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Examining the Role of Social Trust in the Angel Investors' Decision-Making Process: The Case of Egypt

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Abstract

This study focuses on examining the role of trust in the angel investors' decision-making process. It was developed with the aim to advance understanding of the relationship between social trust and angel investments in a developing country such as Egypt and to examine the implications on transaction cost. Studying angel investment in the Egyptian context is important due to the existing boom in entrepreneurship in the country, lack of access to finance, and the nature of the economic ecosystem in Egypt shaped by cultural and social ties. The importance of these types of investors to the economic growth and sustainability of the entrepreneurial ecosystem is the main motive to examine angel investors' decision-making processes.

This study was conducted using in depth semi-structured interviews with ten angel investors located in Egypt. The findings of this study disassociated trust from social capital, which contradicts views of extant work and was more aligned with the notion that trust is a collective asset built from working on social capital. Further, the findings of this study highlighted the role of feelings and emotions as a key decision-making factor contributing to the evolution of the angel – entrepreneur relationship during the decision-making process. In this study, participants used 'marriage' and 'friendship' as a metaphor to their relationship with the entrepreneur, reflecting the emotional dimension they confer to their interactions with the entrepreneurs. These findings resonate with existing literature, though sparse, illustrating that the investor's internal emotional or mood state, while taking an investment decision, could affect their judgment as well as their behavior to allocate equity towards a company.

This work extends existing research by furthering understandings that angel investors associate emotions with their decisions, not only at the equity allocation phase and while making the final decision but also throughout the different pre-investment activities. Moreover, their perception of trust and how it relates to moving from one stage to another or even surpassing certain stages had an emotional dimension triggering the decision. Interestingly and of theoretical importance, angels in this study conceptualized trust as feelings and emotions; referring to trusting an entrepreneur or deciding to invest in certain venture, as a 'gut' feeling. Taking into consideration the aforementioned findings, this study suggests integrating non-economic factors such as trust and emotions into the angel investment process, specifically in the decision-making process to accommodate the impact of emotions and gut feelings.

Introduction

New business ventures usually struggle to secure funding from external sources other than its initial founders (Fairchild 2011; Shane, 2008). Even in developed countries such as the United States, the Census Bureau's most recent Survey of Business Owners indicated that 63.6% of firms employed the entrepreneurs' own money to start up their businesses, while only 2.7% were capable to secure funding from an investor either a venture capital, a strategic investor, a friend or a family member (Shane, 2008).

Early stage enterprises tend to be unprofitable eliminating most of the formal and conventional sources of funding such as commercial banks and venture capital. For this reason, angel investors have a critical role in funding small and medium enterprises (SMEs), especially startups, innovative and high growth potential enterprises (Abdulsaleh and Worthington, 2013; Ramadani, 2012; OECD, 2015). Angel investors are important in two aspects: first they prioritize investing in seed stage, start up or early stage enterprise (Ramadani, 2012) and second they tend to close the equity gap thus helping enterprises proceed to formal investment (Abulsaleh and Worthington, 2013). In the United States, 55-72% of angel investment is channeled to both startup and early stage enterprises. In the United Kingdom as well, 50 – 65 % of angel investment is channeled to ventures at these same stages (Ramadani, 2012). This type of investment gained momentum very recently as this market was invisible based only on investors leveraging their own networks and word of mouth (Mason and Botelho, 2014).

The role of angel investors and the informal investment in the economy is crucial especially in the developing world. They contribute to the economy through creating new ventures as well as jobs. Also, they sustain the cycle of economy as the startups immediately start spending the new investments to buy their needed goods, services and pay salaries for their teams (Bygrave and Quill, 2006).

SOURCES OF FUNDING	PERCENT TOTAL
Close Family	48.9%
Other Relative	8.4%
Work Colleague	7.7%
Friend or Neighbor	26.4%
Stranger	5.8%
Other	2.7%
Total	100.0%

GEM Financing Report, 2006

In Egypt, informal investors - funding early stage startups - accounted for 2.5% of the adult population in 2008. Given the particular Egyptian economical ecosystem and societal structure, the informal investment is directed to close family and/or relatives. Nevertheless, the estimated amount of the angel investments per annum reached about 1% of the GDP in 2008 (Hattab, 2008). There is no focused study concluded on the decision-making process of this type of investors in Egypt. A recent report published by Wamda – a platform supporting entrepreneurs across the MENA region with a core focus on research - highlighted that entrepreneurs in Egypt source primarily their funding needs from personal savings associated with high reliance on family and friends as well (Wamda, 2015).

In Europe, the angel investment market grew by 8.3% in 2013, achieving a new record of EUR5.5 billion of investments. Every aspect of this market has witnessed a significant level of growth including; investment amount, number of investments and number of business angels. Moreover, the growth of investment has positively impacted the economy through the contribution to job creation. Over the past 10 years, business angel networks have witnessed a growth of average 17%; the number of active networks reached 468 in 2013 (EBAN, 2014).

While studying angel investment, it is important to analyze the context and the nature of the entrepreneurial environment where this activity is taking place. Analyzing and studying the entrepreneurial ecosystem is crucial to assess the angel investors' decision-making process. Egypt was identified to have a weak enabling environment (Saeed, El Aasser, and Wasfy, 2015). In 2016, Egypt's ranking in starting business fell from 69 to 73, getting credit from 71 to 79, paying taxes from 146 to 151. Moreover, Egypt was ranked as 155 and 119 in terms of enforcing contracts and resolving insolvency, respectively. The overall ease of doing business had fallen from 126 to 131 in 2016 (The World Bank, 2016).

The role of entrepreneurship in the economic and social development of countries is very significant. New startups stimulate the economy, decrease unemployment, and impact both international trade and the Gross National Product (GNP) of a country (Saeed, El Aasser, and Wasfy, 2015). On the social level, entrepreneurship promotes citizenship and contributes positively to the welfare of people. Given Egypt's demographic profile with a qualified young population suffering from 13.4% unemployment rate (Capmas, 2014) and around 70% of unemployed population are in the age bracket 15 – 29; entrepreneurship became a necessity to capitalize on the capabilities of this population cluster and support them to achieve their objectives for a better future (Saeed, El Aasser, and Wasfy, 2015).

One of the main barriers hindering the growth of innovative start - ups is the lack of financing from conventional sources such as commercial banks, venture capital or private equity (Fairchild, 2011). Venture capital funds normally prefer not to invest in early stage companies due to their process of due diligence as well as monitoring, which imply higher transaction costs eventually reflected in lower expected return on investment (Schwarzkopf, Lévesque and Maxwell, 2010). This existing financing gap has been managed by informal investors namely angel investors, creating a huge potential to capitalize on this type of investment to play a crucial role in creating and growing economic wealth (Fairchild, 2011).

Over the past decades, many research had identified that social capital at the national level is positively correlated with economic and investment growth on the country level (Kwon and Arenius, 2010). Mainly scholars have studied this phenomenon quantitatively; a study concluded that one standard deviation increase in national level trust reflects as more than one-half of a standard deviation increase in economic growth (Knack and Keefer, 1997). Another study concluded that national growth increases by almost 1% for each 15-percentage point rise in trust (Zak and Knack, 2001). The relation between social capital and economic growth have been studied on a country level in the United States through linear regression analysis concluding that social capital is a main independent determinant of economic growth in the United States. It also concluded that per capita income increases in a faster pace in states with high level of social capital (Rupasingha, Goetz, and Freshwater, 2000). A study on Spanish provinces concluded that social capital positively affects economic growth as well as highlighting the role of social capital in fostering investment (Peiro-Palomino and Tortosa-Ausina, 2015)

Given that social capital significantly impacts the economic development on the country level, it is inevitable to conclude that there is a relation between social capital and entrepreneurial activities on the country level. One of the most identified reasons for startups failure is the lack of financing at early stages even in developed nations. The level of investors' willingness to allocate funding is very important for entrepreneurs' continuity and success; however, this aspect varies from one society to another. Some entrepreneurs depend solely on family and close friends for seed capital and in case of liquidity issues, while others penetrate into broader circles of investors depending on their business potential (Kwon and Arenius, 2010).

