# A Comprehensive Study of Angel and Venture Capital Decision-Making

Chanchal Chawla, Associate Professor
Teerthanker Mahaveer Institute of Management and Technology, Teerthanker Mahaveer University, Moradabad, Uttar Pradesh India
Email Id- chanchalchawla0@gmail.com
Orchid Id- 0000-0002-5567-6564

Dr. Yogesh Mehta, Assistant Professor
SGT University, Gurugram, Haryana, India
Email Id- yogesh.mehta@sgtuniversity.org
Orchid Id- 0000-0003-2256-1485

Mr. Prashant Pathak, Assistant Professor
School of Management and Commerce, Sanskriti University, Mathura, Uttar Pradesh, India
Email Id- prashantp.somc@sanskriti.edu.in
Orchid Id- 0000-0003-2432-2824

Onkar Bagaria, Assistant Professor
Department of Management Studies, Vivekananda Global University, Jaipur
Email Id- bagaria.onkar@vgu.ac.in
Orchid Id- 0000-0002-5980-3006

**Abstract***:* According to this study, angel investors as well as venture capitalists consider both entrepreneurs' exuberance for activities product - related or facility that the venture provides, i.e. product passion, as well as entrepreneurs' encouragement for establishing and setting up new projects, i.e. boosts morale. The author demonstrates whenever an investor considers an entrepreneur as honest and responsive to input, all types of passion are becoming more appealing, meaning that openness to criticism mitigates the risks associated with intense intensity. The authors also revealed that different types of venture investors possess multiple viewpoints on excitement: angel investors as well as venture capitalists including more experience in the business place more value on a conjunction of product passion as well as flexibility to feedback, whereas those with the most entrepreneurial knowledge value a variety of commercial passion as well as inclusiveness to advice.

**Keywords**: Angel Investors, Businesses, Entrepreneurs, Start-Up, Venture Capital.

## 1. INTRODUCTION

Venture capital (VC) can be described as a source of funding for entrepreneurs who want to transform their inventions and basic science into world-class goods and services. Venture capital funds can help businesses grow from their earliest stages to mature organisations. Entrepreneurial angels play a vital role in the economy, and in many countries, they are the primary source of foreign financing for newly formed businesses. This has drawn policymakers' attention to angel investors, who recognise their growing importance in providing risk resources while also leading to economic development and technical advancements. Angel investing practises in businesses are not a new development. Individuals have long had a proclivity to engage in high-risk projects. One well-known example is Queen Isabella of Spain's decision to fund Christopher Columbus' voyage. For Spain, this turned out to be a very lucrative bet. Furthermore, it is possible to argue that private individual contributions influenced the industrial revolution in the $19^{th}$ and early $20^{th}$ centuries. The business angel industry first drew the interest of United States (US) policymakers in the late 1950s, when the Federal Reserve looked at the initial funding of emerging technology-based businesses, which predated the Small Business Act of 1958. The interest in early funding of technology-based businesses has drawn attention to angel investors as a valuable external pool of capital for entrepreneurial enterprises[1].

### *1.1 Angel Investing:*

Essentially, the term Angel Investing refers to the process of a young entrepreneur seeking to launch a start-up venture or organisation, through which Angel Investors take the lead in investing in the intended start-up business through a legitimate Angel Investing Network. For a small business organisation to experience profitability and development on its own, it will take years. It could cost a lot of money to build up, as well as a lot of money to spend, which could be a lot of money for a start-up owner. However, by Angel Investing, this method is greatly streamlined[2]. Angel investors with a lot of money or rich investors who are willing to take big chances in business can come forward and participate or volunteer in the project that the young entrepreneur is passionate about. It could come from inside the family or from the outside. This method can be carried out by Angel investment networks, who are willing to play a key role in finding Angel investors for start-ups and determining whether it is worthwhile to participate in such a project. Angel investors put up a set amount of money in a start-up company in exchange for a portion of the company's equity[3]. The Various benefits of Angel Investing are shown in Figure 1.


