increasingly gaining ground due to a greater part of Venture Capitalists generally do not seek out prospective deals (Fried & Hisrich, 1994: 32).

Apart from the network of referrals, and keeping in mind our society has totally transformed into a technology-driven one, a scenario where Venture Capitalist firms use their online platforms with the objective to attract viable investment projects is often encountered (Bliss, 1999: 245).

(II) The second step is the initial screening of proposals, in which a preliminary review of the proposal's business plan is executed with the aim of determining whether a finer-grained evaluation is worthy. This step is decisive to the consequent phases due to Venture capitalists significantly reduce the number of proposals since they should focus on those likely to be funded. Wells (1974) reports that during his investigation the number of proposals received by Venture capitalists may range from 120 up to 1,000, with an average of about 450 deals per year. Additionally, the initial screening is a process quickly completed by VCs who employ less than 21 minutes on a proposal evaluation (Hall & Hofer, 1993: 25).

Initial screenings are normally performed by associates or interns through "deal logs" where key details such as location, capital invested to date, description of business, entrepreneur background, market strategy, product adoption, and quality, experience and composition of managerial teams, are encompassed. By swiftly reading this deal log an associate may shape an idea in regards to the attractiveness of deals, if the evaluated proposal appears appealing, a further evaluation is to be done by a more experienced VC. It is crucial to mention during this stage, VCs weigh and analyze whether the manager is the most relevant factor or whether product- associated factors are more essential (Kaplan, Sensoy & Stromberg, 2009: 91).

(III) The third step is the project evaluation (also known as due diligence), this is where VCs perform a due diligence with the aim of obtaining amplified information regarding enterprises and entrepreneurs in pursuit of capital. This step is of paramount importance considering once a deal has survived a meticulous due diligence, it commonly receives an investment proposal from a VC. During this stage, VCs take a measure of risk and potential return (Tyebjee & Bruno, 1984: 1051) by analyzing discounted cash flows (DCF), internal rate of return (IRR) from a potential investment, or other financial metrics.

Apart from the evident level of scrutiny, there is a notable distinction between the criteria used during the initial screening and the project evaluation (2nd and 3rd phases). The initial screening process focuses on non-compensatory criteria, that is, an unacceptable value on one criterion cannot be offset by a higher value on another, however, the project evaluation stage permits compensatory patterns to be used, that is, a low mark on one decisive criterion can be offset by a higher score on another (Riquelme & Richards, 1992: 505).

(IV) The fourth phase is the deal structuring in which a vital exchange of information occurs. This exchange includes, on the one hand, the VC placing a value on the investee enterprise, and on the other hand, entrepreneurs stipulating the equity share the VC would receive if an arrangement is reached. Moreover, contracts containing cash flow rights (incentives to perform), control rights (rights VCs possess in the case entrepreneurs do not perform satisfactorily), liquidation rights and employment terms are written **(**Kaplan & Strömberg, 2003: 282).

The most influential action within the overall phase is the generation of term sheets (sometimes referred as "laundry list") in which factors such as amount of investment, securities, conversion price and terms of preferred stock, representations and warranties, affirmative covenants, negative covenants, default, registration, co-sale and additional provisions of the deal is prepared to be shared with the entrepreneur who either accepts or rejects it according with his/her judgment over the offer (Silver, 1985).

(V) The fifth phase is post-investment activities in which VCs provide the "added value". During this phase, entrepreneur and VCs agree on a frequency of visits and reports, subsequent capital in the case the enterprise runs out of capital, strategic advice, and representation on the board of directors. VCs add value by transforming an unprofessional venture into a competent and qualified one (Hellman & Puri, 2002: 172).

The purpose of close monitoring and control of portfolio companies is to avoid losses. The latter control is carried out by VCs who review financial statements on a monthly base. The most evident manifestation of added value provided by VCs is the inclusion of a new manager in the company (Amornsiripanich, Gompers & Xuan, 2017)

(VI) The ultimate phase is the investment exit where VCs lead companies where they have been working in, towards a trade sale, merger, initial public offering (IPO), and so

many other exit procedures. The exits represent the VC firms in the market, the more successful exit a VC organization has made, the more well-known it becomes (Gompers, 1996: 133).

Even though countless similarities among the previous studies on the matter are found, there is a strong assumption stating the Venture Capitalist's decision-making process is more an art than a science. This is simply because many subjective and unquantifiable factors are involved in the process (Hudson & Evans, 2005: 19). As reported by Kaplan et al. (2009), Numerous VCs focus on the management team while others do thickly on the product and business market. Furthermore, even though the decision-making process has been investigated over the years, VCs seem not to be certain about their own decision-making method (Shepherd, 1999). To sum up, it is extremely troublesome to provide a definite and invariable result in regards to criteria and decision-making process hold by VCs, however, presented insight is valuable to comprehend underlying guidelines used by VCs while screening investment opportunities.

2.2 Business Angels

2.2.1 A Brief history of Business Angels

The history of Business Angel investment goes back in time to 1874 when a young entrepreneur, Alexander Graham Bell, was in search of capital to develop his idea of connecting people over a wire (telephone experiments). When this entrepreneur was rejected by his bank, two wealthy individuals who foresaw the potential economic benefit of this idea, put up the initial capital to constitute the Bell Telephone Company. It was not until 1983 when William Wetzel first defined this practice as Angel investment. From that point on, the Angel investment was acknowledged and started being subject to research (Sohl, 2012: 17).

In the 1980s and 1990s Angels kept operating anonymously, thus inefficiencies appeared as entrepreneurs as well as investors had to incur in high search costs (Wetzel, 1983: 23). With the intention of providing an efficient communication channel between capital-seekers and investors, the first Business Angel networks (BANs) were created in the United States, subsequently in Canada, and finally in Europe. The Angel market's transformation occurred in the late 1990s were countless Angels began to organize in

syndicates with the aim of making investments unitedly. The band of angels founded in Silicon Valley in 1995 is widely acknowledged as the first Business Angels' syndicate.

2.2.2 Business Angel Investments' Structure

Business angels are mostly high-net-worth individuals who, unlike VCs, invest their own money in ventures at a very early stage of development in most of the cases. These BAs are mostly former entrepreneurs or retired executives who possess free capital to be invested in unquoted companies in which they have no family connection and who are eager to help an emerging company by mentoring inexperienced entrepreneurs (Harrison & Mason, 1999: 16).

The Angel activity has changed from individuals making investments anonymously (informal or independent BAs), to structured angel groups collectively investing using more structured decision processes (formal BAs or Business Angel Networks BANs) (Kelly, 2007: 3).

Stage of development from investee companies, the complexity of contracts, referral networks, and making-decision processes are only some of the visible differences between informal BAs and formal and structure BANs (Ibrahim, 2009: 224).

The syndication of the angels has enormously facilitated research on the activity of BAs (Botelho, Mason & Harrison, 2016: 324), therefore, BANs will be used to present valuable insight regarding decision-making processes, structure, criteria, and other general information during the current study.

The number of Angels within a network may vary depending on investments size, location, objectives, sector where investments are placed, etc. For example, SAG, a Canadian Business Angel network, counts with 85 members. Apart from regular equity providers, there are two agents involved in a BAN's structure. Firstly, there are gatekeepers who are part-time professionals in charge of screening deals during the first stages of the decision-making process. Secondly, there is a core of investors who recapitulate potential deals after the gatekeeper's approval. In BANs the investment decisions are always taken by investors on the basis of a unanimous decision (UK Business Angels Association, 2016).

2.2.3 Business Angel investments

BAs invest in seed or ventures at an early stage of development and in industries where they have previously worked (manufacturing sectors). For instance, it is frequent for a senior executive with over 20 years of experience in the manufacturing industry to seek and make investments in emerging companies in that sector, as he/she would be able to provide valuable contacts and expertise (Sohl, 2012). Moreover, BAs invest in companies at a very early stage of development with the aim of, once the enterprise has reached a point to be financially appealing to VCs and BANs, attracting capital from them. Since BAs almost always focus on very small companies whose growth prospect are simply not attractive to VCs, they barely argue over a deal with a VC. (De Clercq, Fried, Lehtonen, Sapienza, 2006). It is crucial to bear in mind angel investment is not a homogeneous group, thus, contrasting investment patterns are likely to take place, especially when Business Angel Networks are present. BANs specialize in companies that have reached revenue stages and in investments made in technological sectors.

2.2.4 Business Angel profit and compensation

Unlike VCs, BANs do not receive any contribution for managing their network, consequently, their operation costs are underwritten either by the public sector or by the private sector. On the one hand, public sector refers to national governments that financially support BANs' operations with the clear aim of enhancing entrepreneurship and new venture creation. On the other hand, many private mature companies back up emerging ventures due to by emerging these, a strategic ally is born. For instance, a vehicle-producing company "X" invest in a venture "Z" with a potential idea of producing a more effective and zero-emissions vehicle. After the project is fully developed, the "Y" will be absorbed by the "X" company (Harrison & Mason, 2000: 137).

Compensation for BAs is completely different than it is for VCs, the firsts are interested in making a reasonable profit while providing valuable insight in order to make the company grow (Botello, Mason & Harrison, 2002: 325). Frequently, BAs collect between 10 and 15 percent ownership in investee companies.

2.2.5 Business Angel decision criteria

According to previous research, there are 27 factors BAs consider before making a funding decision. However, there are eight critical factors profoundly evaluated to assess a potential deal. (Maxwell, Jeffrey & Levesque, 2011: 213).

It is safe to say BAs invest in companies at very early stage of development where information is not sufficient to elaborate a judgment. Therefore, BAs trust in managerial skills over technical-related characteristics:

"Although few statistical differences exist for the most important investment criteria, the entrepreneurs and market/product, the interviews showed that BAs may be more influenced by the former, while VCs more so by the latter" (Osnabrugge, 2010, p.104).

Mason & Harrison (1996: 106) found there are two decisive factors to invest in a company: Entrepreneurs' characteristics and market-product feature. On the one hand, entrepreneur's characteristics refer to experience, motivation, passion, honesty, and trustworthiness, on the other hand, market-product features are related to growth potential of the idea.

The notion in which BAs attach great relevance to the experience, skill and capability of the managerial team as well as market potential of product/services are extensively supported by Van Osnabrugge (1998: 37).

However, Stedler and Peters (2003) note that criteria probably vary across countries, that is to say, the criteria used by Colombian BAs will not be the same used by Turkish BAs.

It is important to stress the fact that BAs is not a homogeneous group, thus decision criteria may change drastically. Additionally, evaluated criteria change according to the phase of the decision-making process. To exemplify, a BA may place paramount importance on managerial skills during the screening phase, however, this criterion is likely to lose relevance once a due diligence is conducted. Moreover, criteria probably alter according to each BA's guidelines, therefore, each BA makes an investment decision based on its own criteria (Mason & Harrison, 2002: 215).

According to our judgment there are not absolute criteria, however, BAs generally understand managerial features and market potential as the most significant criterions within the intricate decision-making process.

Table 6: Comparison of Business Angels Evaluation Criteria.

	Mason, Harrison (1996)	Feeney *et al.* (1999)	Bachher, Guild (1996)	Landström (1998)	Van Osnabrugge (2000)	Haines *et al.* (2003)	Mason, Stark (2004)	Stedler, Peters (2003)	Mason, Harrison (2003)	Mason, Harrison (2002)	Paul *et al.* (2007)	Sudek (2007)	Maxwell *et al.* (2011)	Rostamzadeh, Ismail, Zavadskas (2014)
1. Financial consideration														
C11 Size of investment	X	X	X		X					X		X		X
C12 Perceived financial rewards (for investors)					X							X		X
C13 Clear exit opportunity		X				X		X		X				X
C14 Potential for high returns														X
C15 Liquidity of investment		X		X	X	X		X	X	X	X	X		X
2. Market Attractiveness														
C21 Size of the market or niche	X		X	X	X	X	X		X			X	X	X
C22 Growth potential of the market	X	X	X	X	X	X	X	X	X	X	X	X	X	X
C23 Low initial cost to test the market					X							X		X
C24 Competitive advantage													X	X
C25 Low market risk														X
C26 Well-established distribution channel														X
3. Entrepreneur/ Management team														
C31 Investor's background (like Leadership experience)														X
C32 Track record of the entrepreneur	X	X	X	X	X		X			X		X	X	X
C33 Trustworthiness of the entrepreneur	X	X	X		X					X		X		X
C34 Commitment enthusiasm, passion, motivation		X			X		X					X		X
C35 Market familiarity	X	X	X	X	X		X					X	X	X
C36 Evaluate and react well to risk														X
C37 Clear idea about the business						X		X						X
4. Product/ Service														
C41 Potential sales of the product					X							X		X
C42 Product superiority (innovativeness, uniqueness)								X						X
C43 *Proprietary features* (IP protection, patent, copyright)	X		X	X	X							X	X	X
C44 High tech														X
C45 Not easily imitated nor substituted														X
5. BA's involvement														
C51 Want to support small business & regional development														X
C52 Investment is local														X
C53 Want to eventually take control of the business														X
C54 Want to reduce the risk of investment														X
C55 Want to ensure that the management works in line with the BA's interests														X
C56 Want to be involved with entrepreneurial ventures										X				X

Source: Rostamzadeh, Ismail & Zavadskas (2014: 701).

Note: A modification was made from the original table as the original author contemplated criteria applicable to VCs. The criteria contained in the present table only takes into account researches directed toward Business Angels.

2.2.6 Business Angel decision-making process

There are countless models developed with the aim of explaining the different phases a potential deal has to go through before getting funded. Some of the prototypes can be seen in figure 3. In spite of contrasting denominations, they all seem to follow the same pattern: Identification, screening, evaluation, structuring, managing and exit. We are going to adopt the summary column developed by Maxwell, Jeffrey & Levesque (2011) as it compiles all the phases based on numerous studies. (Paul, Whittam & Wyper, 2007; Riding, Madill & Haines, 2007).

Figure 4: BA's decision process

Source: Maxwell, Jeffrey, & Lévesque (2011: 6).

(I) During the first phase (identification), gatekeepers evaluate proposals based on pre-established criteria by the BANs, for instance, if a particular BANs' guidelines state only deals within Italy are to be considered, and there is a potential deal originated by a venture in India, this proposal is automatically rejected by the gatekeeper. Geographic location, size of the investment, industry, business plans' presentation are palpable examples of

why potential deals are rejected by gatekeepers. According to with Roaldsnes (2017: 8) rejection rates closely approaches 70 percent.

Informal BAs (who do not belong to a BANs) identify potential deals by recurring to three different information sources: BANs, business partners and investment syndicates. A colossal difference between BAs and BANs is the way in which the identify potential deals. While BAs search opportunities by themselves, BANs employ gatekeepers who perform this task (Paul, Whittam & Wyper, 2007: 108).

(II) The second phase is the screening of the proposals, this is where the gatekeeper, with assistance from a small group of the BAN's members with specific knowledge in a given industry, determine whether entrepreneurs should pitch their projects. If further clarification of one or more of the main points within a project's proposal is required, the gatekeeper may call the entrepreneurs to meet up personally. This screening stage is pertinent to BANs' decision processes.

The role gatekeepers played during steps one and two is vital to the decision-making process as a whole (Paul & Whittam, 2010: 241). Investment deals passing through phases one and two are willing to perform face-to-face contact, this situation enables BAs to judge and assess more subjective factors, they would not be able otherwise.

(III) During the third phase (evaluation) selected entrepreneurs are invited to pitch their projects in front of BAs. Entrepreneurs are given 10 minutes to explain and 10 minutes to answer questions. The latter is a brief explanation of the key factors contained in the project.

Interested members are then invited to assist to a finer-grained pitch in which a more extended presentation (frequently 1 hour) takes place. The latter appearance includes explanations regarding business model, product/services, technology, market strategy and it also serves as a way of getting to know the entrepreneur. Moreover, backing documents are collected by BAs in order to check whether the presented information is accurate and ventures are reliable (Carpentier, & Suret, 2015: 16).