Various studies have been conducted on the relationship between social capital and angel investment. For instance, a study on the relationship between social trust and angel investors' decisions used quantitative approach based on a multilevel model of data from 191,907 individuals covering twenty-five countries. This study concluded that within countries enjoying high level of trust, individuals are more likely to angel invest. Moreover, this study had implications for further research on the social trust in relationship with different types of economic and entrepreneurial activities (Ding, Au and Ching, 2015). Even though angel investors are the main source of funding for early stage startups (Morrisette, 2007; Degennaro, 2010), there is no clear indication on how they make their investment decisions and what impacts these decisions.

This study aims to examine how social trust impacts angel investor decision-making processes. It aims to advance understanding of the relationship between social trust and angel investments in a developing country such as Egypt. Studying angel investment in the Egyptian context is important due to the existing boom in entrepreneurship in the country, lack of access to finance (Wamda, 2015), and the nature of the economical ecosystem in Egypt shaped by culture and social ties. The importance of this type of investors to economic growth and sustainability of the entrepreneurial ecosystem is the main motive to study the angel investors' decision-making process. Taking into consideration the unique structure of Egypt in terms of culture, family ties and the role of informal economy, social capital is an important factor to examine in the context of angel investors' decision-making processes. The thesis is structured as follows:

- Chapter 1: Reviews the literature related to the focus of this research. It starts by a background on angel investors, moving to social capital, its relevant theories, narrowing down to trust with a focus on previous discussions on trust and angel investing
- Chapter 2: Presents the methodological approach employed. It explains the method selected, sampling technique and how data is analyzed
- Chapter 3: Presents the findings from the data collection and analysis including citations from the interviews
- Chapter 4: Presents the discussion of the findings, why they are relevant to the research conducted and compares and contrasts with existing literature. This chapter also includes implications for practice and further research.

1 Literature Review

The literature review covers sections of angel investors, investment process, social capital and specifically social trust. The main aim of this study is to examine the relationship governing the angel investor and the entrepreneur as well as the role of social trust in the decision of the angel investor taking into consideration the impact of social capital on transaction cost. Consequently, the literature will walk you through a journey starting from the angel investors moving through their investment process and ending with the governing relationship overarching angel-entrepreneur relationship from social capital perspective narrowed down to a focus on trust. To understand more the concept of social capital and trust, literature on their theories and sources was reviewed to better interpret the data.

1.1 Angel investors

Literature on angel investors is relatively recent and modest compared to other topics in entrepreneurship and economics. However, the growth in angel investment over the past decades contributed to more research in this area (Morrisette, 2007). Angel investors are defined as wealthy individuals capable of funding mainly early stage start-ups; a term used originally to describe the funders of Broadway theatrical productions (Mason and Botelho, 2014; Ramadani, 2012; Avdeitchikova, 2008; Benjamin and Margulis, 2001). Throughout history, wealthy individuals and royal families have been engaged in financing new ventures/ideas; Queen Isabella managed to fund Christopher Columbus's trips to the New World as well as the funding of the Saugus Ironworks in 1645 (Benjamin and Margulis, 2001). During the 20th century, the prominent entrepreneur Henry Ford was funded to establish his auto manufacturing company by five angels who invested USD41,500 and they realized return of USD145 million on their investment in the period from 1903 – 1919 (Gaston, 1989). The term "Angel" refers to the informal private investor who allocates his own funds to support ideas, new/early stage ventures or expansions of small businesses (Shane, 2008).

Compared to venture capital and private equity, angel investment is considered a type of informal investment. The GEM 2006 financing report defined informal investing as the funding secured from the "4Fs" investors, "who fall in the categories of Family, Friends, Foolhardy strangers, and the Founding entrepreneurs themselves" (Bygrave and Quill, 2006). Startups prefer to raise their required funding from any of the 4Fs rather than from institutions such as venture capital or conventional banks. This is driven by the belief of some entrepreneurs that angels add more than only capital to their startup (Shane, 2008). They act as an alternative structure for SME's financing, bringing both their financial and technical resources to help sustain and grow startups reducing their risks of failure and contributing positively to the local economy (Tiftik and Zincirkiran, 2014). Angels invest in smaller amounts and at earlier stages of the company's life compared to venture capital. They direct their investments at a different set of risks associated with a high degree of uncertainty on the enterprise's development, lack of accuracy regarding the performance and potential of the startup and the entrepreneur. Both time and financial constraints do not allow conducting due diligence (Kelly and Hay, 2003). Almost two thirds of angel investments in the United States of America fail while 20% of the exits achieve above 100% IRR (Wiltbank, 2005).

A distinction between angel investors and venture capitalists is crucial to conduct further research in this area; angels are mainly wealthy individuals commonly with entrepreneurial backgrounds who inject in most cases seed funding in startups (Morrisette, 2007; Degennaro, 2010) On the other hand, venture capital firms are structured as mutual funds and they invest using other investors' money. Their focus is on mature companies and is managed by investment professionals (Degennaro, 2010; Ibrahim, 2008). A more structured form and legalities are required in venture capital funds compared to angel investment, which is an informal type of funding (Ibrahim, 2008). Generally, angel investment targets a niche market in the investment arena through financing a crucial gap in the entrepreneurial journey in terms of timing and investment size. That is why this type of investment has a positive impact on the economy through sustaining entrepreneurship, while creating jobs and fostering innovation (Degennaro, 2010).

Investing in private companies can occur at different stages of a company's life; it is not restricted to the size and/or stage of investment. Those stages are known as seed, startup, growth or expansion and later stage. While other researchers tie angel investment to the seed or startup stages, this is not necessarily the case. Angels invest at any phase of a private company (Shane, 2008). Their preference is to direct their investments to seed or startup stages because their role requires more involvement and it represents a challenge to turn these enterprises into success stories (Ramadani, 2012). Angels are not motivated by financial aspects only, but also by the urge to find a new job, get more exposure to new ideas, and/or pay back to their community (Shane, 2008). Angel investors add value to their investments in different ways (illustrated in Table 1.1). The main value adding roles are strategic mentoring, monitoring and supervision and/or resource acquisition (Politis, 2008)

Angels commonly play an active role on the board of their investee's companies providing strategic advice on the formulation of the venture's strategy, feedback on ideas, management tactics, and access to resources. Both business mindset and strong management expertise are strategic resources for the venture which can act as competitive advantage to its positioning. Concerning the mentoring role, some angels act actively as mentors sharing their knowledge and developing the entrepreneurs directly (Politis, 2008; Morrissette, 2007).

Through mentoring, angels help entrepreneurs develop a mature shared vision, more trust and understanding between them which have a lot of positive implications on the well being of the startup (Politis, 2008). Normally, angels get very active in terms of providing support through monitoring and supervision (Ding, Sun and Au, 2014; Morrissette, 2007). This involvement contributes positively in minimizing agency costs as well as potential information asymmetry between the angel and the entrepreneur. Also, through the angels' network and connections, entrepreneurs acquire a lot of their needed resources through leveraging the angels' resources for the betterment of the startup (Politis, 2008).