**Figure 1: Various benefits of Angel Investing. Angel investors put up a set amount of money in a start-up company in exchange for a portion of the company's equity [harbott/guide to angel investing].**

Angel investing involves three key parties. The first player is an Angel Network, the second is a Start-up Entrepreneur, and the third is an Angel Investor. In angel investment, all three positions are crucial. In terms of contribution and potentiality, they are fully reliant on one another. The Angel investor, also known as a private investor, seed investor, or angel funder, offers financial support for small businesses or start-ups in return for a negotiated share of ownership rights, while the Angel network provides a forum for the other two players to meet or intersect; the Angel investor, also known as a private investor, seed investor, or angel funder, provides financial support for small ventures or start-ups in exchange for an agreed share of ownership rights. The founder of a start-up creates a well-executed strategy and introduces it to angel investors recommended by the network, allowing for faster decision-making. From strategy to ads, the network considers all views and builds inputs into market plans[4].

Going long would be futile if you approached investors at a very early point. It's sensible and obvious not to throw the whole debt burden on the investors because you're losing money. It's better if you start out on your own, try to build your company from the ground up, and take credit for yourself. When you're short on operating capital, it's not the best time to meet with investors. You could end up losing a lot of money. Instead, you dream about expanding your company a bit further after your product has gained brand familiarity. Now is the time for the start-up to attract new investors and provide a solid foundation in order to profit from the offer.

Angel investor networking is a great way for start-ups to grow their companies, reach lofty ambitions, and pitch the right idea at the right time. As a result, overall economic prosperity is achieved. The networks offer Angel support to help with the company's financial needs. With a large network, such networks bring together people from diverse sectors, creating a fertile ground for young entrepreneurs and valuable investors. Small and medium-sized businesses benefit greatly from first-hand angel investing. Angel investors have more than just financial assistance. Working along with the Investors and Angel network provides an environment conducive to strengthening targets, achieving aims, gaining expertise, improving capabilities, extending business awareness, and forming relations[5].

### *1.2 Venture Capitalist (VC):*

The venture capitalist (VC) seems to be a type of corporate equity investor who makes investments in high-growth enterprises in return for a stake in the firm. Financing development ventures or supporting small firms that want to expand but don't really have accessibility towards the stock exchange are examples of this. Venture capitalists are keen to accept the risk of financing in such companies since they stand to make a lot of money if they succeed. VCs have a significant failure record due to the ambiguity that comes with nascent and untested enterprises.

Venture investors frequently form limited partnerships (LPs), under which the partners share ownership of the VC investment. The committee is normally in control of the fund's investment choices. After identifying prospective new growth enterprises, merged venture capital is utilised to fund these enterprises in exchange for a considerable equity stake. This is not the case, contrary to common assumption. Venture capitalists (VCs) typically do not fund start-ups immediately away. Rather, they look at businesses which are in the midst of launching a new commodity or operation. The venture capital fund will buy a share in these businesses, help them grow, and then aim to cash out from a good return on investment (ROI) [6].

Venture funders look for a competent management team a large target market, as well as a novel service or product with such a competitive advantage. They're also on the lookout for opportunities in markets they're acquainted with, as well as the chance to purchase a big share of a company and thus have a voice in how it's managed.

### *1.3 History of Venture Capital:*

Some of the earliest venture capital businesses in the United States were created in the mid-1900s. Georges Doriot, emigrated to the United States to pursue a degree in business, later taught at Harvard Business School as well as worked for an investment company. He later formed the first publicly traded venture capital firm, American Research and Development Corporation (ARDC). ARDC was significant since it was the first startup that could get funding from sources apart from wealthy individuals. Rich families such as the Rockefellers as well as the Vanderbilts have been the ones that sponsored start-ups and supplied specific budget throughout the United States for perhaps a long time. Due to academic institutions as well as insurance firms, ARDC had huge sums of money in its account [7].

Other firms formed by ARDC alums include Morgan Holland Ventures as well as Greylock Ventures, and also J.H. Whitney & Company throughout the mid-twentieth centuries. Following the adoption of a Investment Act in 1958, venture capital began to resemble the modern-day sector. The act gave President Eisenhower's Small Company Association, that he had formed five years prior, the authority to establish small business institutional investors. These licences give qualifying private equity group managers access to affordable, government-guaranteed money that they may use to operate in small businesses in the US.

By theory, venture capital funds new businesses with a high likelihood of succeeding but also a substantial level of risk that would frighten off banks. Fairchild Semiconductor (FCS), among the first and perhaps most promising semiconductor companies, was the very first venture infrastructure business in the San Francisco Bay Area, setting a pattern for venture capital's close engagement with emerging technology.

