An Analysis of Investment Decision Factors
by Australian Business Angels
and Venture Capital Investors

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An analysis of investment decision factors by Australian business angels and venture capital investors

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A thesis submitted in fulfillment of the requirements of the degree of Doctor of Philosophy

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Statement of Original Authorship

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This research has allowed me to access participants in the private marketplace and to understand the aspirations and challenges of those entrepreneurs, business angels and venture capitalists who operate in this space. They are creating a stronger and smarter society through innovation and through the funding of enterprises in the private investment marketplace.
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Abstract

Decisions taken by business angels and venture capitalists whether to invest in the private marketplace within Australia and the interrelations among such decisions depend upon the relative importance of different factors. The private marketplace operates distinctly and separately from the public marketplace in Australia. It comprises business angels, who invest monetary or business expertise at the seed or early stage of a venture and professional investors, venture capitalists, who generally invest at a later stage in more formal circumstances.

Whereas emerging themes coursing through the literature identify four broad groupings of factors: access to deals, equity / control, entrepreneur / management and investor input that may be relevant to the investment decision, none appears more dominant than the other.

The relative importance of different factors and the interrelations among decisions taken by business angels and venture capital investors to invest or not invest have, up to now, remained unidentified.

Here, a 2009 investigation of 21 business angels and 9 venture capitalists within Australia has revealed an association between the four factors stated and the decision to invest, with one factor being the quality of the entrepreneur / management team being the most important. The findings also suggest that a financial assessment of the proposed venture is core to the decision making of both business angels and venture capitalists and is not given greater importance by venture capitalists over business angels. These confirmed qualitative data were derived from two focus groups, one comprising business persons and the other of business angel investors and venture capitalists, pre-testing and refining a questionnaire put to those business angels and
venture capitalists and from the responses to the open ended questions included at the end of the questionnaire. Quantitative data were collected from the responses of business angels and venture capitalists to the survey of readers of a leading private marketplace journal within Australia.

These findings facilitate directed research into investment in Australia’s private marketplace within a prescribed framework of the hierarchy of factors, previously more a matter of normative conjecture than drawing on sound evidence.