Value adding role	How do business angels add value?	Theoretical underpinning
Sounding board/strategic role	Building and protecting the bundle of valuable resources in the firm	Resource based theory
Supervision and monitoring role	Minimizing conflicts of interests by means of formal control mechanisms	Agency theory
Resource acquisition role	Creating and maintaining a stable flow of critical resources	Resource dependency theory
Mentoring role	Minimizing conflicts of interests by means of informal control mechanisms	Theories of relational governance

Table 1.1: Theoretical perspectives on how business angels add value (Politis, 2008)

1.2 Investment Processes

Understanding the investment process and factors affecting different stages of the process is essential to study how angel investment decision-making process works. More specifically, it contributes to facilitating the communication between entrepreneurs and angels as well as understanding the concerns and the role of each party in the dynamics of any upcoming potential transaction until an agreement is concluded. Furthermore, it helps potential angels by identifying the main activities required to manage their investment process efficiently. Nonetheless, the understanding of the investment process would help policy makers and support functions to work on enhancing and enabling a more efficient investment process (Paul, Whittam and Wyper, 2007).

1.2.1 Angel Investment Process

Research has been conducted to assess the overall angel investors' investment process; however, the literature covering this aspect is still limited. Amatucci and Sohl (2004) developed a broad investment process divided into 3 stages; pre-investment, contract negotiation and post-investment. On the other hand, Haines, Madill, and Riding (2003) constructed a more elaborate informal investment process – as shown in figure (1.1) -.

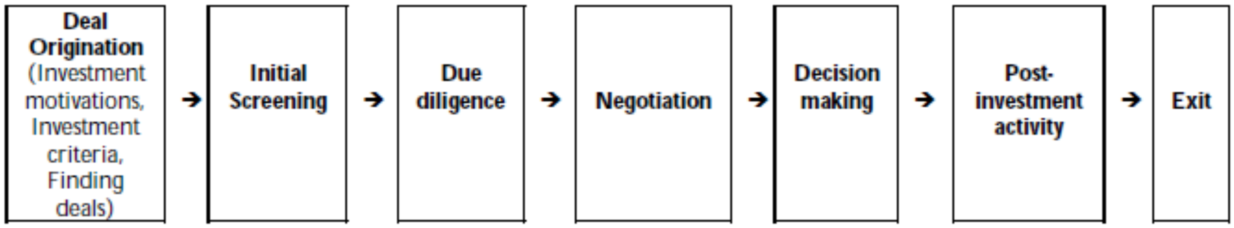


Figure 1.1: Informal Investment Process (Haines et. al, 2003)

In general, studies of informal investment were conducted through a disaggregated approach and the attempts to develop an "overarching research – based model" can be found more in the formal investment models. Paul, Whittam and Wyper, (2007) developed a more comprehensive overarching investment process for angel investors specifically. The model consists of five phases (as shown in figure 1.2) familiarization, screening, bargaining, managing and harvesting. Among angel investors, due diligence is not a common practice and range from couple of hours to 200 hours of time spent on due diligence pre-investment. In general, angel investors get into deals with no in-depth investigation as in the case of venture capital (Wiltbank, 2005).

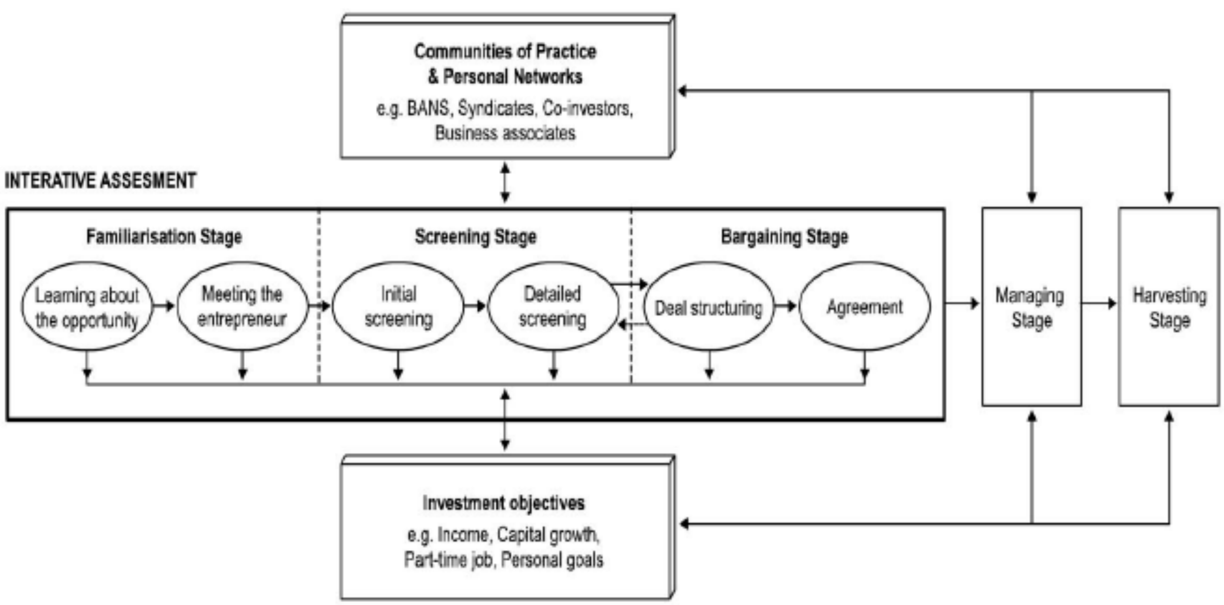


Figure 1.2: Angels' Investment Process (Paul, Whittam and Wyper, 2007)

Familiarization phase

This phase consists mainly of two activities; getting familiarized with the investment opportunity and the entrepreneur. At this preliminary phase, the majority of angels are more inclined to have an executive summary of the opportunity or 2-3 pages teaser. The angel starts immediately assessing the opportunity taking into consideration primarily the location and industry. It is important to note that angels have a preference to invest in their close geographical areas. Nonetheless, angels are willing to consider opportunities that are not aligned with their preferences in some cases such as strong referral from a trusted source to them or their favorite sector. Post assessment of the teaser/executive summary, the angel sets a meeting with the entrepreneur to discuss further the opportunity. Given the nature of angels, they invest at their own pace depending on how strongly the opportunity and the entrepreneur appeals to them. In this phase, angels are mainly focused on the entrepreneur and his team. Accordingly, entrepreneurs are concerned to present themselves strongly to heighten the interest of the angel to deploy money with them (Paul, Whittam and Wyper, 2007).

Screening Phase

This phase covers the majority of the pre-investment activities where angels get involved in relatively more structured assessment 'screening'. Normally, it begins with an initial screening phase including various meeting with entrepreneurs in order to revisit first impressions as well as get more information about the potential opportunity. Afterwards, the business plan is studied in details; the level of depth depends on each angel. In case the opportunity is in an industry that does not fall into the area of expertise of the angel, they might seek advice from a third party. Moreover, angels at this stage look at their prospective contribution to this business opportunity post investment either through playing an active role on the board, providing strategic guidance, and/or developing the business model further. (Paul, Whittam and Wyper, 2007).

Bargaining Phase

During this phase, the due diligence that covers all investigations related to financial projections, founders, product and market assessment is concluded (Wiltbank, 2005). Generally, it is not a structured formal task and usually done by angels themselves. Also, the negotiations are concluded on the value of investment including the required equity to be injected and expected percentage to be acquired by the angel. This phase is the most difficult as an agreement satisfying all parties (the angel and entrepreneur(s)) has to be reached (Paul, Whittam and Wyper, 2007).