If the BA is not familiar with the sector or technology potential companies are involved with, he/she might appeal to his/her professional contacts to deepen his knowledge about

it. This is also where investors commence foreseeing where they are likely to add value if an investment is made. (Paul, Whittam & Wyper, 2007: 108).

After the two pitches have been deeply scrutinized by BAs, the number of angels involved as well as an initial investment offer is figured out.

(IV) Once detailed pitches are concluded, in-depth analysis or due diligence are carried out by interested members. During this phase, a leading member who has previous experience in the field where the investee company operates is chosen, this member is in charge of validating with his contacts in the industry the veracity of the information the entrepreneur has provided **(**Haines, Madill & Riding, 2003**; 13).** Moreover, negotiations regarding equity terms are held, the latter is especially a tricky step since the vast majority of investee companies are at a very early stage of development and have no track record at all, therefore, BAs are likely to value companies intuitively based on no solid ground. When an agreement is finally reached, a final document containing details of how the investment is to be carried out is signed by both parties (Paul, Whittam & Wyper, 2007).

(V) The fifth stage is acknowledged as managing, this is where BAs add value by diagnosing critical areas where the investee company should improve. BAs are especially known for the active hands-on guidance they provide to investee companies. (Osnabrugge, 2010). Furthermore, BAs make use of their market network firstly, to place investee companies in a more favorable position in the market, and secondly, to make investee companies noticeable due to a possible trade sale.

(VI) The last phase is the exit from the investment, this is where BAs exit from the company by performing an initial public offering, a trade sale, or a buy-out, nevertheless, little evidence clarifying which exit method is preferable by BAs is found (Paul et al., 2003). Based on a research made by Paul, Whittam & Wyper (2007), there is no certainty about exit strategies:

"Our only strategy is to build the business and develop the value of the business and we'll do that through ongoing sales". (p.118)

CHAPTER 3: INTERNATIONALIZATION OF A VENTURE

Nowadays, technology advances, liberalization of trade and cultural awareness have generated a more integrated global economy and international markets more accessible (Morrow, 1988: 60). These advancements have created an environment where international market information is fully accessible and market synergies can be built easier than in the past (Knight, 1996), moreover, managers and entrepreneurs belong to a better educated-generation and consequently construct business networks easier. These multiple changes have caused companies pretending to fairly compete, to become international in an efficient way considering risks and objectives.

3.1 Internationalization generalities

3.1.1 International entrepreneurship

International entrepreneurship has widely been acknowledged as the point where internationalization and entrepreneurship gather (Oviatt & McDougall, 2005: 537). The term was first mentioned in 1988 by Morrow, however, its first formal definition was the one resulting from an empirical research conducted by McDougall (1989: 387) where international entrepreneurship was defined as the understanding of how companies from their inception engage in international business.

In the early 1990s, there were supplementary contributions, for instance, Oviatt and McDougall (1994: 46) defined international entrepreneurship as business that, from birth, harness the unique competitive advantage they possess by selling products and services in multiple countries. This contribution has been universally acknowledged as the "1994 definition" and has guided countless experimentations on the international entrepreneurship over the years. Additionally, Wright and Ricks (1994: 688) highlighted the importance of organizational behavior and the existent relationship between companies and their setting.

In 2000, Oviatt and McDougal included well-established companies within the international entrepreneurship framework and studied how innovative behavior at an organizational level permeate national borders. Furthermore, they researched on how companies foster innovative and proactive attitudes and how this set of behaviors enhance the internationalization likelihood. Favoring the latter definition, Knight (2000: 14)

stressed the importance of strong leaders and organizations within the international entrepreneurship field.

Later on, McDougall, Oviatt and Shrader (2003: 62) stressed importance on the definition, discovery and exploitation of future goods and services in the international marketplace. In 2005, Jones and Coviello described the process as: "An evolutionary and potentially discontinuous process determined by innovation and influenced by environmental change and human volition, action, or decision" (p.289). In 2007, Matthews and Zander did not only concentrate on the exploitation and definition of business opportunities in foreign markets but stressed aspects like redeployment of resources and engagement with competitors. Finally, an additional contribution was prepared by Karra, Phillips, and Tracey (2008: 441) who interpreted international entrepreneurship as an activity where the main purpose is the creation of competitive advantage by developing complex international resource configuration, that is, the optimal resource utilization with the aim of creating competitive advantage in an international context.

3.1.2 International business definition

In the current literature, there are uncounted definitions of what an international business means. Although the task of defining international businesses has been remarkably challenging and contrasting definitions can be found, we have identified common exclusive traits for international firms.

Firstly, being international implies conducting business activities that go beyond national or domestic borders. Apart from the country where the company's headquarters are established, a company should count with business activities in various countries to be categorized as international (Cavusgil, Knight, & Riesenberger, 2013).

Secondly, another remarkable characteristic relates to the export intensity, that is to say, its commitment, involvement, and dependence on foreign revenues. Unfortunately, there is no agreement in current literature regarding this extent. There are some authors who claim a company should keep at least a 25 % export intensity index to be cataloged as international (Knight, 1996), other scholars allege 10% of total sales coming from international markets is sufficient for a company to be categorized as international. The last described "export intensity index" ultimately discloses a company's degree of

internationalization, we then conclude, the higher the export intensity, the more international a company is.

It is necessary to acknowledge the fact that various sorts of international companies are encountered. For instance, on the one hand, a born-global company internationalize within two years after its formal establishment and its export intensity is 80 %, on the other hand, a mature company internationalize within 10 years and its export intensity is 20 %, even though these companies are fully different, they both are categorized within an international frame.

We define an international firm as a new, young, middle-sized or established companies (Zahra & George, 2002: 56) which organize, produce, conduct, source, market businesses for value-adding purposes across national borders (Cavusgil, Knight, & Riesenberger, 2013) and whose export intensity goes above 20 %. Companies with an export intensity index below 20 % are not committed and not dependent on international markets, therefore are not categorized as international.

3.1.3 Timing of foreign entry

Determining when in time a company should internationalize is a challenging task, nevertheless, literature has drawn a scheme to analyze timing for internationalization. According to Hill (2008) companies seeking internationalization can be categorized either as first-movers or as late-movers. The former group refers to a company which enters a foreign market before anybody of its commercial activity. For example, a Turkish microchip-producer entering Germany before any other microchip-related company. This set of companies enjoy building a solid brand name and consequently colossal economic revenues, nevertheless, pioneering costs are tangible and present. On the other hand, the latter group touches on companies copying and replying a first mover's behavior. These companies avoid experience and knowledge-associated high costs by following companies that have entered a particular market before, however, their competition is expected to be bigger.

It is unavoidable to mention the speed of internationalization is defined as the length of time that elapsed between the year of creation and the year of the first foreign sale. The timing of entry varies according to companies' nature, that is to say, a born-global firm is likely to internationalize before a company following the traditional approach.

In spite of not having unanimity in regards of the timing of international entry, and keeping in mind there are two visible approaches to internationalize, we highlight some valuable guidelines to respond when in time a company should enter a foreign market:

As the traditional approach posits a gradual process in which companies progressively enter a foreign market by obtaining useful insights, it is impossible to construct a timeframe for companies following the traditional approach as every internationalization process is a single universe and is affected by unique factors, therefore, there are traditional companies expected to internationalize within 10 years and others likely to internationalize within 20 years after their establishment (Chetty and Campbell-Hunt, 2004: 65).

Alternatively, the born-global approach conceives internationalization as an almost automatic and immediate process through which companies become international soon after their inception. The timing of international entry within the born-global framework is more entangled than the one from the traditional approach. Authors such as Council (1993) conclude a company that goes international within two years after its establishment is to be regarded as a born-global company. However, there are various authors much more flexible in their assessment, for instance, Zahra, Ireland & Hitt (2000: 945) state that a company that internationalizes within six years after its inception should be regarded as a global-born, thus an international firm. We are in line with Council (1993) and Chetty and Cambell-Hunt (2004: 57) who conducted a research to examine in detail the internationalization phenomenon within New Zealand firms and recognized born-global firms as only those companies that have internationalized within two years of establishment.

Determining when in time an enterprise should go international is not definite and is likely to shift according to a company's objectives, financial metrics, expansion objectives, and market opportunities. Internationalization decisions are linked to contrasting levels of risk and rewards. Companies being first-movers and entering a market soon after their establishment enjoy having long-term benefits, nevertheless, their financial commitment and failure risk is greater.

Figure 5: Internationalization timing of a venture.

Internationalization soon after their inception.

Born-global Approach

Time of entry of a venture (Internationalization)

First-movers

Ventures entering foreign markets before anybody of its commercial activity.

This set of ventures enjoys building a solid brand name.

Colossal economic revenues.

Very high pioneering costs.

Gradual process in which companies progressively enter a foreign market by obtaining useful insights.

Traditional Approach

Late-movers

Ventures copying and replying a first mover's behavior.
This set of ventures avoids experience and knowledge-associated high costs.

Bigger and more solid competition.

3.1.4 Drivers for internationalization

There are several reasons behind why a company entries a foreign market. Internationalization processes are undertaken by companies with the aim of accomplishing distinctive goals (Kiefer & Steve, 2005). Preeminent and widely acknowledged internationalization reasons are presented as it follows:

Figure 6: Motivations for venture's internationalization.

Growth-related motives: Companies begin participating in foreig markets with the aim of achieving growth by expanding their customer base and consequently increase their overall sales (Masum & Fernandez, 2008).

Developing economies of scale: It occurs when either the foreign market is bigger than the domestic one or when production is more economical.

Risk balance and diversification: An international presence significantly reduces risks by diversifying them in the event an unexpected incident occurs, for instance, an economic downturn, a natural disaster, an unforeseen law against foreign companies, bankruptcy, and others (Gillespie & Hennessey, 2010).

Knowledge and learning purposes: Multiple companies penetrate a foreign market with the intention of finding out potential changes in their existing techniques to come up with globally accepted products and services (Hollsten, 2016). Moreover, multiple companies go abroad with the intention of firstly, discovering a particular technology, and secondly, of absorbing the know-how from a singular company in a foreign market.

Establishment of business networks: Undoubtedly, the spread of technology and countless advances in the areas of telecommunications offer firms the likelihood of reaching suppliers, customers, and network partners on a global basis. Furthermore, technological developments allow companies to timely and accurately manage their overseas operation (McDougall & Oviatt, 2000: 904).

Domestic market strengthening: Companies enter foreign and overseas markets in order to strengthen their domestic brand (Grünig & Morschett, 2012).

Liberalization of trade and domestic competition: The political side has had a tremendously remarkable effect on companies' internationalization. Governments of numerous countries have opened their economies by encouraging political measures such as low tariffs, trade agreements, export incentives, knowledge regarding international markets, etc. This political opening has made domestic markets be tapped by external companies and become attractive to overseas competition (Chetty, 1999: 130). Nevertheless, the liberalization of trade has had a positive impact on economies, for instance, it created awareness of how prepared companies should be to fairly compete in an international context by following international quality standards. Turkish companies, for example, being negatively affected after Turkey signed a Custom Union with the European Union (EU), noticed the existing gap between products coming from EU and products being offered in the local market, this quality breach made Turkish companies improve and ultimately be able to compete with European companies operating in Turkey.

External location advantages: Companies move internationally to seize the benefits from low operation costs, deflated currencies, reduced labor costs, workforce, cheaper raw material and others. For example, multiple automakers in the United States of America have gone internationally and established their manufacturing facilities in Mexico as the workforce is cheaper and consequently the overall operation cost is lower (Parlabene L, 2012).

Governmental incentives: There are companies that do no internationalize for their own initiative but lean towards international markets due to governmental subvention and incentives to export some of the domestic production.

Benefits from taxes loopholes: Besides market expansion, spreading risks and so many other motives to internationalize, various companies harness the existing loopholes in local tax laws to move earnings from one country to another without the need of paying exaggerate taxes (Reference, N.D).

International customers: Companies pursue an internationalization process simply because their customers have become international. They stopped focusing exclusively on domestic markets because have noticed an infinite number of options offering high-quality products/services at an affordable price.

3.1.5 Entry modes to a foreign market

Nowadays, there are diverse entry modes to penetrate an overseas market, however, they all can be categorized into two contrasting groups: The initial group includes non-equity methods, and the second one directs attention to methods where equity is compromised. Notably, the control a company desires to possess in an international market is directly proportional to the risk involved (Azuayi, 2016). “This internationalization process is manifested in a number of different ways. It can be seen in the establishment of foreign subsidiaries, in international joint ventures, in licensing agreements, in international advertising campaigns, in international trade, exhibitions and a multitude of other events and actions” (Johanson & Vahlne, 1990 p. 11).

(I)The first and most frequent strategy to internationalize is exporting, an infinite number companies begin their internationalization journey by exporting their products or services to foreign markets (Root, 1987). They can export either directly or indirectly, on the one hand, direct exporting refers to a scenario in which a company is selling directly to its target customer, some representative models of the previous type of exporting are the establishment of a branch office or subsidiary, or an online sale. On the other hand, indirect exporting includes exporting activities conducted though channel partners such as distributors and agents (New Zealand Government, n.d).

(II)The second renown internationalizing path is licensing, in this case, the licensor (License owner) give out rights over intangible property, for instance, patent rights, copyrights, trademark rights, and know-how on crucial products or services to the Licensee (companies in foreign markets for a certain period of time). Besides initial

payments for the license, the licensee is expected to keep on contributing with sales-related royalties until the license is expired (Baines, Fill & Page, 2013).

(III) Third, franchising is another common way for companies to spread internationally. It can be formally defined as the legitimate right a franchisee (company obtaining the franchise) obtains from the franchisor (the company selling the franchise) to perform a particular business activity, for instance, selling a potential product under the name of a specific firm. The franchisee not only uses the franchisor's intellectual property but its operating model, that is to say, its distribution system, its marketing techniques, and other elements considered to be part of an operating model rather than intellectual property (Masum & Fernandez, 2008).

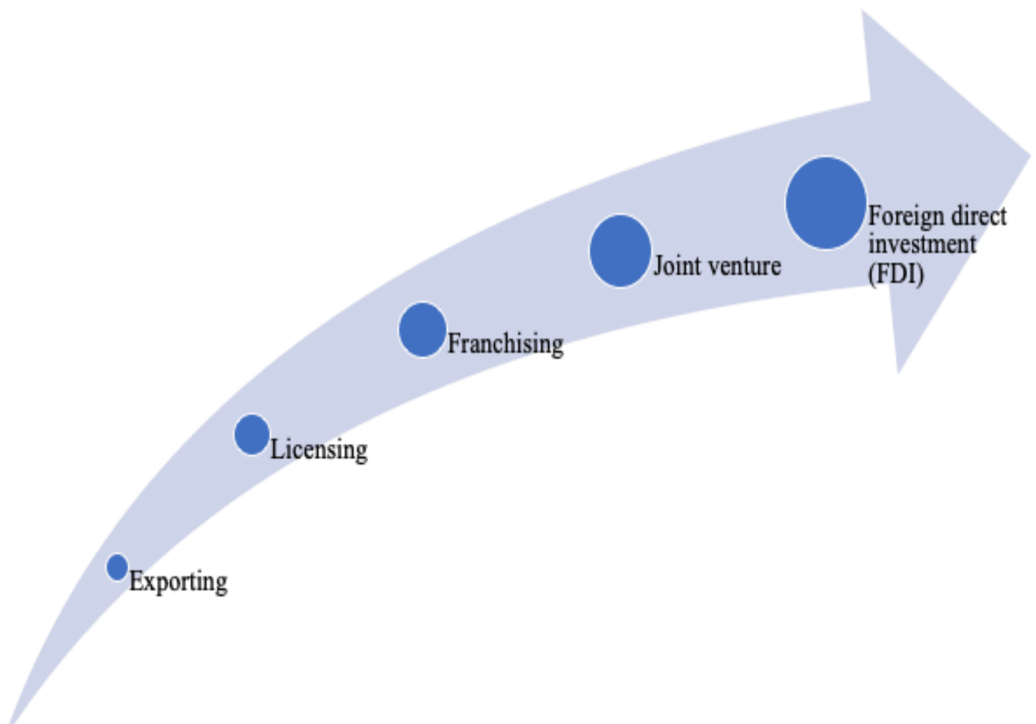
The differentiation between licensing and franchising is blurry in the vast majority of the cases, nevertheless, we have identified two key differences: Firstly, the length of the agreement, as licenses are negotiated for shorter periods of time. Secondly, the control over intangible property, while licensor usually does not preserve complete control over how the licensee may operate, franchisors, on the other hand, maintain significant control over how a franchisee operates (Entrepreneur, 2010).