Private equity firms developed the operating standards that are still throughout in operation today in that field, organising approved parties to hold deals in which specialists would function as limited partnership as well as fund providers would operate as inactive partners with less power. The number of private venture capital firms rose in the late 1960s and early 1970s, prompting the founding of a National Venture Capital Association with in early 1970s [8].

### *1.4 Venture Capitalist Vs. Angel Investor:*

Those who invest in start-ups are known as venture capitalists and angel investors. When it comes to investing, both angel investors and venture capitalists take calculated bets in the hopes of making a profit (ROI). One distinction between venture capitalists and angel investors is the kind of funds they fund in. A venture capitalist is an individual or a company that invests in small businesses with money from investment firms, big enterprises, and pension funds. VCs usually do not spend their own funds in businesses. They must have a net worth of $1 million and a taxable revenue of at least $200,000 to be called an eligible investor. Many angel investors are families and associates of small business owners. Angel investors for small businesses are more interested with aiding a business success than with getting a fast cash. As a consequence, these remarks may be more appealing than venture capitalists. Table 1 compares angel investors versus venture capitalists based on a variety of characteristics [9].

Angel investors and venture capitalists invest in companies at various stages of growth. The type of investor you approach is determined by whether you are a well-established company or one that is just getting started. To limit the risk of losing money, venture capitalists prefer to invest in very well businesses. Angel investors want to invest in businesses that are still in the initial phases of development They pick firms that they are enthusiastic in and can picture becoming sustainable if the firm has not yet proven itself. As a consequence, angel investors assume higher risks thanas compared to venture capitalists. If you're just getting started, an angel investor might be able to help you get your business off the ground. If you're already developed and want to develop, consider pitching a venture capitalist[10,11-15].

**Table 1: Comparison of angel investor with venture capital. Angel investors and venture capitalists invest in companies at various stages of growth.**

| Factor of Comparison | Angel Investor | Venture Capital |
|---|---|---|
| **Meaning** | An angel investor is a rich entrepreneur who is willing to take a significant risk in financing a venture in exchange for a greater return if the product is successful. | Angel investors is a community of investors who invest in a venture and have all necessary services in order to establish a creative business that will produce high profits for society and a high return on investment. |
| **Equity** | The one who is sponsoring the project is given a portion of the stake. | In the case of venture capital, in addition to having a forum at each point, equity is also involved. |
| **Responsibility** | An angel investor usually gives money and connections to a group of people who have come up with a novel concept. | The group is in charge of all aspects of the project, including providing the team with various services. |
| **Risk** | In this situation, there is a high risk of failure because the employee is unable to manage the company in all aspects. one may be there just for the money and the connections. A list of tasks pertaining to each party's liability must be given to the implementation team and Angel investors. | In general, the community should be in charge of all the chain of actions and the course of action that must be followed at each point. The community should have personnel, marketing, and sales contacts, as well as contingency plans, in a coordinated manner. Since the whole course of action is carried out according to a predetermined protocol, the danger associated with it is quite low. |
| **Due Diligence** | Apart from financing the company and providing assistance in specific situations, an Angel Investor would not ensure due diligence. | Unlike angel capitalists, venture capital funds conduct due diligence and pursue a predetermined protocol. |

### *1.5 From Accelerators to Venture Capital: What is best for start-up?*

With entrepreneurship growth up 61 percent since 2014 and further funding projects on the horizon, it can be difficult for entrepreneurs to know where to proceed. Mass challenge has aided 835 tech businesses around the world, raising over $1.1 billion in investment and creating over 6,500 jobs, as the world's most start-up-friendly accelerator. We've worked with start-ups at all stages of development and know that if you're looking for funding, help, or both, there's a solution for one (Figure 2).

#### *1.5.1Coworking:*

Coworking has exploded in popularity lately, with WeWork being one of the most prominent examples. Coworking spaces do not have support for the start-up; in practise, most charge a monthly fee of a few hundred dollars. These are "on-demand" or "room-as-a-service" office spaces where you can rent space to host your start-up. One of the most important characteristics of a coworking room is the concept of group. Founders collaborate with like-minded businesses who provide easy access to regulatory, accounting, and human resources facilities. Many coworking spaces often provide amenities such as meeting rooms, frequent casual networking events, and tutorial or pitch evenings. WeWork and AlleyNYC are two well-known coworking spaces that are often hailed as stars of the shared economy. Entrepreneurs at all levels will follow this model, from hot-desking as a single trader to collaborating with the group as a larger business, thanks to businesses realising the advantages of coworking.