1.2.2 Focus of the study

This study was designed to examine the role of social trust in all pre-investment activities; however, other studies looked at specific stages namely selection phase (Maxwell, Jeffrey and Lévesque 2011) (Ding, Sun and Au, 2014), deal identification and screening (Sorheim, 2003), investors' decisions (Ding, Au and Chiang, 2015) and from the entrepreneur's perspective of selecting a financier (Fairchild, 2011). Also, an exploratory study using quantitative approach was conducted on the role of trust in the investment decision of informal investors; this study identified the role of building trust relationships governing angel and entrepreneur to ensure capital investments. However, the study was restricted to the screening phase and assessed only the type of trust developed at that point (Harrison, Dibben and Mason, 1997). This study builds on other scholars work and addresses the limitations of previous studies to give a more nuanced understanding of the decision making process of angel investors from social trust perspective.

Many deals do not get executed smoothly, affected by various factors either; internal factors triggered by the angel himself or the nature of the deal, or external factors. In some cases, the required capital needs to be sourced from more than one angel this could cause delays or some investors not as interested. Moreover, angels might have sudden 'cold feet' or decide to withdraw at any point of time during the discussion phase. An important factor to highlight is the relationship pattern between an entrepreneur and angel as a crucial determinant in the execution of deals and throughout the investment process (Paul et. al, 2007). That is why looking into social capital and more specifically trust as a variable overarching the angel – entrepreneur relationship would help understand the investment decision made by the angel.

1.3 Social Capital

There are many attributes that affect the angel investor's decision when considering a potential investment. Looking at non-economic factors, social capital theory has been identified as a contributor to better understand the angels' pre-investment process (Sorheim, 2003). The due diligence phase either conducted formally or informally leads to the development of a social relation between the angel and the entrepreneur (Amatucci and Sohl, 2007). A study on angel investment behavior had suggested further research on the effect of social capital on contracting phase and the role of social capital in relation to value added by angels (Sorheim, 2003). This section introduces the concept of social capital focusing on the ties and networks shaping it, its impact on reproducing and maintaining itself as an essential component of the angel – investor relationship.

1.3.1 What is Social Capital

Pierre Bourdieu defined social capital as: "the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu and Wacquant, 1992). Over the last decades, scholars defined social capital from different perspectives. These definitions differ according to their views on social capital, its sources, substance or its effects. Generally, the sources of social capital are embedded in the social structure we are living in represented by social relations between different parties. The social structure is defined in 3 different dimensions: market relations (governed by market dynamics where goods are bought and sold on barter or money basis), hierarchical relations (governed by the authority matrix) and social relations (governed by social ties where gifts and favors are exchanged) (Alder and Kwon, 2002).

Many scholars have studied social capital and each had its own perspective in defining and analyzing the notion of the social capital. When relating to angel investment and the role of social capital, this study focuses on the definition of Bordieu (1986) that: "social capital, made up of social obligations ('connections'), which is convertible, in certain conditions, into economic capital and may be institutionalized in the forms of a title of nobility". Also Burt (1992) who defined social capital as it stems from the potential opportunities to be leveraged: "Friends, colleagues and more general contacts through whom you receive opportunities to use your financial and human capital". While Portes (1988) tackled the benefits of the social capital from the actors' perspective defined as "The ability of actors to secure benefits by virtue of membership in social networks or other social structures". Building on all the previous notions, Adler and Kwon (2002) defined social capital as: "Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor".

There are various types of capital differing in their liquidity and convertibility. Generally, economic capital is the most convertible and liquid form of capital. When comparing social capital to the economic capital, one finds that the social capital attributes much more costs and less liquidity (Anheier, Gerhards and Romo, 1995). On the other hand, social capital is similar to physical capital in terms of the necessity of maintenance; social relationships need to be maintained on regular basis. However, social capital does not have an expected lifespan such as physical assets as it is not depreciable over time. This point highlights its similarity with human capital in terms of growth and development by time. Being a "capital", in the sense, puts social capital under the category of long – lived assets. Investment in social capital is different as it requires investing time and effort rather than tangible investments; such as creating and growing networks with different set of people in order to grow one's social capital and have more access to wider capacity of these people (Alder and Kwon, 2002).

The most intriguing part is that social capital can be converted to other types of capital where a person can really transfer this intangible form to a more tangible type of capital to realize economic or other benefits (Alder and Kwon, 2002). Also, social capital is not characterized by having ownership rights and it is not exclusive to a certain person (Burt, 1992). Social capital requires commitment from both parties involved as well as cooperation; however, the relation could end if one party decided to withdraw the social capital (Alder and Kwon, 2002). To sum up, the term social capital draws attention to the positive implications of sociability as well as benefits of "nonmonetary forms" of capital that can bring more benefits (Portes, 1998).

1.3.2 Sources of Social Capital

To understand the nature of social capital, the sources and motivations required to build social capital as well as its reproduction and maintenance are critical for this study in terms of required investment either tangible or intangible from the angel. Social capital is an intangible type of capital which in order to acquire it; a person has to be connected to other people who are the real source of social capital advantages. Given the nature of social capital, its sources vary compared to other sources of capital. Throughout decades, community with strong social capital has proven the ability to leverage this type of capital in economical transactions such as lending (Portes, 1998). Scholars have identified different sources of social capital looking at networks, norms, beliefs and/or formal institution. Sanderfur and Laumann (1998) have focused on the sources in relation to social systems, egocentric and sociocentric perspectives on the relationships within social systems. Social systems are interconnected to each other; consequently, each individual at any point of time is a member of more than a single social system. The potential stock of social capital per person is reflected in the numbers and patterns of relationships in which the person is involved and the level of access in relation to the larger social spectrum. Egocentrism is closely associated with weak social ties approach discussed in later section; it encompasses the person direct relationship with others and the relationships others can help connect to. Meanwhile, sociocentric perspective focuses on patterns of relationships within a social system. The benefit of any of these forms of social capital is defined as its effectiveness to a person in reaching his goal (Sanderfur and Laumann, 1998).

While Coleman (1988) - who is the pioneer in the social capital research - emphasized on the notion that all social relationships and systems allow some forms of social capital; however, some types of social structure are more important in enabling forms of social capital. From Coleman's perspective, closure of social networks is crucial to the existence of effective norms as well as trustworthiness of social structures consequently enabling the propagation of both expectations and obligations. In a closure structure, any defection from an obligation reflects a form of externality (Coleman, 1988). In modern era, Lin (2002) defined social capital as "resources embedded in a social structure which are accessed and/or mobilized in purposive actions". This definition implies three main aspects of social capital: resources embedded within social structure, accessibility to social capital resources and its mobilization in purposive ways. Consequently, sources of capital are three interrelated aspects: structural, opportunity and usage/benefit (Lin, Cook, and Burt, 2008).

As illustrated in figure 1.3, there are two distinct sources of the social capital: consummatory and instrumental sources. Consummatory sources are driven by internalized norms and obligations towards each other while instrumental sources are based on reciprocal exchanges between people and the motivation of each party driven by being under a common social structure. The instrumental source emphasizes the power of community in enforcing obligations (Portes, 1998).