(IV) The fourth strategy to internationalize is the establishment of a joint venture. It refers to the creation of a new partnership, often taking a new venture structure, where knowledge contributions, capital contribution, revenues, expenses, and control are expected to be mutually shared by an external company (frequently the one seeking internationalization) and the host company. Typical joint ventures are performed with the objective of firstly, benefiting from an existing local company's cultural and political knowledge, language, business systems and local distribution networks, and secondly, entering countries where strict restriction on foreign companies are present, thus, the only way of entering is to create a joint venture with a local partner (Hill, 1999). For example, Ford Otomotiv was a joint venture of the Turkish conglomerate Koç and the American automobile-producer Ford, the latter was proposed by Ford with the aim of entering the Turkish market.

(V) Last but not least, another relevant strategy for internationalization occurs when foreign direct investment(FDI) is made. The latter (FDI) is an investment made by an company in another country for the sake of possessing international presence. There are

two visible alternatives under the foreign direct investments: The greenfield investments and Brownfield investment. The former is made in the form of establishing a Wholly Owned Subsidiaries from scratch, for example, Starbucks coffee frequently expands globally by appealing greenfield investments and by starting its whole operation in a foreign country from scratch. The latter one occurs when an acquisition of a fully functioning venture is made with the objective of promoting or distributing its products. TATA motors, the Indian truck company can be seen as an evident example of a Brownfield investment when in 2008 acquired Land Rover and Jaguar from Ford in order to spread its operations and brand globally (Masum & Fernandez, 2008).

Figure 7: Entry modes to a foreign market.



3.1.6 The internationalization process of a firm

As mentioned before, there are two existent approaches to fully comprehend how firms internationalize, the first one is the traditional approach in which companies incrementally internationalize by going through various stages while acquiring valuable insights regarding foreign markets, and secondly the born-global approach in which companies internationalize soon after the company's inception. A more fine-grained

explanation of the two distinct approaches of internationalization can be seen as it follows:

3.1.6.1 Traditional approach

Firstly, the traditional approach states internationalization is a gradual process in which a venture commits to foreign markets after obtaining knowledge and integrating with stakeholders in foreign countries. The knowledge attainment should be highlighted as the first and most crucial step through which a company begins internationalizing, nevertheless, an absence is widely acknowledged as an imperative obstacle. By appealing to the behavioral theory of the company developed by Cyert & March (1963), internationalization is a chain of a consecutive, cumulative and progressive set of decisions where risk is involved.

Two different models have been developed and subsequently categorized within the traditional approach: The Uppsala internationalization model (Johanson & Vahlne, 1977: 23) and the innovation model (Cavusgil, 1980: 274), both models describe internationalization from the same perspective: An incremental process made in various steps. Even though both models have widely been employed to explain internationalization, the former (The Uppsala model) has undoubtedly been acknowledged by the vast majority of the scientific community as the holy grail within the traditional approach, therefore, we concentrate our efforts on this model to explain how a company may go international by using the traditional approach.

Figure 8: Representation of the traditional approach.

MARKET KNOWLEDGE

COMMITMENT DECISIONS

MARKET COMMITMENT

CURRENT ACTIVITIES

Source: (Johanson & Vahlne, 1977: 26)

According to Uppsala model, companies with a solid and leading position in domestic markets are prompt to take small steps in foreign markets instead of making huge investments at once. Moreover, there seems to be a connection between the amount of knowledge a company obtains and its commitment to exploit that market, that is to say, the more knowledge a firm acquires, the more committed to investing it becomes. Companies seeking internationalization frequently start by firstly, exporting on a non-regular basis, later by either exporting to a foreign country through an agent or by selling franchises, later by establishing a sales subsidiary and finally, by producing and assembling in the foreign country (Johanson & Vahlne,1977: 23). Internationalization is tremendously affected by psychic distance between home and foreign countries, this psychic distance represents a sum of factors preventing the flow of information from the foreign country towards the home country, determines the easiness of the internationalization process and helps companies to determine what are the countries to start internationalizing with (Johanson & Wiedersheim- Paul, 1975: 308). For instance, BIM, Turkey's largest retailer, expanded its international operation by following the traditional approach. In In 2009, BIM opened its first stores in densely populated cities in Morocco, then in 2013 it expanded into Egypt as well and now has more than 200 stores in that country.

3.1.6.2 Born-global approach

Secondly, the born-global approach in which firms begin operating in international markets soon after their inception, contradicts the traditional approach considering the vast majority of born-global companies do not even have sales in their domestic markets. This approach supports the idea of a world as a single market, in different words, born-global companies discern the globe as a single market, thus their intention of obtaining profit from international sales. Additionally, this view supports the notion of companies highly specializing in products or services that can be sold in an international market. Born–global companies have easy access to international networks and financial markets (Romanello & Chiarvesio, 2017: 180).

Born-global firms count with competitive strategies of innovative technology and product design, that is to say, they frequently count with a cutting-edge technology that is not been replicated anywhere, stress the importance on quality service, and tend to compete with specialized products for remarkably particular niche market (Knight, 2000: 16).

Moreover, this type of firms possesses a wide international network such as clients, providers, sellers who have accumulated expertise born-globals benefit from. Therefore, born global firms as well as firms who follow the traditional approach benefit from their international networks, nevertheless, the pace, quickness, and reach of the networks differ enormously (Burgel and Murrey, 2000).

The essential differences between the traditional and born-global approaches are presented in the following figure:

Table7: Major differences between the traditional and born-global approach.

Internationalization Attributes	Traditional Stages View	Born-Global view
Home market	Domestic market development first	Domestic market largely irrelevant (this study requires 75% export radios)
Prior internationalization experience	None expected	Founder has extensive experience in relevant international markets
Extent of internationalization	International markets developed serially	Many internatinal markets developed at the same time
Pace of internationalization	Gradual	Rapid
Learning to internationalize	At a pace governed by the ability to learn from (slowly) accumulated experience.	Learning occurs more rapidly because of superior internationalization knowledge
Firm startegy	Not central to the firm's motivation to internationalize	Realization of competitive advantage requires rapid, full internationalization; Product-market scope is focused/niche.
Use of information and communications technology	Not central to internationalization	Key role as enable of global market reach and learning
Network of business partners	Used in early stages of internationalization and gradually replaced with the firm's own resources.	Rapid development of global reach requiresrapid, comprehensive network of partners.
Time to internationalize	Not crucial to firm's success; Slow	Crucial to firm's success within a few years of inception (e.g., two years)

Source: Chetty & Campbell-Hunt (2004: 66)

3.1.7 Contemporary internationalization method

Literature places exporting as the most-used tool to enter an overseas market. Nowadays, Internationalization by exporting is considered to be the method most companies adopt in order to gain market share and presence in a foreign, thus, unknown markets. Even though exporting is by far the most preferred method by the vast majority of internationalization-seeker companies, numerous new alternatives seem to be emerging, for example, overseas networking, foreign direct investment, and agreement with external companies are gaining importance (Masum & Fernandez, 2008). Furthermore, many scholars claim the optimal entry mode fluctuates depending on different scenarios, while some companies may handle a particular market by establishing a joint venture, other companies may better handle the market by exporting (Hill, 1999).

3.1.8 Internationalization in emerging countries

Rapid development in the marketplace has made emerging economies adjust their structures, improve their competitiveness, and open their economies. These transformations allowed companies from these economies to become bigger players, to start benefitting from the global market, and to acquire a primary role in the world economy (Yamakawa, Peng, & Deeds, 2008: 59). This market opening has given birth to a scenario where firms from emerging markets (EMFs) seek internationalization particularly in developed economies, however, countless characteristics to fully understand this happening remain unanswered and insufficiently studied.

An emerging economy is defined from the economic standpoint as a country with a gross national income per capita of 9,265 or less (World Bank, 2002), and from a more general standpoint as a country lacking efficient institutions, the latter being the main difference with developed economies. During the on-going research, we are aligned with Keen and Wu (2011) who defined emerging economies as: “those that have the following characteristics: (a) they have gone through a process of liberalization, (b) they have opened their domestic markets to the members of commercial or regional blocs, (c) they lack reliable institutions and stable institutional commitments, and (d) they remain less sophisticated than markets in developed economies (p.320). We could easily categorize Colombia and Turkey within the set of emerging countries. Moreover, and according to a ranking created by by all five of the following bodies: the International Monetary Fund

(IMF), Dow Jones, Russell, Standard & Poor's and Morgan Stanley Capital International (MSCI), Colombia and Turkey are chategorized as emerging economies as they meet the criteria previouly established by the abovementioned bodies. Some other emerging markets are : Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (Straders, 2018).

As logically expected, internationalization in emerging economies is extensively different than in developed countries. With the aim of fully understanding internationalization in emerging economies, existent differences will be displayed in the following paragraphs:

(I)The first remarkable disparity relates to specific organizational features. EMFs lack organizational knowledge and various capabilities of different kinds. EMFs do not possess capacity and knowledge to compete in overseas markets. Sometimes, this lack of organizational capability affects even their domestic market Keen and Wu (2011: 323).

(II)The second relevant difference is the competition level in emerging economies. As a consequence of free-trade policies, EMFs are forced to compete in a setting with DEFs without sufficient knowledge regarding institutions and foreign markets, and organizational skills (Luo & Tung, 2007: 485).

(III) Another crucial divergence between internationalization of EMFs and DMFs (developed markets firms) is the method through which organizational knowledge is obtained. Any activity or knowledge creation process can be either: Experiential learning or experimental learning. The former (experiential learning) refers to situations where companies use their history and past of other companies to enhance technology, operations, and structures. The latter (experimental learning) is a form through which companies innovate and create new routines to sort out inconveniences Keen and Wu (2011: 323). The main distinction is that experimental learning is more expensive and necessitate a higher creativity level, moreover, the experiential learning guarantees a short-term and faster return when compared with experimental leaning which is expected to provide a long-term return (March, 1991: 71).

The vast majority of EMFs rather performing experimental instead of experiential learning, this choice leads to an increase in the variability of knowledge and consequently

international failure (Yamakawa et al. 2008: 68). According to Prange (2011) an experimental learning strategy is remarkably risky in the early stages of internationalization, nevertheless, it can be marvelous in late stages of internationalization (Prange and Verdier 2011: 126). There are many situations when any type of previous insight is absent, then the only option left to access valuable knowledge is experimental learning, for instance, a technologic cutting-edge software development.

(IV)Another difference is intra-firm knowledge transmission, in different words, EMFs do not know how to transfer knowledge from a home country to a foreign subsidiary.

(V) The last visible difference in the internationalization process between EMFs and DMFs is networking. This factor touches on relevant and useful information sources that help companies raise required resources (Ramachandran and Ramnarayan, 1993: 513). Managers in emerging economies, due to being isolated over the years, are independent and individualist, therefore are not accustomed to collaborating with their stakeholders (competition included).

EMFs face bigger challenges to secure resources due to their networks are not as powerful, wide and large as the ones DMFs count with. These networks are meaningful especially when information and managerial consultancy are being pursued (Chen and Chen, 2004: 309).

Table 8: Differences between emerging market firms and developed market firms' internationalization.

	EMFs' Internationalization	DMFs' Internationalization
General characteristics	* Lack organizational knowledge. *Lack of capacity and knowledge to compete in overseas markets	*Fully knowdgeable about foreign Markets and practices.
Foreign policy	Conservative. Historically closed to trade with companies from other countries.	Liberal. Free trade Policies.
Organizational knowledge attainment methodology:	Experimental learning. more expensive and necessitate a higher creativity level.	Experiential learning. guarantees a short-term and faster return.
Intra-firm knowledge transmission	Lack of an effective method.	Superb at trasnmiting information to a foreign subsidiary.
Networking	Independent and individualist culture.	Open and collaborative.

Source: Chetty & Campbell-Hunt (2004)

3.2 Internationalization Capacity of a Venture

The internationalization capacity/potential of a firm refers to the sum of different factors that might increase or decrease the proneness of a firm to go international. Since the vast majority of research has focused on factors affecting internationalization processes of firms in developed economies, our intention is to present a framework containing factors influencing internationalization of firms in emerging economies.

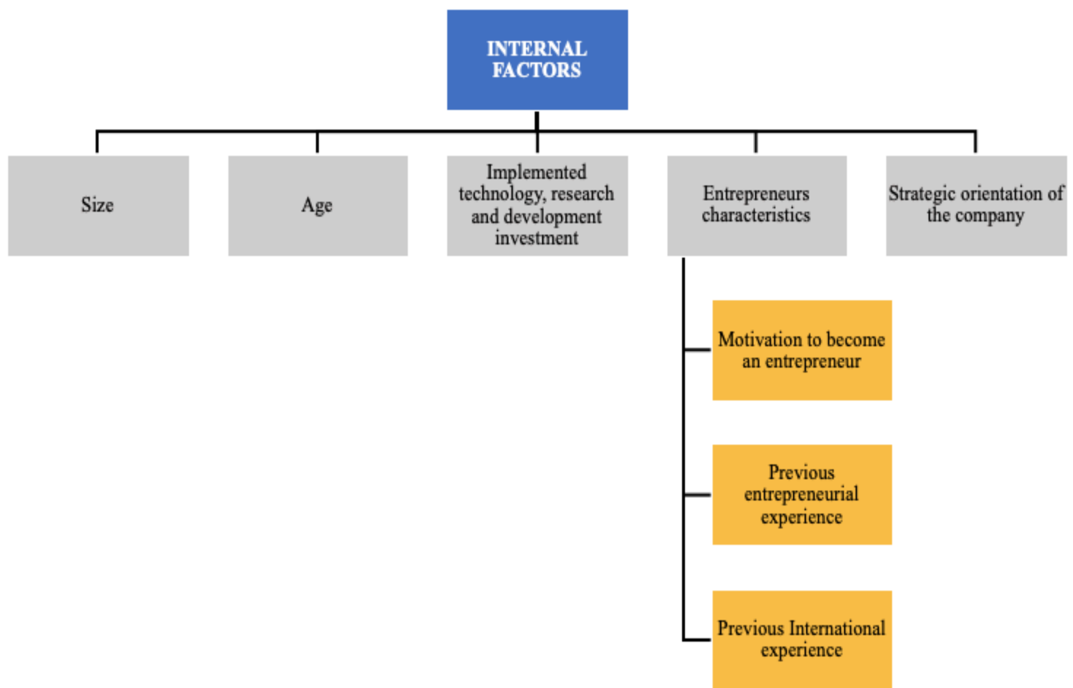
Despite the fact that the internationalization capacity of a firm is an utterly subjective concept (meaning the internationalization capacity of a firm in a high-technology sector may be influenced by a set of factors that do not necessarily affect the internationalization of a company involved in an industrial sector), a consensus in regard to the factors influencing the internationalization capacity of a firm has been set. This accord proposes that to fully comprehend the internationalization capacity of a firm, two different groups of factors should be taken into consideration: Internal and external factors (Horta, 2015). These will be described in detail hereunder:

3.2.1 Internal factors.

This set of factors touches upon structural aspects of a firm and the managers/entrepreneurs running it. Some illustrations are the size, internal structure and

organization, characteristics of the entrepreneur, age of the firm, and implemented technology.

Figure 9: Internal factors affecting internationalization.