#### *1.5.2Incubators:*

Consider an incubator to be just what it sounds like: a place where you can incubate your product, build your business strategy, and prepare your start-up for development. Incubators partner with new entrepreneurs for an unspecified amount of time, and start-ups coexist in a cooperative, interactive environment. While several projects are subsidised by the government, some incubators require equity in exchange for incubation services. Mentorship, access to legal, accounting, and/or HR resources, and connections to vast investor networks are all common features of incubators.

*1.5.3Accelerators:*

Accelerators provide entrepreneurs with mentorship, education, and networking opportunities through a much centred, time-limited programme. Acceleration systems are more competitive than incubators, and they want to partner with early-stage companies who have either shown some success or product-market match. Accelerators will help the company to new heights. We take no equity in MassChallenge and instead sell the opportunity to win a slice of several million dollars in equity-free cash prizes. While MassChallenge is one of the few accelerators that does not need equity in return for their contribution, many others do. Accelerators often end with an enjoyable Demo Day, where programme participants have the opportunity to pitch to investors.

*1.5.4Competitions:*

Start-up contests are a fantastic way to achieve recognition and funding for businesses at every level. Hackathons are a great way for early-stage start-ups to validate their concept or project in front of experienced judges. Global companies such as MasterCard and Barclays have been hosting hackathons and business strategy contests to incubate new start-ups that fit with their corporate interests as an innovative way to stimulate new creative ideas. Cash prizes, mentorship opportunities, and even special entry to their other start-up initiatives are normally awarded to the participants. Other types of competitions may be of interest to start-ups in later stages of growth. Prize money, international visibility, and, most notably, access and exposure to key business investors are all available via these well-known competitions.

*1.5.5Crowdfunding:*

Crowdfunding, as the name implies, harnesses the aggregate strength of the audience. Crowdfunding can be divided into two types: reward-based (like Kickstarter) and equity-based (like Indiegogo) (like Crowdcube). Money donations are traded for goods or services in reward-based crowdfunding. Non-accredited individuals may invest in an early-stage business in return for equity through equity crowdfunding. Equity investing has been used to considerable success in the past, with a handful of public exits already. Though this one can be used at any point in the process, we wouldn't suggest doing so too soon the crowd wants evidence of momentum as well.

*1.5.6Angel Funding:*

When opposed to venture capital, start-ups pursuing angel funding are typically in the early stages of growth. According to the Angel Capital Association, the median angel investment round size for pre-seed or seed funding rounds in Q3 2015 was $725,000. The "pre-seed" or "seed" phases are typically used to develop a proof-of-concept business to get your business off the ground. This may also include increasing the number of customers and demonstrating traction with the product by raising sales. This is a crucial stage where having a seasoned tutor and counsellor make introductions and have synergies will help. There are a number of excellent websites that can help you communicate with angel investors. Gust.com is a website that allows startups to communicate with the world's biggest network of early-stage investors. When it comes to meeting prospective angel investors, never underestimate the strength of networking.

Many angel investors are founders or ex-entrepreneurs, but investing is a way for them to give back to society in addition to making money. They usually look for entrepreneurs who are open to mentorship and eager to be coached when they are spending their own money. A partnership with an angel investor is more than just a commercial relationship for financial gain; it can help both parties. Often angel investors join angel groups to pool their resources to participate in deals together. This allows them to learn from collective due diligence and pool their skills.

*1.5.7Venture Capitalist (VC) Funding:*

Companies in the latter stages of growth are most likely to receive venture capital financing. Many entrepreneurs strive for this, but it should not be the ultimate target. Venture capitalists manage assets with limited partners and seek extraordinarily good returns on their money, while angel investors spend from their own wallets. As a result, VC funding is very lucrative and selective, with the average VC funding round size being at least $1 million. Venture capitalists often have a seat on the Board of Directors in return for their investment and have a major voice in the company's strategic strategy. They give their portfolio companies publicity, make contacts with clients, and even assist in the formation of alliances. Work on developing a solid company first, and the venture capitalists would follow.