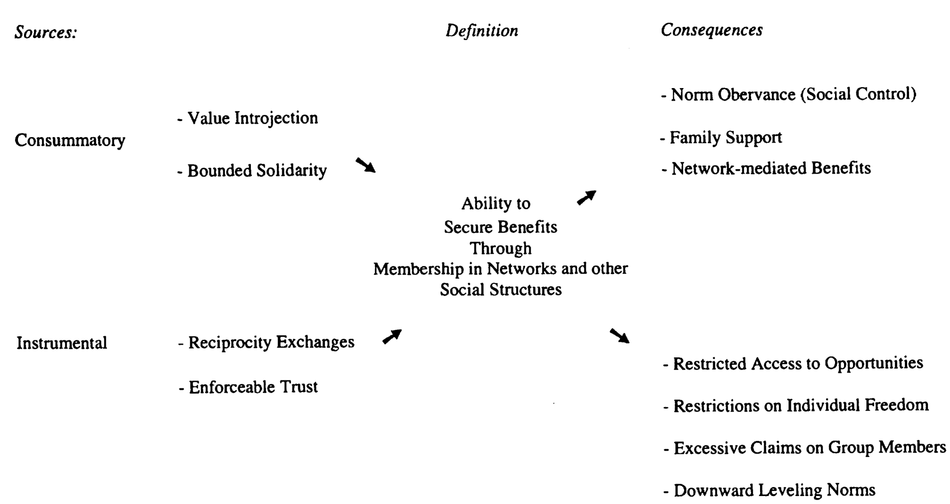


Figure 1-3 Sources of social capital and its consequences (Portes, 1998)

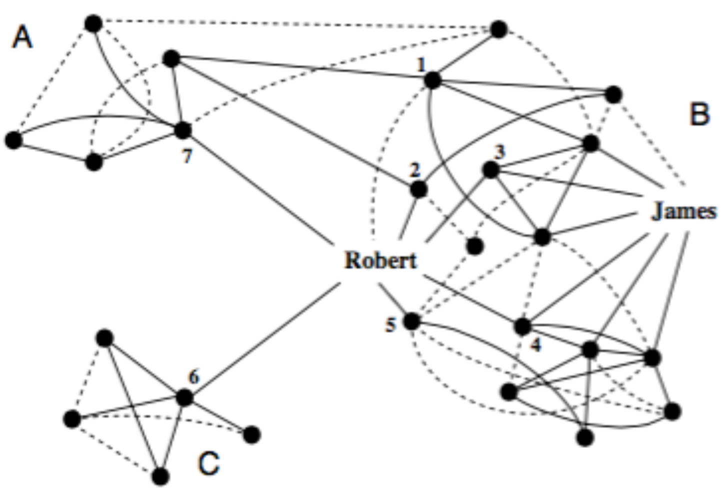
Figure 1.3 highlights Portes (1998) distinction of the donors' motivation in relation to the social capital. The first group of motivations has been referred to as consummatory which consists of norms caused by experiences in childhood and later in their life. Second group of motivations is instrumental they are driven by norms in a wider scope related to enforced trust.

Ties and Networks

Examining angel investment from social capital perspective requires better understanding of ties and networks connecting people as well as how these connections are developed between entrepreneurs and angels. Burt (2000) has built on the different definitions mentioned earlier (Burt 1992; Bourdieu and Wacquant, 1992; Coleman, 1988) to assess the social capital concept in both closure network and structural holes. Generally, social capital is a "metaphor" of benefits reflecting that the society can be seen as a market where different people "exchange" all types of services, goods and/or ideas to realize their own benefits. In this market, there is a differentiation between certain groups of people versus others. In sense, some accrue higher returns compared to others, some become leaders, and some have the capabilities to serve their interests better. This differentiation in the market could be attributable to many factors varying from each individual related to skills, level of intellect, or intelligence. These factors emanating from the human capital contribute to the social capital by ensuring that people with better performance are better connected thus maximizing their contribution to the social capital. In this market "society", people are connected to each other, enjoying different levels of trust, dependency as well as exchanging goods/services and obliged to support their fellows within this group of people (Burt, 2000).

These mutual aspects depend on the position held by the individual in the social structure. Coleman highlighted, in his description of social capital, the great impact of collaboration between people in the society as a whole through social networks. Scholars (Burt, Coleman, Putnam, Bordieu) had different definitions of social capital; however, they all align on a social capital principle where the structure of the society represent a type of capital that create advantages for different set of people "better connected people enjoy higher returns" (Burt, 2000).

Burt (2000) had focused on grounding these different definitions into different network structures and elaborating in-depth on putting "better" connected into a more defined context. Given the relativity of connection between people and how it is defined in the society, Burt developed a model connecting people to illustrate the idea of social capital (as shown in the figure 1.4). In this model, people are randomly connected to each other subject to prior meeting, contact, attendant emotions and/or exchange. In this model, people are presented by dots, strong relationships by solid lines and weak relationships by dotted lines. The strength of a social tie is a collection of the allocated time, emotional intensity, and the related services to this tie. Those factors are independent and inter-correlated in contributing to the strength of the tie (Granovetter, 1973)



Density Table of Relations Within and Between Groups

.65			Group A (5 people and 8 ties; 5 strong, 3 weak)
.05	.25		Group B (17 people and 41 ties; 27 strong, 14 weak)
.00	.01	.65	Group C (5 people and 8 ties; 5 strong, 3 weak)

Figure 1.4: Burt model (Burt, 2000)

In this market, information is transferred between people; however, information is flown within groups before being circulated to other groups. As shown in figure 1.4, there are three groups of people in specific sub-networks (A,B,C) and relations within each groups are stronger compared to relations between groups. His model concluded that people are not aware with the same level of information and opportunities in all groups, even in cases of high quality information which is designed to eventually be circulated to everyone, the fact that the circulation happens over a period of time reflects that some individuals are aware of this information earlier creating competitive advantage for these individuals.

This model also explains the "structural holes"; the inter-groups weak connections represent holes in the structure of society. These holes are the main source of competitive advantage for people within the society having relationships spanning these holes. The notion of the structural hole does not imply that each people in the groups are not aware of one another, it only implies that people are engaged in their own activities and not attending activities related to other groups as if they are in their "echo chambers". This implies that each people on the side of a structural hole engage in different flows of information; this is where the opportunity exists to people having connection spanning these holes to harness the exclusive flow of information and have more control over the projects bringing people from the two sides of the hole together (Burt, 2000).

Social capital consists of the accumulated actual or potential resources; which are related to long lasting network of institutionalized relationships of recognition between different parties. A network of connections does not exist organically even in pure social context; it reflects invested effort within institutions (either family, friends, work, any relevant social context) in order to establish, maintain and grow ongoing beneficial relationships generating tangible or intangible profits. This means that a network of relationships is the result of investment strategies that happens either consciously or unconsciously, on individual or collective basis with the objective of turning contingent relationships into more structural relationship characterized by long term commitments and obligations. The ongoing process of exchange and recognition between different members of the network producing and reproducing the social capital is subject to continuous efforts of sociability. These continuous efforts include energy and time as well directly and/or indirectly economic capital.

The amount of social capital at the disposal of one person is dependent on the size of the network of connections that can be mobilized effectively and efficiently (Bourdieu, 1986).

1.4 Social Trust

One of the main reasons that startups seek financing from informal investors is the high level of the total transaction costs from banks especially when a small investment is needed for a short term (Xiao and Ritchie, 2011). Transaction cost economics is built on the assumption that individuals might behave opportunistically which could be offset by the social embeddedness theory, which is based on the notion that social relationships will eliminate this aspect (Fiet, 2001). Related social capital literature on entrepreneurship identified the impact of trust on decreasing transaction costs related to the searching/accessibility of information as well as the monitoring phase. (Kwon and Arenius, 2010).

1.4.1 What is Trust

The relationship between social capital and trust is controversial in the literature; some scholars consider trust and social capital are equivalent (Fukuyama, 1995), others consider trust as a source of social capital (Putnam, 1993), or as a form of social capital (Coleman, 1988), the rest of scholars perceive it as a collective asset built from working on social capital (Lin, 1999). Trust is crucial to economic exchanges and interactions (Wang and Gordon, 2011), it has a positive impact on economic growth and efficiency in market economies by contributing to many levels across the market including public goods, social integration, cooperation, personal life, and even stability on a country level (Delhey and Newton, 2003). Historically, people depended on their own small network for survival; which is completely different nowadays. In recent years, people on daily basis expand trust to include many interactions with a wide number of strangers in order to acquire goods and services. One of the examples is online transaction where people prepay for someone who they never knew to conduct transactions online. In these transactions, people enjoy a sense of security and confidence driven by formal rules disclosed for the users and also what is known as "rules of the game" which are informal rules that implicitly penalize the entity that breaches trust (Wang and

Gordon, 2011). The significance of trust and its important role begs the need for a common definition and framing of the concept, however, definitions varied significantly among scholars. Economists perceive trust as "implicit contracting" implying that a person or a company trusts another party to deliver their promises; for them trust is simply a substitute for a conventional contract. On the other hand, sociologists perceive trust as a prerequisite to write a contract (Zucker, 1985).