3.2.1.1 Size

The size of a firm, measured as net sales or the number of employees, help firms to start exploring operations in international markets. (Verwaal & Donkers, 2002: 608). The size of a company drastically increases the internationalization capacity due to:

Firstly, the bigger the company, the higher the resources it commits to internationalization processes (Wealthy tenure), secondly, scale economies (Zou & Stan, 1998: 337) and lastly, the possibility of taking risks (Suárez, Olivares & Galván, 2002).

3.2.1.2 Age

The age is not associated with the age of the company but with the experience the company has in international activities such as exporting and investing in cross-border endeavors. The previous involvement of a firm in international markets significantly reduces uncertainty and costs as a result of learning economies (Leonidou, Katsikeas, &

Samiee 2002: 52). Previous experiences help companies to develop distribution networks and domestic partners. (Madrid Guijarro & Garcia Perez, 2004).

3.2.1.3 Implemented technology, research and development investment

The presence of a unique technology enormously contributes as commercialization, production and organization processes are significantly improved, thus are more competitive in cross-border arenas (Alonso & Donoso, 2000: 52). Nevertheless, not only the creation of a new technology generates competitive advantage, the way existent technology is applied for different uses and in novel ways is an innovation and a value creation (Mainela, Puhakka & Servais, 2014: 109). Brach and Naudé (2012) pointed out that firms operating in emerging countries that initiate a novel technology possess a higher likelihood of being successful in a foreign market.

Besides that, the investments made in Research and Development (Technological intensity) play a significant role in the internationalization process. The more a company invests in its technology, higher are the chances a license or quality certification appears. Dhanaraj & Beamish (2003: 242) indicates investments in technology are associated with licenses, quality certifications and patents own by a company.

3.2.1.4 Entrepreneurs characteristics

Previous experiences, abilities, and capabilities of the entrepreneur (understood as the main decision-maker within the company) represent bullet points of business internationalization. The latter is the one who recognizes and draws future plans to capitalize on an opportunity (Unger, Rauch, Frese & Rosenbush, 2011: 344). There are many characteristics of the entrepreneur playing a vital role, some of the most important are underline here below:

- **Motivation to become an entrepreneur:** Amorós, Basco & Romaní (2014) classified entrepreneurs, having as a key factor their underlying motivation to become one, this is how opportunity-based entrepreneurs and necessity-based entrepreneurs are found. The former type is much more likely to lead a company to internationalize due to its opportunity seeking nature, simply put, opportunity-based entrepreneurs actively pursue a business opportunity, while necessity-based entrepreneurs are involved in entrepreneurship as the only way they have to

subsist. This group of entrepreneurs financially support their families and lack time to consider bigger goals.

- **Previous entrepreneurial experience:** A previous experience provides a contact network, domestic and international knowledge, entrepreneurial know-how, human and financial abilities, and an overview of how businesses are created (Federico, Kantis & Rialp, 2009: 203).
- **Previous International experience:** Previous international experience is remarkably significant in emerging economies due to it provides insights regarding innovative and progressive business models, market structures, newly-developed technologies and their implementation (Michailova, Shirokova & Laine, 2015: 260).
-

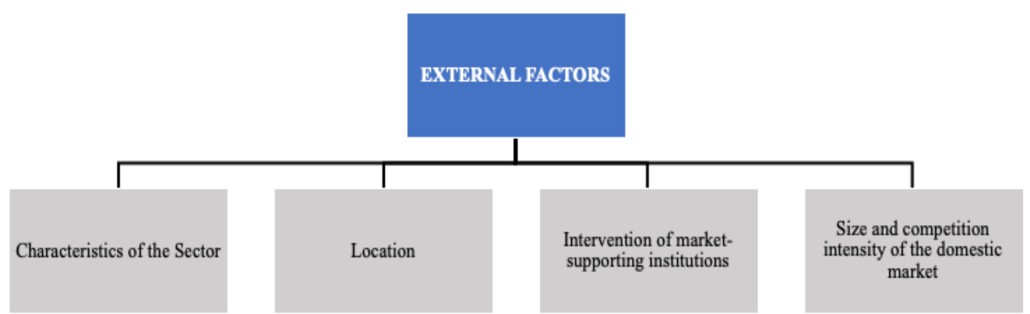
3.2.1.5 Strategic orientation of the company

The concept of differentiation touches upon how a company differentiates from its competitors. For instance, a firm generates a quality-based strategy in which a unique product/service is offered. Some other examples of differentiation strategies are low-cost strategies (scale economies), managerial and marketing differentiation strategies. A company with a solid strategic differentiation is likely to start playing internationally simply due to its offered product/services are not found anywhere else (Dimitratos, Amorós, Etchebarne, & Felzensztein 2014: 909).

3.2.2 External factors

Firms operate in an environment that may be predictable to a certain extent, nevertheless, external factors to the company can change rapidly and influence daily operations so that it could lead the organization to its demise in a short time (Lamotte and Colovic, 2015: 10). Economic and financial-related, social, and political factors intervene in the operation and highly affect the internationalization process of a firm (Meyer- Stamer, 2005). Some illustrations of this set of factors are: the intervention of local governments, characteristics of the sector, and location in which a firm is operating (Horta, 2015: 71).

Figure 10: External factors affecting internationalization



3.2.2.1 Characteristics of the Sector

Firms are more likely to internationalize when knowledge, data and networks in regard to internationalization as a process can be easily found. That is, the "export tradition" of a sector shapes the internationalization likelihood of a new supplier (Arias & peña, 2004: 146).

3.2.2.2 Location.

Firstly, logistics and transportation costs to move and commercialize products are being affected by the location of a firm. Companies located in sizable cities are part of bigger economic ecosystems and seize advantages from agglomeration economies considering there are more services and infrastructure suppliers and their cost is cheaper than in remote areas (Bosma, Van Stel, & Suddle 2008: 129).

3.2.2.3 Intervention of market-supporting institutions

Especially applicable to emerging economies markets where, as stated by Lamote and Colovic (2015: 12), many "institutional voids" are evident. According to the latter, this institutional gap concerns corruption, non-transparent judicial systems and poor-quality legal institutions and law enforcement. Moreover, the lack of venture capital funds and business angels is unfavorable and may trigger internationalization. Gupta, Guo, Canever, Yim, Sraw & Liu, 2014: 368). This is particularly eye-catching for this thesis, Sekliuckiene's (2016) study suggests: "The availability of VC and seed capital is essential at the early stages of internationalization. Evidence shows that in several member countries of the Organisation for Economic Co-operation and Development (OECD), the

lack of a legal form for angel investment or VC investment can be a barrier to seed and early-stage investment. Even in countries in which a limited partnership structure exists (Estonia, Poland, Slovak Republic, Slovenia), there can be barriers in terms of taxation that can make seed and early-stage investing complex and costly (OECD, 2013). A number of other regulatory and legal environmental factors, including tax policy, bankruptcy rules and employment protection legislation, might have a negative impact on business entry, as they dampen the positive effects of social networks and business skills on entrepreneurship while amplifying the role of attitudes towards risk (Criscuolo and Wilson, 2013)".

3.2.2.4 Size and competition intensity of the domestic market

Previous studies have shown a positive relationship between the size of a local market and the speed of the internationalization, in other words, firms operating in small domestic markets are tremendously pushed to internationalize as their domestic market does not suffice their expectations, mainly in terms of profits (Nowinski and Rialp, 2013: 191).

A second trigger is the competition intensity. In a domestic market characterized by high competition and low differentiation in price and quality (meaning all suppliers offer the same products/services at a relatively equal price) the impulse and motivation to internationalize is greater (Oviatt and McDougall, 2005: 502).

As a conclusion, a firm with: A superior wealthy tenure level, experience in international activities, a unique technology (unique product, service or process), high level of investment in research and development, a manager with experience in international settings and previous entrepreneurial experience, a differentiation strategy (price, quality or marketing), located in a big city but in a small country, operating in a relatively internationalization-friendly sector with proactive and uncorrupted market-supporting institutions possess a high internationalization capacity as internal as well as external factors boost its internationalization process. Logically, firms seeking funds and investments from either BAs or VCs are unlikely to meet all these requirements, therefore we assume: The internationalization capacity of a firm is directly proportional to the number of favorable factors it relies on.

CHAPTER 4: METHODOLOGY OF RESEARCH

4.1 Research approach

Numerous studies have been conducted to understand the crucial factors considered by VCs and BAs while making investment decision in developed economies such as the United States of America and Europe, nevertheless, the attention towards BAs and VCs functioning in emerging economies, namely Turkey and Colombia, has not received consideration by the scientific community in general (Bruton, Ahlstrom & Puky, 2009).

Therefore, three basic questions that would enable the understanding of the entire investment process by BAs and VCs in Colombia as well as in Turkey were made. These questions are:

Q1: How is the investment decision-making process carried out by BAs and VCs? What are the phases and activities carried out in each of them?

Q2: What are the most important factors in potential ventures for BAs and VCs while evaluating investment opportunities?

Q3: Does the internationalization capacity of a company positively affect the investment decision made by BA and VCs?

The uniqueness of this topic and the scarcity of previous studies conducted in emerging economies made a semi-structured interview method the perfect fit to build the foundation of this field of research in emerging countries. Furthermore, secondary information sources such as the in-depth examination of the participants were carried out.

A semi-structured interview was selected due to this method possess a level of accurate communication of concepts between the interviewer and the interviewee that is not present in other qualitative research methods (Cannell & Kahn, 1968: 554). Additionally, the first ever-known model of investment decision was created as a result of multiple interviews (Tyebjee and Bruno (1984) and Macmillan et al. (1985).

This research was made to understand the investment-making decisions of BAs and VCs in emerging countries (Colombia and Turkey exclusively).Evidently, when the term “emerging economies”, only Colombia and Turkey are being considered.

4.2 Respondents Identification and Profiles

Non probability sampling was used to profile respondents since a complete list of BAs and VCs neither in Colombia nor in Turkey is found. Most specifically, a convenience sampling was carried out as respondents were selected due to their convenient accessibility to the researcher (Lunsford and Lunsford, 1995: 110).

The result of this thesis is based on eight respondents who work either as a BA or as a VC. The selected participants can be segregated as follow: 2 interviews with BAs in Colombia, 2 with BAs in Turkey, 2 with VCs in Colombia and 2 with VCs in Turkey.

Venture Capitalists profiles

Jose Alejandro Torres is a Colombian who plays the role of a VC in Bamboo Capital Partners. The latter is a commercial private equity firm making investments that matter. It finds game-changing businesses then applies a mix of geographical and sector expertise to deliver financial and social returns. Experts in energy, healthcare and financial services globally can be found. Bamboo has offices in Luxembourg, Geneva, Bogota, Nairobi and Singapore. Jose Alejandro is currently 34 years old and has been leading this project for more than 1.5 years. He will be identified as investor number "1" during this research. Bamboo Capital Partners has been making investments in LatinAmerica in companies such as: Accion (Microfinancing bank), Integral, Banco Popular, CFE, EFC, Compara Online, First access, amongst others. This company mainly invests in three sectors: Finance, energy and healthcare – where they see mass-market opportunities for high growth and social impact. In each of them, technology and data analysis provide the opportunity to revolutionise key services, from financial inclusion to access to clean energy and access to healthcare. Those opportunities are generally in growth markets, but their focus is on the business not the economy.

Orhan Bayram and Gizem Sezer work in Boğaziçi Ventures as the Director of operations and Business analyst accordingly. Boğaziçi Ventures is a VC firm established in 2013 with the purpose of supporting Turkish entrepreneurship to take their global success to the next level. Boğaziçi Ventures currently manages four different funds in different geographies, being Turkey and Dubai the two epicenters. Orhan Bayram is a former entrepreneur who sold his company after it reached a gratifying level. Orhan is 30 years old and has been enrolled in this VC company for 3 years. Orhan and Gizem will be

identified as investor number “2” during this research. Boğaziçi Ventures has invested in quite sucessful ventures in Turkey such as : MenaPlay, sadeceOn, EyeDius, Genz, EsporArena, amongst others. Lastly, Boğaziçi Ventures Manages tech-investment focused funds in specific geographies covering Eastern Europe, Turkey, Middle East and North Africa. Each of BV funds has different ticket sizes and its own investment strategy.

Harold Calderón Meza is a Colombian who has been involved within the private and venture capital industry, namely in the management and structuring of investment projects aligned to the sectors and profiles of interest. He has led investment banking processes ranging from origination, to the structuring, promotion and sale of companies in various sectors, highlighting transactions in the energy industry, construction, mass consumption, solid waste, ICT, services, among others. He has led one of the four top impact funds in emerging economies - Fondo Odysseus in LATAM for more than 1.5 years. Harold is currently 35 years old and will be identified as investor number “3” during this research.

Burak Çallı is currently employed by 212 VC firm. The latter is based in Istanbul, Doha, and San Francisco, and invests in unique teams with global aims to scale. He is been working as a VC for more than three years, specializing in technology-related and likes companies. Burak is a former entrepreneur who had heavily been involved in the online-gaming and block-chain industries. Burak is 39 years old and will be identified as investor number “4” during this research. Some of the ventures in which 212 has invested over the years are: Arkademonik, Hemenkiralik, Insider, Evim, Hazinem, Vizera, amongst others.

Business Angels profiles

Rene Rojas is the CEO and Co-founder of HubBOG, the first campus for Innovation and startups in Latinoamerica. HubBOG includes Acceleration, Academy, investment, Networking and Coworking in one place. Furthermore, he is the Founder of HubBOG Angel Investor Club. He has extensive experience as a mentor and Angel Investor for more than 200 startups. Co-founder of Bogotech. Possesses around seven years of investment Banking experience in the Colombian Banking industry. Rene is 51 years old and will be identified as investor number “5” during this research.

HubBOG was created in 2008 with the purpose to connect entrepreneurs and investors through the Networking Event called “BogoTech”.

Two years later, it opens its Coworking Space renowned for concentrate Talent, Teamwork and Networking from people worldwide interest on innovation and digital development.

During the same year, started to train entrepreneurs interested to increase sales by internet in it practical courses.

In 2011, starts to provide mentor accompaniment from business men expert on digital and technologic industry, and found his private Angel Investors Club, which has allowed to graduate more than 140 startups that are growing in LATAM Market like: Tappsi, TransmiSITP, LasPartes.com, LentesPlus and Undertrail, among some.

Demirhan Buyukozcu is the Co-Founder & CEO of V-Count. A Leading global provider of visitor analytics solutions with offices in London, Miami, Istanbul, Dubai & Hong Kong. Moreover, he is the Co-Founder of Onedio.com, a venture dedicated to providing leading online news/media/content in Turkey with 35M monthly visitors. With his vast experience in front of technology companies, Demirhan has been investing in young ventures in parallel. Demirhan is 35 years old and will be identified as investor number "6" during this research.

Lillys Gomez is the Director of the Entrepreneurship Center of Universidad del Norte (Barranquilla, Colombia), promoter and BA of the Los Angeles Caribbean Investors Club, Impulsor and coordinator of GEM (Global Entrepreneurship Monitor) in Colombia. Lilys is currently 50 years old and will be identified as investor number "7" during this research.

Last of all, Murat Onsekizoğlu has extensive experience in the banking, valuation and private equity fields. He Works for Mediterra Capital Management Limited.The latter is an independent private equity firm focused on investing in Turkish companies and manages Mediterra Capital Partners I, LP. With time, Murat became curious about the BA investment activity and having knowledge and experience about investments, he decided to start investing his own money and capital as a BA (individually). He has been investing as a BA for 1.5 years. Murat is 34 years old and will be identified as investor number "8" during this research. Murat has invested mainly in Turkey, in companies such as: Tavuk Dunyasi, Arkel, GlassHouse, PizzaPizza, ACP; SokeUn, Logo and other more.

4.3 Data Context and Collection

Eight participants represent the data context for this exploratory research. The focus on BAs and VCs in Turkey as well as in Colombia is mainly justified by the absence of scientific research in the criteria used by VCs and BAs to make investment decisions and the impact of the internationalization capacity of a venture while funding is being sought.