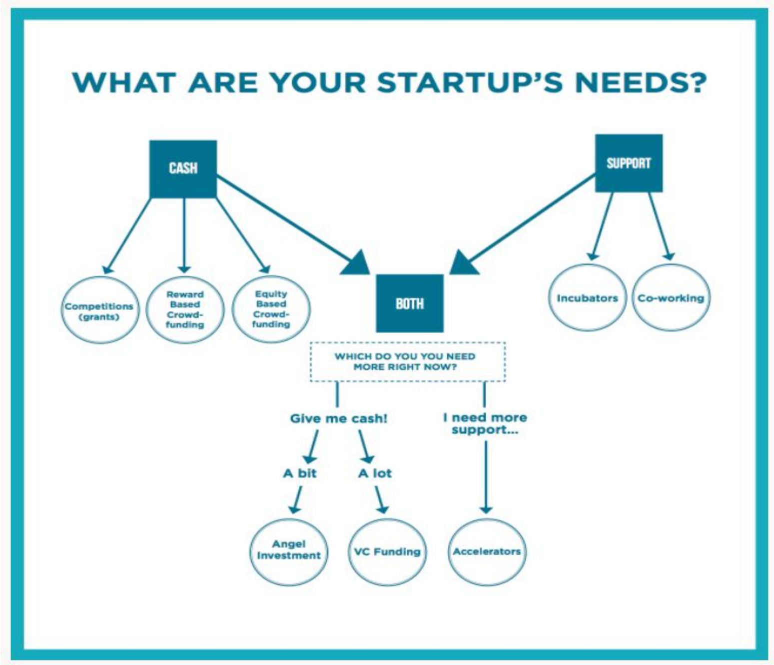


**Figure 2:** Requirements of a start-up. MassChallenge has aided 835 tech businesses around the world, raising over $1.1 billion in investment and creating over 6,500 jobs, as the world's most start-up-friendly accelerator [blog gust/accelerators to venture capital].

## 2. DISCUSSION

In the case of small companies or start-ups, financing is the most important factor that allows the company to grow and develop into a corporate community. Seed capital, also known as primary capital, is often needed to turn an entrepreneur's concept into a possibility. As a result, seed capital is an absolute must that can give every company a boost. The primary stage of business is almost embryonic, and sales generating seems to be non-existent. Break-even is a term that refers to the specific time of research and development, commodity production, or market setup in a business. The break-even point can be divided into several points, each of which shows the profitability of the company and whether it will possibly survive or not. As a result, at the seed financing level, the business needs capital assurance, and most banks will not lend to a new wave of ideas. As a result, raising funds is still impossible unless and unless a consortium or individual donor enters the picture. Angel investors and Venture Capital investors are two different types of investors. The types of businesses are typically new to the economy and carry some level of systematic risk. Agile investors are high-net-worth people with the potential to make a positive contribution to society but still being willing to take risks. In the absence of a significant interest in the firm, these entities are directly or indirectly associated with the corporation.

Venture capital, on the other hand, is also known as Limited Liability Partnerships. They have been involved with the firm since its inception and are in charge of mentoring the company's operations. They connect the dots, have the necessary services, and track whether or not the company is operating in a safe and systematic manner. The other issue is that the company concept must be implemented in a way that complies with all business regulations. Angel investors may or may not be involved in any phase of a company's operations. The Angel investor primarily offers financial and networking support; they may or may not offer technical assistance. As a result, both parties' participation is reduced to their sweet will. Whereas, if a venture capital firm is persuaded of the concept and project, it offers all services to the business team, including marketing, product creation, and human resource support. Angel investors are involved in early-stage financing, late-stage technological growth, and early-stage product launches. However, venture capitalists invest in early-stage businesses that are more mature in terms of product and technologies, as determined by the venture capital firm's goals.