Trust has a wide array of meanings and connotations in both literature and everyday practice. Generally, two broad schools of thought considered trust; one considers trust as an individual property that is related to individual characteristics and/or demographic features. The other school of thought considers trust as property of social systems (Delhey and Newton, 2003).

Delhey and Newton (2003) have studied six different theories of trust and identified their associated variables.

Theories	*Variables*
Individual	
Personality theory	Optimism, life control
Success and well-being theory	Income, social status, life satisfaction, job satisfaction, happiness, anxiety
Social	
Voluntary organisation theory	Membership of voluntary associations
Social network theory	Networks of friends
Community theory	City size, satisfaction with the community, community safety
Societal theory	Social conflicts, satisfaction with democratic institutions, political freedom, public safety

In recent decades, trust has been perceived as a crucial social resource for the welfare of people on individual and national basis. On the national side, trust is defined more broadly including people governed under the same nation sharing similar benefits triggering collaborations between citizens who do not belong to same social level or even culture (Torpe and Lolle, 2011). Georg Simmel identified trust as "one of the most important synthetic forces within society" (Simmel

1950:318), the increasing interest in social capital had contributed to the rise in studying trust given its crucial role in enabling people to cooperate and collaborate in different ways. Basically, trust encompasses the expectations that a person/group will support and contribute in different ways to another person/group or at minimum will avoid any action that would harm the other party. Scholars had recognized two distinctive types of trust (as illustrated in figure 1.5): particularized trust and generalized trust. Particularized trust refers to close social circle and expands to people met on daily basis through different interactions such as family, friends, neighbours and colleagues at work. While generalized trust is broader as it goes beyond the family and the close circle, it includes strangers such as citizens, foreigners, people met randomly with no specified bond. This is also clear when using the term "thick trust" which implies trust in minor radius to include closely related people and "thin trust" which implies wider radius to include more distant people (Freitag and Traunmuler, 2009).

Theoretically, trust could be formed through two perspectives; the first one through person's social environment, this is related to trustworthiness within social interaction context. The second one is through personal predisposition, which implies a more general view that trust is learned or built. Trust is a mutual relation so it depends on the qualities of the truster and the trusted person as well. For this reason, trust is correlated to other psychological predispositions mainly optimism for the future and internal self-control. Optimistic people tend to perceive social interaction with strangers in a positive way. Moreover, they tend to focus on positive experiences and do not allow distrust incidents to affect their positive perspective or decrease their ability to trust other people (Freitag and Traunmuler, 2009).

	Particularised Trust	Generalised Trust
Experiences	– Experiences from regular interactions with known people – Evaluation of local institutions	– First- and second-hand experiences with strangers – Evaluation of national and supranational institutions
Dispositions	– Predispositions referring to personal and familiar contexts (e.g., sense of security and control)	–Mechanisms for coping with uncertainty in the wider community (e.g., risk propensity, general optimism)

Figure 1-5 The Sphere of trust formation (Freitag and Traunmuler, 2009)

1.4.2 Social Trust and Angel Investing

As discussed earlier, social trust encourages and increases trustworthiness behavior in different situations. Trust acts as a 'lubricant' to facilitate cooperation and collaboration between different parties, especially for angels to invest with certain entrepreneurs (Ding, Au and Chiang, 2015; Kelly and Hay, 2003). The level of trustworthiness in an environment reflects positively on the probability of making angel or informal investments. An important aspect of social trust, which encourages angel investment, is the increased information accessibility and decreased information asymmetry. It is important to re-iterate the observation that as trust increases shared information increases; angels are more willing to invest. The angels are more likely to invest because trust gives angels confidence that entrepreneurs will respect their verbal or written agreements (Ding, Au and Chiang, 2015).

Existing literature examined the relation between social trust and angel investors; a recent study used quantitative approach to assess the impact of social trust on angel investment decisions across twenty-five countries. This study concluded that social trust has direct impact on angel investment at the national level and contribute positively to the probability of investment to entrepreneurs with required skills (Ding et al., 2015). Another study looked at the investment choice from the entrepreneur's perspective, which concluded that entrepreneurs would prefer angel investment rather than venture capital due to the angel – entrepreneur relationship developed which is governed by empathy and trust. These behavioral factors were recognized as important and critical as the economic factors in the entrepreneur's selection of financier (Fairchild, 2011). Also, a different study examined the pre-investment behavior of angel investors in Norway using social capital theory. This study concluded that angels focus on establishing "common ground" with entrepreneurs as well as co-investors and this "common ground" is an important element to develop long-term trustworthy relationships (Sorheim, 2003).

An important element, when looking at angel investing and social trust, is the entrepreneurial skills. Angels consider human capital including the entrepreneurs' skills as an important factor in the development of the relationship with the entrepreneurs and the role played by the angels post investment (Hsu, Haynie, Simmons and McKelvie, 2014). The radius of social trust plays a significant role in the relationship between entrepreneurs' perceived skills and their angel investment. As the radius of social trust grows, it implies a wider social network; these networks improve opportunities for sharing information, problem solving, and monitoring. Having strong entrepreneurial skills within wider radius of trust increase the confidence in bringing angel investors on board. Entrepreneurs with a wider radius of trust have accessibility for a lot of stakeholders that could enhance their business model and support their venture which is eventually translated in creating a better opportunity for angel investors (Ding, Au and Chiang, 2015).

Investing in startups is associated with high risk making it less favorable asset class for many investors; however, a higher level of social trust could make angels perceive more opportunities and increase their investments (Ding, Au and Chiang, 2015). Moreover, this affect angels' decision in favoring entrepreneurs whom they trust with existing established relationships or have been referred by a trusted third party. Hence, social capital contributes to the reduction of both the adverse selection and moral hazard issues related to information asymmetries (Venkataraman, 1997).

Literature Review Summary

Existing literature on angel investment is modest and witnessing an increase due to current evolution in the entrepreneurship scene. Basically, angel investment is considered a type of informal investment, which implies differences from normal and conventional funding sources. The uniqueness of angels is in supporting entrepreneurs to bridge the equity gap, which would lead eventually to reach large financial institutions such as banks and/or venture capital. They are not triggered by financial returns only; there are many other factors in this investment spectrum. Moreover, they get actively involved through different ways either mentoring, monitoring, resource acquisition or board seat.

To examine angel investment within the Egyptian context, it is important to look at the nature of the entrepreneurial environment. Egypt was identified to have a weak enabling environment as well as lack of accessibility to financial resources. This study examines the role of trust within the pre-investment activities as identified in Paul, Whittam and Wyper's (2007) study including familiarization, screening and bargaining stages. Shane (2008) concluded a more simplified investment process, which includes only 2 stages in the pre-investment activities. However, Paul et. al (2007) provides more comprehensive approach that would help in the data analysis phase.

Over the past decades community with strong social capital has proven the ability to capitalize on this type of capital in economical transactions leading to the central thesis "Better connected people enjoy higher returns". In conclusion, a network of connections requires strategic investment at each institutional level either family, friends, work or any other relevant social context. The amount of social capital at the disposal of one person depends on the size of the network connections that can be mobilized effectively and efficiently. The relationship between social capital and trust has been controversial in the literature and interest increased in the field of research with the increase in social capital focus. The role of trust in facilitating cooperation and collaboration between different parties had its positive impact on the probability of making angel investments being perceived by entrepreneurs as an important and critical factor as the economic factor.