The collection of data was performed in two phases:

During the first phase, possible respondents of our posterior in-depth interviews were filtered down by conducting research of the BA and VC investment activity in Colombia and Turkey. The scenario in Colombia was unfavorable due to the scarcity of possible respondents. According to the last Published report (June 2018) by ColCapital, there were only three new VC funds collected during the last year (2018) and no more than 91.8 USD million committed to early-stage ventures.

The BA industry is not more encouraging, Blair (2017) confirmed there is not a registering system, therefore even a clear quantification of the number of operating BAs cannot be found. Furthermore, based on unofficial statistics, the totality of BA investments in 2017 was 17 USD million.

The outlook in Turkey was more sympathetic as, in spite of the absence of a VC association (something quite strange as individual associations were found in almost every emerging country across the globe), the number of investment companies currently working with VC and PE funds was quite acceptable.

After having completed the initial screening, contact with the possible BAs and VCs respondents through the most well-known professional network LinkedIn was created. Sales Navigator (A specific feature of this professional network) allowed the researcher to send direct messages explaining the objective of this research and inquiring about their willingness to participate and collaborate with it. Once the respondent accepted to assist with the research, date and time for the interview were set. For respondents located in Colombia, interviews were conducted through Skype/Google drive and audiotaped for posterior reviewing. For respondents in Turkey, personal interviews were performed.

The interview is formed by questions mainly obtained from previous researches, articles, and theses that had investigated the criteria in contrasting contexts (Wells, 1974;Tyebjee and Bruno, 1984; Silver, 1985; Hall 1989; Maxwell, Jeffrey and Lévesque, 2011; Mason & Harrison, 2012; Gompers, Gornall, Kaplan and Strebulaev, 2016) Additional questions were added, specifically aiming to gather insight on the relevance of the internationalization capacity of a venture when funding is being sought (having into account that previous research questioning the impact of the internationalization capacity of a venture over the decision of both VCs and BAs were not found). A first draft was shared with 1 BA and 1 VC for control and feedback. After some minor changes, a second draft was shared with a professor in the University of Sakarya to come up with the final version of the interview.

The data consists of a total of 8 semi-structured interviews designed to last around 45-60 minutes. Questions were grouped to collect data in 8 specific areas of interest: Namely, General questions, Investment process, screening, deal screening and evaluation of the investment opportunities, deal structuring, post-investment activities, exit strategies, and internationalization capacity.

4.4 Limitations of this study

Semi-structure interviews were mainly conducted in Bogota (Colombia's capital) and Istanbul (Turkey's most populated city) due to the concentration of the entrepreneurial ecosystem in both countries, however, emerging countries are multiple and there is a possibility for different patterns/results according to the geographical location. (For instance, VCs and BAs investment decision making processes in emerging countries in Africa might be different). Additionally, preceding investigations touching upon this topic in emerging nations is inexistent. Last but not least, the sample size specified in Turkey, where multiple BAs and VCs can be found, might be limited, nevertheless, this might be a result of the time-consuming nature of interviews and lack of time and interests by BAs and VCs. Another limitation is the lack of a framework and regulations to become a BA in Turkey and Colombia. Networks and websites listing potential BAs and VCs commonly require a paid membership, therefore the totality of a population will remain unknown unless governments create and adopt a method through which one becomes either a BA or VC.

4.5 Data Analysis

The content analysis has successfully been utilized to collect and analyze qualitative data over the years. This method refers to "any technique for making inferences by systematically and objectively identifying special characteristics of messages" (Holsti, 1968, p. 608). The content analysis has been chosen as a way to organize, code and analyze data deriving from eight interviews conducted in Turkey and Colombia.

In line with Mackenzie and Knipe (2006), a particular set of steps were strictly followed while collecting, grouping and analyzing the resulting data. These can be seen as follows:

- Interviews were transcribed verbatim.
- First revision and preliminary reading with the aim of getting a brief overview of the similarities and dissimilarities in the respondents' replies.
- Creation of codable themes. Luckily, and foreseeing a content analysis would be used during the collection and analysis of the data, interviews had been categorized into 8 major themes. Precisely, General questions, Investment process, screening, deal screening and evaluation of the investment opportunities, deal structuring, post-investment activities, exit strategies, and internationalization capacity.

4.6 Analysis and findings

Results presented below are extracted from 8 interviews carried out from August 2018 until January 2019. . The participants can be segregated as follow: 2 interviews with VCs in Colombia and 2 with VCs in Turkey, 2 with BAs in Colombia, and 2 with BAs in Turkey.

Furthermore, questions were grouped to collect data in 8 specific areas of interest: Namely, General questions, Investment process, screening, deal screening and evaluation of the investment opportunities, deal structuring, post-investment activities, exit strategies, and internationalization capacity, therefore, results will be discussed following this structure.

4.6.1 Generalities

4.6.1.1 Background

VCs in emerging countries normally stem from two sources: Firstly, they are individuals who have heavily been involved in the Investment banking, stock market, fiduciaries, investment strategy, M&A evaluations, PE transactions, and accounting departments. They are familiar with the process of valuation and capital management as they have spent multiple years working with ventures of every type and size.

Secondly, they are former entrepreneurs who created ventures and posteriorly sold them in the market. This economic surplus allowed them to associate with other former entrepreneurs & professional VCs. They deeply know the process of venture creation and the VC industry, therefore, possess the knowledge required to participate in boards and invest in ventures. Moreover, these have developed quite solid investment networks and built trust over the years. These grant access to insights, stable business opportunities, second-hand financing sources, and others. It's crucial to mention the prior entrepreneurs have gone through a professionalization/education process to understand in-depth all the concepts, metrics and activities conducted in a formal VC firm and they started their VC journey by investing as BAs as part of their learning process.

Interestingly, the two VCs from Colombia come from a banking background while VCs from Turkey were the ones who created and sold their company and subsequently invested as BAs before becoming a professional VC.

Regarding the BAs, three different profiles have been identified. Firstly, people with previous experience in Banking, company valuations, M&A operations, and Buyout are found. Respondents belonging to this group are people with vast experience in boards of ventures and consulting activities. Secondly, individuals involved in entrepreneurial educational activities. Investor "7" from Colombia was a professor in one of the most prestigious Universities in Colombia. The latter impulsed the creation of one of the first BANs in Colombia with the aim of bringing graduates together and became part of it with time. Lastly, the successful entrepreneur who has sold a successful business and seeks to participate again in the growth of a company now as an advisor is also found. They have a surplus in capital and knowledge, as have personally been through all the venture

creation stages and are quite familiar with the difficulties associated with funding raising and the need of professional advice while a venture is on a seed/early stage.

4.6.1.2 Motivations

Our respondents have been asked about the motivations underlying their decision to become either a VC or a BA, the industries they target for investments and whether they are informed about BA investments (for VCs) and VC (for BAs). The results can be seen in the table 9 below:

Table 9: Generalities and Motivations to become a VC

Investor Number	Investor 1	Investor 2	Investor 3	Investor 4
Denomination	VC	VC	VC	VC
Country	Colombia	Turkey	Colombia	Turkey
Background	Banking & Investment professional	Former entrepreneur	Banking & Investment professional	Former entrepreneur
Motivations to become a VC	* Maximizing Financial returns. * Helping the entrepreneurial ecosystem in Colombia and its economy. *Making VC investments with a positive social return. (Social profitable investment)Impact investing.	* Maximizing Financial returns. *Providing knowledge, experience, and insights to young entrepreneurs. *Personal interest in technology and the transformative potential of startups (To change something in the world).	* Making a VC investment with a positive social return. (Social profitable investment)Impact investing. * Maximizing Financial returns. *Possibility to interact with ventures in various industries.	* Maximizing Financial returns. *Providing knowledge, experience, and insights to young entrepreneurs. *Personal interest in technology and the transformative potential of startups (To change something in the world).
Insight about BA	Yes	Yes	Yes	Yes
Target industries	*Off-grid: Solar energy * Microfinance *Health and medical *Agriculture	Technology or digital-related.	Cross-sectional (No industry limited)	Technology

The aim of maximizing profits, the possibility to provide accumulated knowledge, experience and insights to young entrepreneurs and ventures (smart investment), the chance of solidifying entrepreneurial ecosystems and economies, the opportunity to help societies to become more stable, the likelihood of keeping track of trends in an area of interest (Technology for instance), and broadening knowledge in various fields were the motivations liying behind why our respondents become VCs.

The "smart investment" was crucial for our respondents to become VCs, that is, the possibility to provide accumulated knowledge, experience and insights to young entrepreneurs and ventures. This is logical considering VCs have been exposed to VC-

backed startups, therefore, fully comprehend the process of creating a venture and can share this valuable intake to make ventures successful. Moreover, the companionship of young ventures may be the manner to secure their future revenue.

Table 10: Generalities and Motivations to become a BA

Investor Number	Investor 5	Investor 6	Investor 7	Investor 8
Denomination	BA	BA	BA	BA
Country	Colombia	Turkey	Colombia	Turkey
Background	Banking & Investment professional	Former entrepreneur	Academic & professor	Banking & Investment professional
Motivations to become a BA	*Providing knowledge, experience and insights to young entrepreneurs. *Personal interest in technology and the transformative potential of startups (To change something in the world). * Helping the entrepreneurial ecosystem in Colombia and its economy.	*Personal interest in technology and the transformative potential of startups (To change something in the world). *The pleasure of participating in strategic decisions of a company. * Helping the entrepreneurial ecosystem in Turkey and its economy.	*Providing knowledge, experience and insights to young entrepreneurs. * Helping the entrepreneurial ecosystem in Colombia and its economy. * Maximizing Financial returns.	* *Providing knowledge, experience and insights to young entrepreneurs. * Helping the entrepreneurial ecosystem in Turkey and its economy. * Maximizing Financial returns.
Insight about BA	Yes	Yes	Yes	Yes
Addressed industries	Technology Blockchain Artificial Intelligence Machine learning	Cross-sectional (No industry limited)	Cross-sectional (No industry limited)	Cross-sectional (No industry limited)

BAs in emerging economies are mainly motivated due to their eagernss and desire to help emerging domestic entrepreneurial economies in their respective countries. They consider that by supporting young ventures, their bit to help their country's economic system has been done.

Furthermore, the vast majority (Investor "5", "6" and "7") of BAs in Turkey and Colombia have mainly been motivated by the possibility of sharing knowledge, experience, and insights to young entrepreneurs.

Some other motivations to become a BA include the pleasure of participating in the strategic decision of a company and maximizing financial returns.

Interestingly, Only investor "7" and "8" are, to some extent, motivated by maximizing financial returns. This is a notable difference with VCs in emerging economies. While VCs are mainly motivated by financial reasons, BAs are attracted by the possibility of

using their existent insight and experience to benefit young ventures. The latter might be a possible result of the ownership of capital invested. While BAs are compromising their own money, VCs are professionals who manage capital from external sources with a promise of return over investment. Furthermore, VCs normally operate under a commission-based structure, meaning their direct profit is directly proportional to the valuation of the companies where they have placed capital (Van Osnabrugge, 2000). BAs are motivated by the probability of contributing to their economic and social setting (Ali, Berger, Botelho, Duvy, Frencia, Gluntz, Pellens, 2017: 84).

4.6.1.3 Target Industries for investment

Investors 2 and 4 (VCs) in emerging countries specialize in particular sectors. It seems VCs (Investors 2 and 4) in Turkey have accomplished a complete specialization to perform their investment, that is to say, they only place their capital in technological young ventures. Conversely, VCs in Colombia (Investors 1 and 3) are not limited by any sector, they invest in a wide range of areas (generalist VCs). This seems to be coherent as the entrepreneurial ecosystem in Turkey is older, bigger and more developed than the one in Colombia, therefore, competition amongst them is higher. Another logical explanation may be both of Turkish VCs have been entrepreneurs in technological ventures, thus, possess a high level of knowledge and advantage when selecting possible ventures in the industry, (Mazzeo & Hochberg, 2015) whereas VCs in Colombia have been involved in banking and financial activities with companies in multiple sectors.

Investors 6, 7 and 8 (BAs) in Turkey and Colombia do not specialize and follow a generalist approach. This is logical as all our respondents might make use of their extensive networking and business contacts to get to know projects and sectors they might not be familiar with. Furthermore, they are part of a BAN with Professionals in a wide variety of Professional areas. This knowledge availability causes BAs to be able to invest in ventures operating in multiple industries. Only investor 5 from Colombia is limited to invest in the technology sector and likes.

4.6.2 Investment process of VCs and BAs

4.6.2.1 Investment process of VCs

Multiple studies have been conducted with the aim of understanding the process through which an investment opportunity goes through before and after recieving funding from a VC (Wells, 1974; Tyebjee & Bruno, 1984; Silver,1985; Hall,1989).However, a model for emerging economies is not currently found. This research develops a model based on answers and in-depth narratives provided by VCs in Colombia and Turkey. This model is applicable to VCs in emerging economies understanding, logically, that emerging economies is a quite extent term and divergencies may be found. Four distintive phases have identified: (I) searching and screening, (II) Deal evaluation (III) Deal structuring and Duel dilligence, and (IV) Post-investment activities and exit.

Table 11: VCs investment process

Investor 1	Investor 2	Investor 3	Investor 4	Proposed Model (Result)
Searching and screening	Application and screening	Screening	Screening	Searching and screening
Evaluation	Investors Meeting day	Meeting with the entrepreneur (evaluation of the company)	Evaluation	Deal Evaluation
Deal structuring & Due dilligence	Deal structuing	Structuring	Due dilligence	Deal strcuturing and Due dilligence
Post-Investments activities	Post-Investments activities	Post-investment activities	Post-investment activities	Post-investment and exit
Exit				

(I) The first phase is the searching and screening of potential investment opportunities: During this phase, searching takes place in two different directions: Firstly, entrepreneurs start searching VCs by submitting their application to be considered for a subsequent meeting, and secondly, VCs actively search business opportunities through a set of different channels (networking, referrals, website of the VC, events, etc). Since the number of potential investment opportunities is almost always immense, VCs are forced to filtering down the quantity by following certain pre-established criteria such as: Sector of the venture, Stage of the venture, amount requested, scalability likelihood, amongst others.The latter stage is better described by investor 2 who explained: *"Obviously, the screaming or the sourcing, which is obviously the search of ventures following the criteria aligned to our expectations and expertise"*.

(II) After searching and screening phase is finished, VCs begin the Deal evaluation. This is when VCs first meet the possible managerial team /entrepreneur through multiple conversations and meetings. During these meetings, they deeply discuss the objective of the venture, the sector where the venture operates, the previous experiences of the entrepreneurs, applied business models, and the reason behind the financial search. A consequent analysis by the VC to see whether the firm's objectives are compatible with what the VC firm is offering can be expected. Additionally, it is very normal for the VC to start supervising the Venture's performance after the first meeting has finalized.