## 3. CONCLUSION

Prior research has looked at the role of fiscal, strategic, and human factors in angel and venture capitalist decision-making. If more angels professionalize into angel funds and markets for technology and innovations become more dynamic, comparing their decision-making policies to those of venture capitalists becomes more relevant. The author investigates why economic potential, real human resources, strategic preparation, and enthusiasm matter differently to venture capitalists and angel investors, using agency theory as a guide. An experimental conjoint review of angel and venture capital decision-making is the focus of our research. Angel investors place a higher value on strategic preparation for investment and affective passion, while venture capitalists place a higher value on economic opportunity. It's also worth noting that both groups of investors put a comparable value on an entrepreneur's unique human resources. These results reinforce the agency's position that disparities in angel investors' and venture capitalists' investment judgement policies can be clarified by looking at the agency prices, market uncertainties, knowledge asymmetry, and control processes that are built into angel and venture capital transactions.

**References**

[1]R. Rostamzadeh, K. Ismail, and E. K. Zavadskas, "Multi criteria decision making for assisting business angels in investments," *Technol. Econ. Dev. Econ.*, 2014, doi: 10.3846/20294913.2014.984364.

[2]L. F. Edelman, T. S. Manolova, and C. G. Brush, "Angel investing: A literature review," *Foundations and Trends in Entrepreneurship*. 2017, doi: 10.1561/0300000051.

[3]C. Mason, T. Botelho, and R. Harrison, "The changing nature of angel investing: some research implications," *Venture Capital*. 2019, doi: 10.1080/13691066.2019.1612921.

[4]J. Florin, R. Dino, and M. N. Huvaj, "Research on angel investing: A multilevel framework for an emerging domain of inquiry," *Ventur. Cap.*, 2013, doi: 10.1080/13691066.2012.757424.

[5]C. Y. Murnieks, R. Sudek, and R. Wiltbank, "The role of personality in angel investing," *Int. J. Entrep. Innov.*, 2015, doi: 10.5367/ijei.2015.0171.

[6]"INVESTMENT CRITERIA SET BY VENTURE CAPITALISTS," *Ekon. Vjesn. - Rev. Contemp. Business, Entrep. Econ. Issues*, 2015.

[7]P. A. Gompers, W. Gornall, S. N. Kaplan, and I. A. Strebulaev, "How do venture capitalists make decisions?," *J. financ. econ.*, 2020, doi: 10.1016/j.jfineco.2019.06.011.

[8]J. Faber, C. Castaldi, and R. W. M. Muskens, "Venture capitalist-induced relational fit and new venture performance: a Dutch biotech comparative case analysis," *Ventur. Cap.*, 2016, doi: 10.1080/13691066.2016.1164221.

[9]H. Higashide and S. Birley, "The consequences of conflict between the venture capitalist and the entrepreneurial team in the United Kingdom from the perspective of the venture capitalist," *J. Bus. Ventur.*, 2002, doi: 10.1016/S0883-9026(00)00057-4.

[10] Y. Pierrakis and G. Saridakis, "The role of venture capitalists in the regional innovation ecosystem: a comparison of networking patterns between private and publicly backed venture capital funds," *J. Technol. Transf.*, 2019, doi: 10.1007/s10961-017-9622-8.

[11] Poongodi, M., Nguyen, T. N., Hamdi, M., & Cengiz, K. (2021). A Measurement Approach Using Smart-IoT Based Architecture for Detecting the COVID-19. Neural Processing Letters, 1-15.

[12] Poongodi, M., Malviya, M., Hamdi, M., Vijayakumar, V., Mohammed, M. A., Rauf, H. T., & Al-Dhlan, K. A. (2021). 5G based Blockchain network for authentic and ethical keyword search engine. IET Commun, 1-7.

[13] Poongodi, M., Malviya, M., Kumar, C., Hamdi, M., Vijayakumar, V., Nebhen, J., & Alyamani, H. (2021). New York City taxi trip duration prediction using MLP and XGBoost. International Journal of System Assurance Engineering and Management, 1-12.

[14] Rawal, B. S., Manogaran, G., Singh, R., Poongodi, M., & Hamdi, M. (2021, June). Network Augmentation by Dynamically Splitting the Switching Function in SDN. In 2021 IEEE International Conference on Communications Workshops (ICC Workshops) (pp. 1-6). IEEE.

[15] Poongodi, M., Malviya, M., Hamdi, M., Rauf, H. T., Kadry, S., & Thinnukool, O. (2021). The Recent Technologies to Curb the Second-Wave of COVID-19 Pandemic. Ieee Access, 9, 97906-97928.