Examining more closely the angel investment process focusing on social trust required an understanding of social capital, more specifically of ties and networks as its sources. The extant literature elaborates more on trust as a means to initiate many economical transactions as well as collaboration. Trust had been identified as a factor in increasing the probability of angel investment due to offsetting the risk of information asymmetry and decreasing transaction costs.

2. Methods

There is a need for more qualitative research in the entrepreneurship field in order to address different issues that require more digging into questions such as "how" and "why". On the other hand, quantitative research has tended to conclude what would often be perceived as common sense. In studying topics related to entrepreneurship, the behavior of entrepreneurs has to be identified and explained which in that case quantitative methods do not build the story that reflects the nature of entrepreneurship as its reality in actual life. Quantitative methods tend to ignore many of the social factors embedded in the fabric of the environment in which the entrepreneurial activity is taking place. This is attributable to the inability to ask important questions while undertaking quantitative research which could be better addressed in conducting qualitative research (Gartner and Birley, 2002). Moreover, data analysis employed thematic approach where the definitions of problems were refined throughout the process based on the emerging themes, frequency of a certain phenomena among interviewed angels and the interaction during the interviews (Schutt, 2012)

2.1 Research Methodology

Different research methodologies have been employed to study angel investment decisions varying from observational interaction, focus group meetings, structured questionnaire, surveys and face – to – face interviews (Maxwell, Jeffrey and Lévesque, 2011; Sorheim, 2003; Bygrave and Quill, 2006). One such approach was employed in a study about Chinese angel investors' selection criteria, a policy – capturing approach aiming to assess factors affecting the decision-making of Chinese angel investors (Ding, Sun and Au, 2014). A relevant research study carried out on the relationship between social trust and angel investors' decisions was conducted using a quantitative approach based on a multilevel model of data from 191,907 individuals covering twenty-five countries (Ding, Au and Chiang, 2015).

A qualitative approach is more relevant when concerned with research questions based on 'why and how' (Yin, 1984) and another aspect is the role of qualitative research in theory building which is very relevant to new research in cases where current theories are not well developed or weak (Eisenhardt, 1989). Therefore, I am employing qualitative methods since this study is looking at how social trust impacts the angel investors' decision-making process, why angel investors prefer certain investments, how angel investors select their investments and how do angel investors conceptualize trust.

Concerns related to the definitions and sampling of the business angels and how they differ from informal investors were highlighted in existing literature (Avdeitchikova, Landstrom and Mansson, 2008; Hlady-Rispal and Jouison-Laffitte, 2014), focusing mainly on sampling concerns in conducting quantitative research in this field and the definition of informal investors. Concerning the definition of informal investors in the research field, majority of the informal venture capital literature focuses on three main categories: "(1) business angels, or highly active hands-on investors; (2) informal investors, which includes not only business angels but also investors with low investment activity and a passive relationship to their investments; and (3) all non-institutional investors, including family and friends" (Avdeitchikova, Landstrom and Mansson, 2008). In order to tackle these shortcomings, this study identified informal investors with the broad definition highlighted at the beginning of the study - reflected in the third definition mentioned above - given also the high informality and the culture aspect in the Egyptian Context.

2.2 Data Collection

Semi structured in – depth interviews approach was used to collect qualitative data. This study is based mainly on thematic approach, which mainly relies on collecting data from interviews and observations. The combination of interviews and observation provides a holistic analysis of the issue under study, covering firsthand data through observations as well as secondhand data through interviews (Merriam and Merriam, 2009). On the other hand, there are limitations associated with conducting qualitative research. The main challenges are reflexivity, preconceptions, transferability and interpretation and analysis. Reflexivity – know as the knower's mirror – is the effect of the researcher's knowledge and background on the selected points for the study, direction of the investigation, interpretation of findings, and conclusions. Preconceptions are related to previous experiences either personal or professional, "pre-study beliefs" on the direction of the study and expected conclusions. Transferability is related to the applicability of the findings in a different context from the one where the study was conducted as the objective of the research is develop information applied out of the study context. The last challenge is the interpretation and analysis; it is related to the quality of information presented in the final report and whether it does consider theoretical framework (Malterud, 2001). These challenges were considered while conducting this study; there were some pre-study beliefs - such as angel investors invest mainly within their social network, trust is related to social capital, and angels tend to let go in depth analysis due to trust - that changed throughout interviews as new themes emerged. Reflexivity played a positive role in this study. The researcher's background as an investment banker contributed positively to the data collection in understanding the terms used by the investors and stages of investment.

2.2.1 Interviews

Semi structured in-depth interviews were developed in an open ended manner to provide more flexibility and to provide guidance for the interview and main themes to be covered. Interviews are the main source of qualitative data to grasp required information for the issue being studied (Merriam and Merriam, 2009). Personal interaction (face to face) is regarded as the most direct and frequent social reality that humans experience (Denzin and Lincolin, 2011). The interview guide was constructed based on the understanding of literature conducted on angel investment, social capital and social trust. Accordingly, the questions were formulated according to the semi structure approach and taking into consideration main issues highlighted in the literature review and each interview ranged from 60 – 90 minutes.

2.2.2 Sampling

The existing barriers within sampling of angel investors are common and comprehended. Angels reflect an invisible population with no listing in any directory or public accessibility to their data; moreover, their transactions are not publicly reported. This implies using samples relying on either snowball techniques or samples of convenience (Mason and Harrison, 2002). The angel investors interviewed were selected based on convenience sampling with no prior preset criteria only geographical focus to include Egypt was essential as the study is conducted in the Egyptian context. Throughout the data collection phase, ten interviews were conducted with angel investors that are known to have strong track record within the entrepreneurial ecosystem as angels. All interviews were conducted face – to – face lasting between 60 to 90 minutes. All the interviews were recorded. The study used snowballing technique during the process as initial interviewees suggested some angels for interviews. The sample includes a vast diversification of background, interest, investment focus and/or size. All interviewees are the investment decision maker as the study focuses on factors related to the decision making process.

Participants

Angel Number	Background	Entrepreneurial Experience
Angel 1	Banking background with more than 20 years' experience in the banking sector. Have been engaged in the entrepreneurial scene during the early 1990's along with the revival of the Egyptian Capital Market. Started by founding companies in the financial sector that caters to the market	Exited and built many ventures with a dynamic pace. Having a passion for growing businesses, many of her companies were focused on serving small medium enterprises (SME's) where she believed that a lot is needed to serve this segment. Latest entrepreneurial activity is a fund targeting start up and early stage

	needs back then.	companies. Has been known in the entrepreneurial scene by her advocacy for youth , her mentoring efforts for many entrepreneurs as well as acting as angel investor
Angel 2	Combined experience in academia and entrepreneurship. Acting as assistant professor in Faculty of Engineering at Cairo University as well as University of Toronto. He co-founded many companies in his area of interest and expertise, which is clean technologies. Through his excessive engagement in research, he has been involved in projects related to material and product design for energy applications with focus on renewable energy. On the policy side, he consulted on projects related to industrial energy efficiency and sustainability, energy planning as well as environmental and social issues related to the energy industry.	During the last 2 years, he was heavily engaged in the entrepreneurial scene being a mentor, angel investor, incubator and consultant which led to working closely with more than 60 startups in the field of renewable energy, waste management and transportation. He worked on developing mechanisms that are needed by green entrepreneurs to scale their startups and enhance their businesses.
Angel 3	A lawyer known to be heavily involved in the Egyptian scene	He is specialized in finance, projects, mergers and acquisitions.

	as well as having international expertise. Over the past decade, he has been known as a leading lawyer by top ranking firms due to executing a range of "pathfinder" transactions within the Egyptian Jurisdiction.	He got engaged in the entrepreneurial scene through angel investing and driven by passion.
Angel 4	Coming from engineering background, He started career as a field engineer then he decided to move for the internet world established the first internet service provider company in Egypt, he sold it and started other sequential startups, he is a serial entrepreneur in the sector.	Angel investment came as part of his journey as an entrepreneur at a later stage, he decided to invest in sector specific companies.
Angel 5	Expert in the areas of international trade and competition laws, he has strong connections to the business community through serving on many advisory boards and board of directors. His early legal career, he advised on investment issues in the Middle East, contracts and international commercial arbitration.	Heavily engaged in the entrepreneurial scene through many activities and angel investing is one of his strategic roles as well as being the co-founder for one of the main support entities for social entrepreneurship in Egypt.