This evaluation phase is likely to take a long time (at least 6 months) as the VC as well as the venture should be sure they are a good fit for a long-lasting relationship. Moreover, this is when the venture presents its proposal to the VC. Questions such as: What the investment proposal is, does the venture really need the VC's capital, is the requested amount by the Venture truly needed are answered during this phase. If both, the VC and venture are interested in a commonly beneficial proposal, they are free to move on to the subsequent stage. Investor 1 defined this stage as an infatuation phase in which the VC falls in love with the entrepreneur and viceversa: *"The next phase is basically, let's say, a series of more detailed conversations with the company, so basically it is a period of getting to know the company. That has very variable times, right? Because to understand that a venture is "perfect" for investment, we (VCs) should make more than a meeting, get to know the dearest entrepreneurs and deeply understand if we are the right fit for the capital-seeking venture. Some entrepreneurs think this practice is only about meeting and that is all, and in reality is not so. That is a much longer process, it is a process of a first sitting of "come tell me, introduce yourself, who you are, who we are, what you do, what we do, what is your experience, ah, cool! As I like what I hear from your side, you like what you hear from my side, let's start monitoring how your business model evolves "yes? So that can be a period of 3 months, 6 months, 1 year, 2 years, no problem, that is, 2 years is obviously exaggerated, but I would say that on average 6-9 months can pass in that phase of falling in love, let's call it, yes, before going into something more detailed."*

(III) The next step within the process is the Deal Structuring and Due Diligence: During this point in time, there should be a relatively understandable and clear proposal on the table, therefore, the VC firm begins putting together the investment terms/term sheets/ laundry list on which the mount to be invested, the number of stocks the VC will get, the participation that the VC will have, control rights, rules for posterior rounds of

investments, the legal constitution of the investment are clarified. Furthermore, the VC firm starts elaborating due diligence of some areas (or completely) of the venture where the investment will be made to rest assured that all the information provided by the managerial team and entrepreneurs during the previous phases is authentic and fully accurate. The areas where the Due diligence is performed in, are adviced by a risk committee found within the VC firm. Lastly, the VC firms profoundly, and once again, inspects for the last time the risks and return over investment as a last resort measure. If all the legal and financial analysis are in line with the VC and entrepreneur's expectations, the capital is finally transferred.

Investor 4 explains this third phase as follows: *During this stage, the VC designs the first proposal, investment terms. These initial investment terms also have certain iterations. In our case and due to the nature of our funds there are several instances. We have a risk committee and an investment committee. A potential investment proposal should go throught these committes to assess risk and design a more favorable proposal for the VC firm. After the committess have approved all the terms, the legal process in which contracts, signatures and disbursement.*

(IV) After having deposited the capital, the post-investment and exit phase begins. This is undoubtedly the longest phase within the entire process and where the "added value" is created, this phase is better described by one of our participants (Investor 3)who said: "*This is when the work starts. They start several years of working with the company in the strategy, see where the new business developments are, if there are reductions or increases in personnel, if the strategy is going to focus on one thing or another, if it is going to buy another company, if you are going to sell part of the company to another company, that is, pure and hard business strategy*". Various years will have to pass before the company is profitable and can be sold. During this stage, entrepreneurs get mentorship from the VC in a wide set of areas and provide feedback to the VC. Entrepreneurs and VCs hold multiple meetings (normally one meeting every month) in which ideas regarding the overall strategy, new product lines, competition, marketing strategies, new personal hirings are discussed, that is to say, pure operational strategy to make the venture solid in a first instance, and grow in a second instance so it becomes attractive for external sources. There is not exactitude in regards to the timing after which a venture disinvests its capital. As average after 7-8 years the VC leads the venture towards a trade sale,

merger, or in almost all the cases, an initial public offering (IPO) in which the investee company becomes public.

BAs in Turkey and Colombia follow four different stages to originate, evaluate & deeply analyze, deposit, and manage ventures. A finer-grained description of each of these phases will be share in the following paragraphs.

Table 12: BAs investment process

Investor 5	Investor 6	Investor 7	Investor 8	Proposed Model
Search	Identification	Application and screening	Searching and screening	Origination & Screening
Trust building & exploration of the venture	Venture day. Quick meeting with the venture	Meetings with the entrepreneur	Evaluation	Entrepreneurial team and venture evaluation.
	In-depth meeting with the entrepreneur			
Due Dilligence	Agreement	Due Dilligence	Structuring	Due Dilligence, agreement and deal structuring,
Post investment activities	Managing	Consumation	Post investment activities	Post investment activitites

(I) The first stage in the process is the origination & screening of potential investment opportunities. During this step, BAs begin searching for investment opportunities from various sources, being networking and the internet portals the most attractive ones. *"Well, we, as I told you, as we worked with the Bavaria Foundation and with the Access Fund, both had software and online platforms that had to be filled according to the requirements. That is the first stage a potential opportunity should go through"(Investor 7).*

Ventures seeking capital from BAs should follow a series of preestablished criteria by the BAs such as the sector (if there is), the stage of the venture, the amount of capital requested within the BAN's limits. One particularly beneficial feature of the application through a website or online portals is that it makes screening easier and BAs get a quite summarized snapshot, thus, is able to discard them if one of the criteria is not met. Almost the same occurs when the BA appeals to get investment opportunities from contacts of the industry.

(II) After having selected some deals that seem appealing in the first instance, BAs set up preliminary meetings to get to know the managerial team. During this meeting, BAs get to know ventures closer and evaluate whether a possible future relationship is possible or not. This phase may last a considerable amount of time as trust is being built. BAs

analyze in depth what the venture is doing, the market where it operates, the customer base, what would the probable challenges be, amongst others. Its crucial to keep in mind that as many ventures being funded do not have previous transactions, sales, and some other financial metrics to showcase their performance, BAs direct their attention to factors exclusive to the entrepreneurial team, namely complementary talents, passion and dedication levels, previous experiences, and some many other factors related to the entrepreneurial team. Another crucial factor to be taken into account is the analysis of possible synergy between the entrepreneur and the BA. This highlighted the relevance of having a good connection with the entrepreneur is as almost as important as the idea /venture itself.

"It is a process of building trust. That is, I invest in who I trust. It can take between 3 and 6 months, it can take much longer but typically between 3 and 6 months, where the level of dedication and passion of the entrepreneur team is analyzed and detected. Moreover, during this phase we attempt to see the growth of ventures' customer base, their sales (if existent) , their visits, their metrics in general. We profoundly analyse if the investee venture has a prototype/product/service already developed. Also, we do consider financial metrics, that is to say, we forecast if this business idea may be profitable or not. Lastl of all, What are the potential markets the prototype/ product /service can be sold in is anther remarkably crucial examination performed during this stage.

We do perform these analysis in order to detect if the venture has managed to fit in the market or is close to doing it. At this moment what is determined is whether there is a problem, a microproblem to solve or that is already being solved and if the market is consuming the solution" (Investor 5).

(III) After a decent amount of trust has been built and BAs feel secure and backed by the ventures, the deal structuring phase in which activitites such as the due dilligence and the agreements are visible, begins. During this phase contracts and agrements between the BAs and Ventures are written. Detailed information concerning the equity share to be obtained by the BAs, power structure within the unborn association and posterior investment guidelines are specified: *"How much will I get by investing in this company.I mean, how many shares will I get by investing, what will my participation wihtin the*

*company be. Who will be leading the company. If already present, how much market share does the company have?. How will posterior rounds of investments be managed, are some of the question we answer together and draft them out on a formal contract to be signed". (*Investor 8).

Additionally, BAs backing documents are collected by BAs with the aim of double checking whether the previosuly-presented information by the entrepreneur is accurate and are reliable.

Lastly, a total of partly due dilligence is carried out by the BAs. This study will provide a certanty and confidence to the investor. If all the terms and requirements are muttually agreed, BAs proceed with the deposit and physical invesment.

(IV) The last phase within the process is the post-investment activities phase in which the BA adds value to the venture by providing advice in numerous areas and by providing unrestricted access to valuable business contacts. The BA is precisely recognized by the contribution made during this stage. It is crucial to mention, the inclusion and participation of the BAs is a result of three factors: the needs, the will and the available time of the entrepreneur and themselves, therefore a categorization of BAs according to the level of involvement in the venture can be seen as follow: Reactive or active. The active BA is constantly following the venture and open to having direct involvement in the investee venture. Contrastingly, the reactive BA adds value only when direct participation is required by the entrepreneur. "*We gather at least once a month to dicuss how the venture where the Money had previously been deposited is going on in general terms. What are the callenges the company is facing and what sort of advice, I as a Business Angel, can provide. I usually ask entrepreneurs if there is something I can be helpful with to keep a positive trend. These can be business contacts, references, some marketing or pricing strategies, you name it . We meet at least once a month, however when the entrepreneurs see an area in which I can help, he/she calls me and inmediately a meeting is set up. Also if they have a methodology or something different they want to implement for their company they ask me whether this may be favorable or not" (Investor 8).*

Fascinatingly, any of our respondents classified the exit or disinvestment as a stage. This is quite eye-catching as this trend solidifies the fact and common belief that BAs primarily invest with an aim of adding value to the venture and not due to a financial motivation.

While it is true that VCs and BAs making-decision processes follow the same path, there are some visible differences:

- The amount of information to be provided: The amount of information and data provided by established ventures is considerably larger than the amount extracted from a venture at an early stage of development. Considering that BAs make investments in ventures at an early stage of development whose financial statements and revenue stream are almost non-existent, they should trust in more subjective aspects to assess an investment, namely the passion, trustworthiness and experience of the management team/entrepreneur.

- Evaluation: During the evaluation phase, multiple meetings are carried out by both VCs and BAs. Nevertheless, VCs' meetings tend to be more strategic and market-focused while BAs' meeting are gatherings where, apart from exploring the potentiality of a venture, BAs dedicate great amount of time to discover whether the management team has the values to transform a project/idea into a successful venture and whether a nice synergy can be created with management teams (Landström,2007).

- Formality of the meetings: The meetings and post-investment activities carried out by VCs are much more formal than the ones held by BAs. Additionally, VCs meetings tend to be more strategic than the informal meetings in which daily activities are discussed. That is to say, VCs rather discussing medium and long term strategic decisions while BAs are more focused on daily fruitful mentorship.

- Due diligence: Even though due diligence processes are found within VCs' as well as in BAs' structures, the due diligence carried out by the VC is more elaborated as the existent agency component (Osnabrugge, 2000), that is, VCs are representing capital from other investors, thus, need to be much more careful when assessing investment opportunities.

4.6.2.2 Amount of potential opportunities and investments

As a simple average, our VC respondents annually get and screen 300 potential investment opportunities, however, only invest in 3.35 deals (1.125%). The VC who receives and screens the largest amount of potential opportunities received 500 and only invested in 1% of them. The one who received the least got 200 deals and only invested in 2.

On the other hand, BAs receive an average of 165 potential investment opportunities, nevertheless, invest in 4.75 deals (2.87%). The BA who receives and screens the largest amount of potential opportunities received 300 and only invested in 1.4% of them. The ones who received the least got 100 deals and only invested in 6% and 4% correspondingly.

4.6.3 Screening

4.6.3.1 VCs and BAs deal flow, network involvement and referral practice

This section aims to collect data regarding sources from which VCs and BAs get potential investment opportunities. Results can be seen as follow:

Table 13: VCs deal flow, network involvement and referral practice.

	Investor 1	Investor 2	Investor 3	Investor 4
Country	Colombia	Turkey	Colombia	Turkey
Channels to get potential investement opportunities	* Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) *Entrepreneurship supportive programs *Accelerators * University programs being contemplated. However, no deals come from this source..	* Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) *Website: Applications received through online application. * University programs being contemplated..	*Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) *Accelerators and events *Website: Applications received through online application. * University programs being contemplated. However, no deals come from this source.	*Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) University programs being contemplated. However, no deals come from this source.
Involvement in a network	Yes	Yes	Yes	Yes
Referral as a common practice	Yes	Yes	Yes	Yes

VCs primarily obtain potential investment opportunities from the long-lasting professional connections and links they have built over the years. As seen above, Investors 1,2,3, and 4 invoke to their personal networks when searching for business

opportunities. In their networks, other VC's firms, BAs, BANs, bankers, friends, and colleagues are found. It seems the process of getting one potential investment opportunity from a network agent, positively increases the trust level acquired by the original investor, therefore facilitates the investment process.

Other useful sources through which our VCs appeal are the website of the investment firm, accelerators, entrepreneurship programs, and events. Notably, all of these events are channels for entrepreneurs and VCs to build trust. The website is only being used by investors 2 and 3 since this channel offers the largest amount of opportunities, nevertheless the lowest quality. Investor 3 acknowledged : *"We have an Online system where entrepreneurs can apply. That is where the greatest amount comes from, but it is not the best quality".*

Entrepreneurship programs organized by universities are being followed by investors 1,2,3, and 4 (VCs) but exclusively as an external source of information. This is better represented by a non-existent rate of VC investing in opportunities coming from university-organized programs. The reasons are limited to the investment ticket and the stage of ventures which usually seek funding in this sort of events. Some of the comments representing this are found below:

"We collaborate a lot with Universities and programs organized by universities to understand what kind of ventures are emerging there, nevertheless, it is extremely complicated to get an opportunity due to the minimum tickets."(Investor 1).

In the same manner, investor 4 expressed it as: *"University programmes are successful to promote an idea, not a company, thus the reason we do not have these into consideration".*

Interestingly, Investor 2 mentioned: "Universities are one of the most representative LPs that we have, even though we are not currently investing in projects coming from their events, we have reached an agreement with four of the top Universities in Turkey (namely, to educate entrepreneurs and students with business ideas and young ventures. This agreement is purely educational.

Investors 1,2,3, and 4 (VCs) respondents are part of local networks or in some cases more than one. This is completely natural as networking was defined as the most crucial

channel through which they are getting investment opportunities. It is quite striking that referral is a common practice within the VC capital industry in Turkey and Colombia to the same extent, Investors 1,2,3, and 4 have referred deals at least once in a lifetime. Generally, deals are referred because they do not meet predefined criteria by the VC.

The VC industry was defined as a referral and trustworthiness business. The VC is based on knowing the other investors' previous track record. According to investor 1 :*"this is a referential business, that you know who is there and, above all, trustworthy, if they are going to refer someone to talk to you it is because they know about you, they know, let's say, their track record, they know their integrity, among others, and are willing to recommend it and vice versa"*

Table 14: BAs deal flow, network involvement and referral practice

	Investor 5	Investor 6	Investor 7	Investor 8
Country	Colombia	Turkey	Colombia	Turkey
Channels to get potential investement opportunities	*Accelerator *Website: Applications received through online application. *University programs are being contemplated.	* Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) * Website: Applications received through online application. *University programs being contemplated	*Networking (*Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) *Website: Applications received through online application. *University programs are being contemplated. Potential investment opportunities come from this source.	*Networking: (other VCs, BAs, BANs, Bankers, friends and colleagues) *Website: Applications received through online application. * University programs are not being contemplated.
Involvement in a network	Yes	Yes	Yes	Yes
Referral as a common practice	Yes	Yes	Yes	Yes

Similarly, BAs place their networking as the most influential channel to generate deal flow, from 4 respondents, only one (Investor 5) did not qualify his network as the most influential channel. The latter said an accelerator is the place where his firm is generating the pathline of opportunities. Interestingly, the respondent who said the accelerator was the most influential channel, mentioned the BAN where he was working had been created inside the accelerator.

Other relevant channels through which BAs generate deal flow are the Website, and entrepreneurship programs by universities and governmental associations. Unlike VCs, BAs generate deal flow from their websites and take very seriously programs organized by universities and other educative institutions. The time ventures function inside the accelerator is the same time when BAs build trust, get to know the entrepreneur and realize whether a posterior investment is worthy or not

Secondly, BAs belong to larger organizations that bring together BANs located in different latitudes. This was eye-catching to this research as these larger organizations are designed to boost internationalization. Investor 6 pointed out : "*We are part of a network with other 29 BANs from other countries in LATAM. The idea of this network is to help a venture to get funding not only from BAs in the domestic market but from BANs located in other countries. Since ventures are getting funded by BANs located in various countries, they can expand internationally easier afterward*".

Equivalently, referral practices are common within the BA industry. Investors 5,6,7, and 8 have referred deals mainly due to the lack of knowledge of a sector where a particular venture operates. The latter is better represented by investor 8 who declared: "*The main reason why I refer deals is that I do not count with the needed knowledge to perform an in-depth analysis or whether the amount sought is too low*".

4.6.4 Deal screening

4.6.4.1 VCs and BAs' investment Criteria

Results containing foundations to understand the VC investment criteria, target of the selected ventures and geography-related aspects are summarized here below:

Table 15: VCs' investment criteria.

Investor Number	Investor 1	Investor 2	Investor 3	Investor 4
Crucial Factors influencing the investment decisions.	* Fit with the VC firm *Management team *Market *Ability to add value	* Fit with the VC firm *Product *Management team *Market	*Management team *Market *Product *Business model (fiancial profitability)	*Product *Management team *Market *Amount invested.
Addressed venture stage.	Mature and developed companies	Mature and developed companies	Early Stage & Series A companies	Early stage & Series A companies
Geography for investments	México, Honduras, Guatemala, El Salvador, Panamá, Colombia, Bolivia, Perú, Chile, Brasil	Turkey and Dubai	Colombia, México, Perú y Chile	Turkey and Europe (Estonia mainly).

The management team and market are undoubtedly the most crucial factors for VCs in emerging countries while deciding where to place their capital. Firstly, The management

team being quite a wide concept involves: The capacity to connect with the VC and other team members, learning capacity and the openness to receive advice. The capacity for the entrepreneur to create a solid synergy with the VC is remarkably crucial, as these 2 agents will spend at least 5 years working on the same project, so as investor 4 communicated: *"if we as human beings can not stand someone we do not like for more than 20 minutes, now imagine spending time with someone you do not like for more than 5 years. If you do not like and do not have a connection with the management team, I can assure you the investment is very likely to fail"*. The second characteristic highly impactful is the capacity of being open to receive feedback and advice. The management team has to be open to receive constant feedback and advice from VCs. These possess more accumulated experience when it comes to guiding a venture, so if the management team does not listen to advice and feedback, the venture is likely to go in the wrong direction.

Secondly, the market was mentioned by all our VCs participants. The market refers to the size of the market where the product/service can be offered. A crystal clear example was given by investor 2 who illustrated: *"it's not the same a venture selling herbs, spices, and condiments that can be sold in India and Pakistan than a company selling computers that can be sold almost everywhere across the globe"*. Something important to be taken into account within the market frame is the competition intensity, a global market with an extremely high competition intensity may not be as attractive as a regional market with relatively low competition intensity.

Other relevant factors are the fit with the fund, the ability to add value, the product, the business plan focusing on financials, and if the amount invested by the VC is enough for the venture to reach its break-even point or if subsequent investment rounds are needed. The fit with the fund refers to be aligned with the VC firms' values, that is to say, if a VC has as a major value to create social benefit, the investee venture should have a product/service aiming to create social value. The ability to add value touches upon the possibility for a VC to be involved in the venture. A relatively stable venture with no critical areas would not attractive for VC investment. The product was related to having a differentiation product. The uniqueness of the product/service that the investee venture is offering is of paramount importance for VCs. Having a unique product/service would mean to have access to monopolies where financial rates are unsurpassable and where the venture would be dictating the market conditions. Last of all, investor 4 placed importance on whether the amount invested would make the venture reach its break-even

point: *"If the venture requires, I do not know, two more rounds of investment, it would not be attractive for us since our participation would be significantly reduced"*.

Table 16 summarizes responses given by BAs in Turkey and Colombia. Results can be seen in the following table:

Table 16: BAs' investment criteria.

Investor Number	Investor 5	Investor 6	Investor 7	Investor 8
Crucial Factors influencing the investment decisions.	* Management team * Business model (financial metrics) * Size of the investment * Ability to reach break-even without further funding	*Management team *Strategy *Marketing strategy *Product	*Market Cohesiveness *Market *Management team *Business Plan (Marketing plan)	*Market Cohesiveness *Management team *Market *Size of the investment
Addressed venture stage.	Seed and early stage	Seed & Early stage	Early stage companies (not seed)	Seed stage
Geography for investments	Colombia	Turkey	Colombia	Turkey

The most important factor for BAs while making investment decisions in emerging countries is the management team having been mentioned by investors 5,6,7, and 8. The "Management team" concept refers to: Primarily, the passion of the management team, that is to say, the perception of how committed management teams are with the venture. As passion and commitment are two very subjective factors, Investors 6 and 8 elucidated this is the reason why the evaluation phase might take up to 9 months. It would be inaccurate to judge the passion of the management team during the first meeting; therefore, BAs take the evaluation phase of the process to provide a correct assessment.

Secondly, Management teams should have experience. The management team should be knowledgeable in two specific domains: the industry where the venture is intending to operate and in the venture creation process. An entrepreneur who has attempted or succeeded in creating a venture comprehends how difficult the succeeding way is. They have acquired resistance and are more open to letting the BA offer advice. Most importantly, entrepreneurs who have previously been involved in a venture creation process, have created solid networks or contacts to seek investment and make the venture profitable. For instance, Investor 5 said: *"I would say that the experience, well, entrepreneurs should have knowledge of the sector or the industry in which the*

Venture will function , They should not be opportunity-seekers who are undertaking a project based on macroeconomic studies or trends that are obviously theoretical and that in many cases divert the gift of entrepreneurship to good entrepreneurs".

Lastly, the culture and frame of mind of the entrepreneur. The entrepreneur should have the "sharing culture" and possess a far-reaching mentality. Investor 5 described the lack of sharing culture and short-term mentality of the vast majority of Colombian Entrepreneurs: *"they do not how to share information and trust the investor, they think they are losing their ventures to the hands of the investor and prefer to hide vital information. They are not open to let investors actively participate in the development of the company, thus, we first need a change in our culture, we need to teach entrepreneurs about the BA investment practice and perhaps later on time, entrepreneurs will broaden the participation space given to BAs. Additionally, our entrepreneurs do not think big enough, they just want to reach a stable condition and that is all. They do not think about going global or growing in various markets".*

Second in importance, the market, size of the investment and market cohesiveness appear. The market deals with the size of the markets in which the product/service can be offered. Again, the competition is directly associated with the market. It is crucial that the market where the product/service is offered has a significant size. The latter indicates the potentiality of the venture and how far this can reach. Nevertheless, a balance should exist due to a global market with global competitors may not be as attractive as a regional market with an oligopoly when it comes to competition. As investments during seed and early-stage stages are risky, the amount expected to be invested should not be extremely high. There are ventures seeking a ridiculous amount of funding without having any contact with the market and without any sort of transaction history. A venture in a seed stage should be coherent with the funding is seeking for, otherwise, rejection is expected to take place without further consideration by BAs. Last of all, market cohesiveness is another remarkably crucial factor during the process. This market cohesiveness concerns the practice of launching a product/service that the market is looking for or is willing to accept. This is better explained by investor 7: *"try to sell Ayran in LATAM, in spite of the excellence in the product, this is something that the market would not buy".*

4.6.4.2 VCs and BAs’ target venture stage

VCs target ventures that are early stage and mature/developed ventures. This is a remarkable finding as the vast majority of the previous literature has claimed the VC industry focuses exclusively on mature companies. It seems VC in emerging countries can be defined as multistaged, that is to say, VCs making investments on mature as well as early-staged companies are found.

On the one hand, VCs invest in mature and established ventures due to:

- Prior investment received: Ventures that have previously received investments, have developed how know regarding how to answer investors. These have corporate governance discipline, boards of directors, committees, deliberative processes, rules of the game regarding voting, super majorities, shareholder rights, among others. To illustrate, investor 1 clarified: *“When making an investment, our proposal investment goes far beyond just messing up and buying x shareholding, it also has a lot to do with the involvement in the decisions of the company”*
- The level of risk is lower in a venture that has already a product in the market and a previous transaction record.
- Diversification of the entrepreneurial ecosystem: The normality is tol et BA and other sources to invest in companies in seed and early stages.
- Avoid VC investment competition: If BAs, accelerators, incubators, and VCs all target the same venture stage, the competition index is automatically increased. Focusing on Venture and mature companies is a method to avoid competition amongst VC firms. According to investor 2: *“Nowadays, there are many VCs concentrating on early stage ventures, thus, we prefer to lean towards more established companies due to the number of VCs focusing on this stage is not as high”*.

On the other hand, VCs invest in early-stage ventures due to:

- Growth rate and valuation of the venture: The growth rate of the venture is much more accelerated and quick in these stages. Moreover, the valuation of this venture significantly raises very quickly.

- Amount requested: In support of this, investor 4 shed light on: "The amounts requested are not as high as a venture in a mature stage. The risk is higher but this is somehow counterbalanced by the relatively low amount of capital invested".

BAs in emerging countries target ventures exclusively in seed and early stage. Some prior research has concluded there is a novel trend of BANs investing in growth-stage companies, nevertheless, it does not seem applicable to BAs in emerging countries.

The reason why our respondents choose to invest in these stages are developed as follows:

- This the stage during which the management team needs the BA's contribution the most. Consequently, this is the stage when BAs are able to add value with their prior knowledge and accumulated insight. According to investor 6: "*When the venture is at a seed or early stage, the management team has not accumulated any knowledge of the market, competitors, product, etc. Progressively, the management team starts to accumulate information, therefore is able to take crucial decisions without consulting the BA*".

- This is the state in which the venture can seize the BAs' existent contact network. Over time, the management team is able to create its own network. Once ventures have created their own contact networks, they are likely to start using them instead of the ones from BAs. As stated by Investor 5: *"When the company is already big it may not be required, right?. The angel investor puts money, contacts and Smart money, puts knowledge at the service of the start-up, yes ?. That works well in the early stage, in the seed stage, right?. If I am going to invest now in Uber, as an angel investor, I have nothing to do there, I have nothing to do there because it is already very big, it is worth 100 billion dollars and that is for a private equity, for very large funds, for very rich families ¿ai? To invest there, all you want to do is put 100 and get 200 as soon as possible. The investor angel is not the right fit for that sort of investments, the investor angel typically contacts his entrepreneurs and becomes part of their boards of directors. I am on several boards of ventures, now I must be in about 10 boards where I bring knowledge , contacts, strategies, debate, intelligent debate, enriched debate. That is the role of the angel investor"*

- Highest performance: Despite the high-risk ventures at these stages offer, BAs place their investments in these stages, simply because they offer the highest

returns having as a reference the amount of the initial investment. That is to say, a relatively little investment with quite a high risk and return. Moreover, a seed-staged venture's valuation is almost nonexistent. Once this venture develops itself, the valuation significantly increases as well as the economic benefit fort he BA who has previously deposited an investment.

- Sizes and amounts required: BAs appeal to the risk level of ventures at these stages and invest a low amount of capital.
- Accumulate insight and knowledge in investment practices: By investing in ventures at seed and early stages, one is able to get more experience in this sort of investments without putting so much capital at stake.

4.6.4.3 VCs and BAs' geography focus.

VCs have a strong tendency toward investing in different latitudes. 100 % of our sample has invested in ventures operating outside their geographical physical boundaries. These refer to the domestic country where the VC firms have their headquarters**.** By looking at table 15, it is safe to say VCs invest regionally and not only domestically, however, they do not invest on a global scale. It seems the VCs in emerging countries have broken the distance limitation to some extent: Regionally

BAs in emerging economies make investments in ventures operating in their domestic countries (domestic countries understood as the country where BAs have their headquarter). Investors 5,6,7, and 8 conduct investments in ventures whose operations are concentrated in the country where the BA is. There are several reasons why BAs invest only in domestic ventures. Firstly, BAs are highly motivated by the possibility to add value and apply all the knowledge they have accumulated over years. When a venture is located in a distant place, it is extremely troublesome for the BA to naturally add value. Secondly, BAs place the cultural factor as extremely important while communicating with an entrepreneur, that is to say, many cultural components are considered while assessing investment. BAs consider the easiness of communication with the entrepreneur. The latter can be better represented by a Investor 8 who mentioned: *"I feel comfortable dealing directly with my countrymen, I would not feel at ease dealing with a venture/management team from a different background*". Thirdly, if ventures operate in contrasting markets, BAs are not able to use their previously-developed contact networks.

This would belittle the overall contribution BAs intend to provide. Last, of all, BAs invest in their markets because they closely know all the agents intervening in it. If a venture is functioning in a different market, it is natural for BAs to feel the weirdness of investing in a market they are not aware of.

4.6.5 Financial metrics.

Investor 2 mentioned the ROI (return over investment), Churn rate, Life time value, and retention rate as the financial metrics taken into consideration. On the other hand, investor 4 mentioned the adquisition price, the Life time value, el churn rate, and the equilibrium point, that is to say, how much capital shoud be invested before the venture can survive without external financial support.

4.6.6 VCs and BAs' post investment activities.

After a quite time-consuming process, investments are deposited by VCs. Many acknowledge this as the end of the complete process the opportunity has gone through, but the reality is that this point in time represents the start of a long-lasting professional relationship between the VC and the management team/entrepreneur. All of our respondents highlighted the relevance of this stage. Some of the activities carried out during this stage are presented:

After the investment has been placed, meetings between the management team/entrepreneurs and VCs start taking place. The frequency changes according to both, the entrepreneur and the VC, but as a rule of thumb, it is safe to say monthly committee and quarterly board meetings are carried out. First of all, monthly committee gatherings in which the venture provides feedback on the overall activity: Monthly finances, market share, competition, difficulties, capital usage, optimization projects take place. These are the moments when a very brief description of how the capital is being used and whether the investment is generating the outcome the management team had anticipated is demonstrated. If it is, the VC will be satisfied due to everything is in place and in the correct roadmap. If it is not, VCs will start offering to advise in areas where the venture seems to be lacking counseling, various contacts to link with, mentorship, marketing strategies, that is to say, clear guidance of how to proceed in the future in order to shift negative trends.

Secondly, board meetings should be conducted to discuss, further investment rounds (if needed), relevant projects for the venture's survival & growth and corporate governance practices. These meetings have two main objectives: (I) Analyzing if provided funding is enough or if additional rounds of investments are needed, and (II) Corroborating if investee ventures are being compliant with the existent corporate government, that is to say, VCs control whether all the decisions taken are aligned with a good government code.

In support of the last point, investor 4 mentioned: "*It is clear there are changes more difficult to be implemented than others, but the success of this is to have a conversation back and forth very often because scenarios are very changeable: One-month things can go very well, another month things can go very bad*".

The frequency changes according to the time and not to the management team. When a VC structures a deal, clauses concerning the frequency of meetings are clearly drafted out. Management teams precisely know that meeting the VC is one of the most crucial responsibilities they have. Additionally, management teams leading established companies, have already received funding by BAs and other VCs, therefore, are quite familiar with this sort of practices. Again, over time, the management teams acquire more experience and the involvement of VCs may not be as required. If VCs figures out the venture is blooming without their assistance, they might skip these monthly meetings with the management teams.

Similarly, BAs in emerging countries participate in a set of activities once an investment has been made. Unlike VCs' post-investment activities, BAs hold more informal meetings with the management team to learn how the individual/team has been holding up. BAs seem to give more importance to the personal component of the entrepreneur/management team. This group has realized the importance of the personal performance within the venture success, thus their intention of exploring the management team from a personal angle instead of from a purely professional angle. The meetings of BAs with entrepreneurs are not rigid at all. These can be held using a digital platform, remotely or in person in the co-working physical spaces where the vast majority of seed and early-stage ventures function.

Naturally, during these meetings BAs and management teams do not only chat about personal experiences. All the activities they are doing, the way they approach the market through, what are the accomplishments since previous meetings, needs and demands by the venture, useful contacts within a particular industry or enterprise are some of the subjects being discussed in these gatherings. The role played by the BAs' networks is enormous. Its crucial BAs are familiar and have connections in high value contact circles.

These meetings are defined as informal conversations in which brainstorming concerning growth in the customer base, growth in sales, mitigating tax risks, labor risks, among others are discussed. Furthermore, advising the management team not to take an inadequate decision for a specific moment in the venture's growth, "*an investee company wanted to issue the ISO quality certification before having a solid transaction number, this is when we, as BAs, enter into the process and say: STOP. Is better if go by using X way or Y way"*(Investor 7).

4.6.7 Exit strategies

VCs attribute the success of their investments to some factors including the VCs' contributions, the identification process of the potential buyers in the sector where the venture is functioning and the management team.

Some of the respondents concluded their contribution was key to generate a successful exit. For instance, an investment was made in a tiny microfinance program. After some time of the VC's involvement, this microfinance program became a formal venture. When it was a formal and structured finance-focused venture, many other VCs and investors started being attracted. Investor 1 share the following illustration: "*This is a very successful case because it shows the entire development. After our VC firm entered, the venture passed from being an anonymous idea to a quite sophisticated microfinance banking functioning across Peru. After reaching this status and reputation, the venture was sold to one of the most representative financial groups in the region. It was even favorable for the buyer as it was a strategic purchase*".

Another crucial factor is to identify potential buyers before providing funding, that is to say, forecasting whether the ventures have potential buyers in the market, thus an exit can be accomplished without much struggle. The power and capacity of anticipating the market is something that differentiates a prosperous from a fruitless VC. It is vital to

determine whether the venture a VC is helping to grow, has potential buyers in the market. There are numerous attractive ventures out in the market, nevertheless, not all of them can be easily bought.

Last of all, the management team is another crucial factor to make a successful exit in no time. According to investor 2, the management team has to be extremely hardworking, receptive enough to listen to advice from the VC, and unmarried to their venture. Entrepreneurs should be hard-working due to creating a company comes with time and sacrifice, secondly, they should objective when it comes to the venture (they should not forget the idea is to raise the valuation to sell it for as much as the market is willing to pay) and most importantly, it should be open to receive feedback and consideration from the VC.

On the other hand, VCs consider some of the factors that most contributed to failure investments are the conditions of the country where the capital had been placed, the management team and the timing of investments.

The conditions of the country where capital was placed come with the timing of the investment. Sometimes there are political, macroeconomic and social variables that can not be anticipated and foreseen. These are changes not expected by any of the agents involved in the process. Investor 4 invested in a venture in Turkey when the market conditions were favorable, specifically when it came to exchanging rate. After some time the political and macroeconomic conditions changed and the venture went bankrupt as it could not pay its debt to some of the local banks. Similarly, Investor 1 mentioned a political crisis and the instability of the market as two factors negatively affecting the success of a previous investment. After two years of having invested in a Brazilian venture, a political crisis burst. This crisis caused financing institutions to enter into a default state which was the beginning of a systematic default (Domino effect).

In regards to BAs, these place great attribution to the transformation and innovativeness in the market. When BAs invest in a venture that achieves a substantial change in the way a product/service is bought, then a favorable outcome is expected. Prior to the internet, regular shoppers used to go to physical locations to purchase their items. After the internet was invented, physical locations started playing a secondary role and customers, in a high

proportion, began to get their items on online stores. One more palpable instance was offered by investor 5. He mentioned that one of the brightest investments could be one made in a quite innovative venture (Boxisleep) selling mattresses on an online platform. This venture began adopting a mattress selling model through an online platform. The product was a high-quality one, however, the key to success was the innovativeness in the selling and distribution channel.

On the other hand, the conditions of the market and the management team were some of the failure causes mentioned by BAs.

First of all, the stubbornness and theoretical background of management teams have caused failure in various investments. These two weaknesses can lead to a blindness condition in which the management team is not able to clearly see the business strategy.When two or more members of management teams have contrasting points of view, there should be a neutral and unbiased leader who is responsible to create a neutral turf to run behind the venture's objective. When there is stubbornness in members, there is not a clear direction of where effort should be mainly put. The latter can be better described by investor 8 : "*Normally the stubbornness and lack of good leadership from entrepreneurs is something that is fundamental to failure. When there are very stubborn people, who believe they know everything, know the truth and do not even listen to investors, there is a great possibility for investee ventures to disappear in no time. This happened with a venture in which the management team members' vision was opposite, at the end of the day, all the capital was thrown away due to of the stubbornness and blocks to follow the VC's guidance".*

Additionally, the individual culture of the entrepreneur was another pivotal element of previous investments. When management teams are independent, they simply do not share vital insight with BAs, who are, by far, more knowledgeable. When the venture enters in a critical stage is when management teams begin sharing the real state of the venture, unfortunately, the venture is not redeemable at this point.

4.6.8 VCs and BAs' assessment of the internationalization capacity of a venture.

Questions regarding the internationalization capacity of a funding-seeking venture to BAs and VCs were asked. Results are displayed in table 17 and 18.

Table 17: VCs' assessment of the internationalization capacity of a venture.

Investor Number	Investor 1	Investor 2	Investor 3	Investor 4
Denomination	VC	VC	VC	VC
Country	Colombia	Turkey	Colombia	Turkey
* Foreign sales *Licences and patents *Quality certifications *Experience in exporting in international markets *Unique strategy	Undecided. *Licences and patents. *Unique strategy *Foreign sales	Affirmative. *Foreign sales *Experience in exporting to international markets *Unique strategy	Undecided. *Foreign sales *Licences and Patents *Unique strategy	Affirmative. *Foreign sales *Quality certifications *Unique strategy
*Entrepreneur's motivations *Previous entrepreneurial experience *Previous international experience	Factors are partly being considered while taking investment decisions.	Factors are being considered while taking investment decisions.	Factors are being considered while taking investment decisions.	Factors are being considered while taking investment decisions.
* Number and quality of existing BAs and VCs * Competition intensity in the country in which the investee company operates	Factors not being considered for investment decisions	Factors are being considered for investment decisions.	Factors are being considered for investment decisions.	Factors are being considered for investment decisions.

Surprisingly, only investors 2 and 4 claimed foreign sales, licenses & patents, quality certifications, experience in exporting in international markets and a unique strategy are of paramount relevance while taking investment decisions. According to them a venture with these attributes is so much more likely to get investment from VC than a venture without them.

The most significant factor amongst them is the foreign sales indicator. This represents the real potentiality of a product in a foreign market. A product/service being sold in foreign markets informs the investor about the opportunity in another market. The receptiveness of the potential customer has already been validated, therefore its importance. *"When a product/service is sold in a foreign market, we could easily say the door has been opened for the venture to start competing in more serious terms if intended"*(investor 2). Logically, there are many other financial and operative analysis to be made before determining whether these foreign sales are enough to begin competing with solid companies that know foreign markets.

Also, a unique strategy seems to attract attention from VCs. A venture with differentiation in their strategy is able to compete with more solid, knowledgeable and financially studier ventures, simply because customers appreciate originality and novelty.

Other remarkably vital factors mentioned by VCs are the tenure of a licenses & patents and exporting experience. The former is crucial since it creates protection from competitors. Moreover, a venture with a patent would always be competing with an

advantage over the competition. Lastly, a venture with a patent can generate additional revenue from the licensing of their patented processes.

Interestingly, investors 1 and 3 provided an indecisive answer. It seems internationalization has become popular within the entrepreneurial ecosystem and has misled funding-seeking ventures to adopt an international approach without considering domestic markets and the sector in which the ventures function.

From the entrepreneur angle, it appears VCs lean towards entrepreneurs who are motivated and possess previous entrepreneurial and international experience. Only investor 1 does not consider the international experience as a crucial factor due to he said he has met multiple entrepreneurs who have not had the opportunity to go abroad, yet are extremely successful. The international experience of an entrepreneur appears to create an impact on investment decision-making. An entrepreneur with an international background simply knows more about international markets than an entrepreneur who has exclusively been in domestic markets. Moreover, the prior has been able to create a solid network of contacts.

Concerning previous entrepreneurial experience, a view provided by investor 3 is presented here: "*An entrepreneur who has previous entrepreneurial experience is someone who has surely failed. After falling down, he has been forced to get on its feet, therefore, has acquired a different view and attitude against challenges. This is something that a new entrepreneur does not have from birth*".

Investors 2,3 and 4 consider factors such as the number of BAs and VCs in the country where the investee venture is, mainly due to the venture might require subsequent rounds of investment to keep an accelerated growth. Something to the remembered is that the vast majority of the venture at this stage have previously obtained funding.

Table 18: BAs' assessment of the internationalization capacity of a venture.

Investor Number	Investor 5	Investor 6	Investor 7	Investor 8
Denomination	BA	BA	BA	BA
Country	Colombia	Turkey	Colombia	Turkey
* Foreign sales *Licences and patents *Quality certifications *Experience in exporting in international markets *Unique strategy	Affirmative *Licences and patents *Unique strategy(Quality-based strategy) *Quality certifications	Affirmative *Licences and patents *Foreign sales *Unique strategy (Marketing)	Affirmative *Experience in exporting in international markets *Quality certification *Licences and patents	Affirmative *Licences and patents *Unique strategy (Marketing) *Quality certifications
*Entrepreneur's motivations *Previous entrepreneurial experience *Previous international experience	Factors are being considered while taking investment decisions.	Factors are being considered while taking investment decisions.	Factors are being considered while taking investment decisions.	Factors are being considered while taking investment decisions.
* Number and quality of existing BAs and VCs * Competition intensity in the country in which the investee company operates	Factors being considered for investment decisions	Factors being considered for investment decisions	Factors being considered for investment decisions	Factors being considered for investment decisions

Factors such as foreign sales, licenses & patents, experience in exporting in international markets and a unique strategy are of paramount relevance for BAs assessing investments opportunities. 100 % of respondents said these factors are being considered while assessing investment opportunities, therefore funding-seeking ventures counting with these attributes are more likely to receive capital from BAs in emerging countries.

Investors 5,6,7 and 8 mentioned the tenure of licenses & patents, in fact , investors 5,6, and 8 ranked this as the most crucial factor. Patents create exclusivity in the market as the patent holder would be the only venture seizing the benefits. These would not only positively impact the recognition of the venture in the market in a long-term but would bring enormous economic benefit for a specific period of time.

Other significant factors being evaluated by BAs are the quality certifications, a unique strategy (either from a quality-based or a marketing perspective), potentiality of foreign sales and experience in international markets are ranked accordingly.

Unlike VCs where the tenure of these factors was important but not mandatory, BAs consider them to be mandatory and binding when it comes to assessing a funding-seeking venture. BAs both in Turkey and Colombia openly explained that one of the main objectives was for their investee ventures to quickly grow and compete in international markets within a relatively short time after funding is received. As evidence, Investor 6

expressed :*"Nowadays with technology and globalization, it would be pointless to invest in a venture with no intention of going global, no matter the sector in which this is fucntioning. The factors previously mentioned are the ones that create the "WOW factor", that is the factors that would make BAs to get up from their chairs to take a closer look".*

From the entrepeneur edge, BAs evaluate and are lean towards investing in ventures with entrepreneurs who are motivated, who have had experience creating company, and who have international experience in some way. The latter does not mean a venture whose entrepreneurs do not have any international background will not receiving funding, it means the absence of any of these factors may negativelyy affect when another venture is being evaluated.

Like VCs, BAs do consider the number of existing BAs and VCs because posterior investment rounds are needed. Unlike VCs who might provide the last round of investment before the venture applies an exit strategy, BAs rest assure that subsequent rounds of investments are mandatory and required by the investee venture.

CONCLUSIONS

Even though, the investment-making process and the main criteria considered by Business Angels and Venture Capitalists while making investment decisions in developed countries have received consideration by the scientific community, it seems this is not the case for the same parties in emerging countries. This research aimed to understand three querys. Firstly, how the decision-making process is conducted, secondly, what the most relevant factors taken into account during the investment process are, and lastly, if the internationalization capacity of a venture positively impact the final investment decision given by Venture Capitalists and Business Angels in emerging economies. By following the last structure, conlcusions are presented below:

Decision-making process of BAs and VCs

VCs in emerging economies are motivated mainly by financial reasons while BAs lean towards a more social approach. The latter make investments in ventures primarily due to their intention to develop the entrepreneurial ecosystem and desire to provide knowledge, experience, and insight to the venture where they deposit capital in.

VCs tend to specialize in specific industries to make their investment (especially in Turkey). Conversely, BAs follow a more generalist approach in which specialization is not visible. The latter might be a result of the origin of these BAs, since they are part of a network with professionals in a wide range of areas.

While it is true that VCs and BAs in emerging economies follow a quite similar making-decision process, it is safe to say, the one conducted by BAs is much more informal and based on subjective factors while compared with the one performed by VCs. This differentiation is remarkably visible particularly in 4 areas: Amount of available information, evaluation, the formality of meetings, due diligence, and post-investment meetings.

Curiously, any of our BAs mentioned the exit as a plausible phase whithin the investment-making process. This may be a result of the BAs' well-known interest of adding value. Further research is required to understand such a though-provoking conduct.

Despite the size of deal flow generated by VCs, BAs invest more than VCs in emerging countries with a simple average of 3% (approximately).

Networking is the most relevant source to build deal flow for BAs and VCs in emerging economies to the same extend. Ventures and management teams who are not well-connected to agents within the entrepreneurial ecosystem who may refer them to either a VC or a BA are quite likely to be rejected. Similarly, programs organized by universities are appealing to both VCs and BAs. To the prior due to the information source and to the latter due to it is a channel through which investment opportunities are acquired. VCs in emerging countries do not invest in ventures found in programs organized by universities because of two main reasons: Their minimum ticket and the stage of the ventures who are present in this sort of events.

Unlike VCs, BAs respect and place relevance on their online platforms as long as uploaded potential opportunities meet the pre-established criteria.

Criteria to make investment decisions

Similarly, the most significant factor considered by VCs and BAs in emerging economies is the management team/entrepreneur. The management team should: Possess a quick learning capacity, have an openness to receive advice, be fully committed to ventures, have experience in venture creation and in the industry where the investee venture operates.

Even though it is universally acknowledged that VCs focus their attention and target ventures at mature and growth stages, this seems not to be the case for VCs in emerging countries. According to the sample of this study, VCs in emerging countries can be defined as multistaged, that is to say, VCs making investments on mature as well as early-stage companies are found. It is highly probable that the entrepreneurial ecosystems in emerging economies are not as structured as the ones in developed economies in which a crystal clear delimitation is found. As opposed to VCs, BAs in emerging countries specialize in ventures at a seed or early stage.

It is safe to say that VCs invest regionally, however, but they do not invest on a global scale. It seems the VCs in emerging countries have broken the distance limitation to some extent: Regionally. Nevertheless, BAs BAs invest only in domestic ventures due to

distance limits the possibility of adding value, blocks fluent communication between the management team and BAs, and confines the power of a domestic developed network.

Both VCs and BAs place great importance on the post-investment activities, they both know this is the point where ventures receive their added value. For VCs, post-investment activities are structured and rigid meetings in which strategic decisions are taken. On the other hand, for BAs the post-investment activities are more flexible and more concentrated on daily activities.

Internationalization Capacity

For VCs, the internationalization capacity of a venture is crucial yet not mandatory. There are certain factors that might undervalue the internationalization capacity of a venture. It's a well-known fact that the venture universe is immense, therefore, this research concludes the internationalization capacity is crucial for ventures in certain domains and fields. (Research investigating in which areas and domains does the internationalization capacity of a company have importance). Internationalization has misled entrepreneurs when they pitch their businesses to VCs as they are avoiding more crucial scenarios, for instance, the domestic market.

Conversely, for BAs, the internationalization capacity of a venture is mandatory from every point of view. Ventures with the potentiality of foreign sales, licenses, quality certifications, experience in international exporting, a unique strategy, leaders with international exposure and experience in venture creation, and operating in markets with a decent amount of other VCs and BAs are more prone to receive capital.

RECOMENDATIONS FOR FUTURE RESEARCH

Due to limitations of time, only few BAs and VCs were met, therefore, the researcher recommends to replicate this same research by using a bigger sample. Moreover, this research was focused on understanding the investment-making process, the criteria used by BA and VCs, and the internationalionalization capacity of ventures in only two emerging countries (namely Turky and Colombia). It would be extremely useful to understand how these processes are carried out in other emerging countries from other latitudes such as economies in Africa and Asia. After such research is conducted, entrepreneurs leading ventures in emerging economies, would be more prone to get funding from either BAs or VCs in their respective geographies.

Lastly, special attention should be paid to understanding whether BAs in emerging countries consider the "exit" as a plausible phase within the investment-making process, or due to their more value adding objectives, this is not a phase being considered.

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