Angel 6	Serves as an independent advisor working with many large companies in the Arab region specialized in restructuring. He managed his family business for many years and served as CEO, now he is only on the board along with other boards of many corporations. After leaving his family business as executive, he got interested in starting different businesses, angel investing and mentoring.	He is very active in a lot of initiatives serving businesses in Egypt as well as active member of many associations. He has diverse experience from running his family business to establishing his own company as well as being active in the forefront especially in supporting SMEs and entrepreneurs
Angel 7	More than 10 years' experience in scaling companies across the Middle East, he has been very active in the entrepreneurial ecosystem in the Region. Known for being a very active angel investor, passionate to grow companies with special focus on tech.	Taking his investment philosophy into a more structured setup by starting a fund to invest in startups mainly tech focused
Angel 8	A serial entrepreneur with great passion for innovation, he was one of the pioneers in co-founding tech startups in Egypt and exiting it. He is heavily engaged in the entrepreneurial scene through various activities including mentoring, angel	He had been committed to help companies grow and get through existing barriers to build a business in Egypt after he successfully exited his first startup and made returns out of it

	investing and also through his existing company.	
Angel 9	Investment manager of a family office, managing the interests of the family in investing. They have a lot of big investments in Egypt; she manages all types of investment from seed stage to private equity size.	The family has a lot of interest in social development also invested in many startups. They have a job creation mandate which is met partially by investing in different size of companies
Angel 10	Running a family business in the area of sustainable industries related to food, water, and energy. He developed a different incubation model focusing only in these relevant areas	Founded an incubator focused only on startups in the area of food, water and energy. These are also his investment focus industries.

All participants are engaged in the entrepreneurial scene through being entrepreneurs themselves, mentors, consultants and/or part of support functions to the entrepreneurial scene. However, participants came from different backgrounds this contributed to having more diverse findings associated with different investment behavior, focus, area of interest and their pre-investment activities.

2.3. Data Analysis

This study was piloted through preliminary interviews. These interviews were conducted with two voluntarily angel investors. Their input was used to develop a more tailored interview guide tackling the pre-investment activities of angel investors. As mentioned in the previous section, data was collected through in-depth interviews with ten angel investors. The process of data collection started with certain ideas drawn from the literature and the pilot phase; however, certain themes emerged during the interviews. Accordingly, the questions were reformulated to test these themes employing a combination of inductive and deductive methods in data collection and analysis (Hyde, 2000). The preliminary analysis during the data collection phase helped in developing more valuable findings as the adjustments in the interview guide tackled the emerged themes such as the use of emotions and feelings to conceptualize trust.

Data was analyzed using audio-recorded interviews, written notes and observations of personal interactions during the interviews. The analysis started with familiarization of data collected through listening to the interviews more than once and identifying prevailing quotes from the interviews. Relationships were drawn between the findings and each angel investor background as well as investment nature. Throughout this phase, themes had changed as getting more familiar with the data required adjustments in the themes. This is the common process when applying the thematic approach (Braun and Clarke, 2006). Thematic approach is a qualitative descriptive method; it is employed to identify, analyze and report common themes within the collected data (Vaismoradi, 2013). In drawing the relationships across themes, first level themes were the main basic concepts highlighted throughout the interviews; social capital, trust and decision making process. The first level coding was broken down into into subcategories of relevant themes. The key themes emerged from the data are:

- **Role of social capital in decision-making processes**
  - Building social capital
  - Social capital and transaction costs
- **Angels views on trust**
  - Mentorship as a mechanism to build trust

- **Relationship evolution**
  - Manifestation of trust in decision making processes
  - Impact of trust on due diligence
  - Impact of trust on negotiations and contracting

A criteria for exclusion was developed to ensure that the findings are serving only the purpose of this study (Vaughn and Turner, 2016). This implied excluding data that is irrelevant to the pre-investment activities, trust and/or social capital. As findings narrow down, relationships were drawn between the findings of this study and existing literature. During this process, implications for further research were identified as well as practical implications for different stakeholders.

This study employed in-depth interviews to examine the role of trust in the angel investors’ decision-making processes. Qualitative approach was selected to better understand the angel investors’ decision-making processes and address questions such as how social trust impacts their decision making process and how angels investors define trust. A convenience sampling approach - with no prior preset criteria only geographical focus to include Egypt - was used to identify ten angel investors who contributed to this study. In the analysis, thematic approach was utilized to code emerging themes in the interviews; any irrelevant data was excluded.

3 Empirical Findings

This chapter presents the findings of the interviews conducted using thematic analysis approach. This study examined closely the decision making process of angel investors, the focus was on non-economic factors affecting the process. This chapter is structured following the themes identified in the previous section and divided as follows:

- **Role of social capital in decision-making processes**
  - Building social capital
  - Social capital and transaction costs

- **Angels views on trust**
  - Mentorship as a mechanism to build trust
- **Relationship evolution**
  - Manifestation of trust in decision making processes
  - Impact of trust on due diligence
  - Impact of trust on negotiations and contracting

3.1 Role of social capital in decision-making processes

Participants identified the role of their networks and connections in the decision making process either in the deal identification or sourcing at the beginning or throughout different stages where the angel leverages his network to get access to information or verify ideas. A main role is related to sourcing deals through referrals and some also only invest in their trusted network. One of the participants is a family office, they only allocate money with people within their social network or connected to the family members; it is a way of protecting their wealth through being risk averse.

"The trust factor is really key when it comes to the family they would see very impressive ideas presented by strangers and they would say it is impressive but they will be very reluctant to put money with people they don't know… We will always listen to everyone who comes around, being exposed to what is going on, but what has a potential of going through this phase is sourced through the family…The family historically has never invested in someone they don't know… We are talking about their networks including extended family members, friends of theirs as well as employees who previously were there" (Angel 9, family office investment manager)

Another participant who is very well connected and positioned sees no need to identify deals outside her social network to which she is already being connected. An important dimension is the angel's reputation, which contributes in expanding his/her social network; this reputation is significant in such cases where the angel has the knowhow, connections and ability to mentor.

"When I think of angel investment, I think of people I know. I don't think I will ever invest in people I don't know. Even from referrals, why should I? Mostly I go with young people who I know their parents and I like their mindset…No one has come directly to pitch angel investment for me, most of the time they do it discreetly. They know my passion, day and night I get approached from my network for mentoring, referrals, and connections advices." (Angel 1, serial entrepreneur with strong banking background)

Referral is key in sourcing deals; angels get referrals from their social networks. Some prefer to go for referrals and other would always prefer knowing the entrepreneur personally. Referrals come from connections either family, friends, colleague, an industry expert or someone already present in the entrepreneurial scene. A particular participant started off by investing only in people he knows personally. However, he gained more expertise by time in angel investing and built a reputation as an angel investor interested in specific industries, he then started to get referrals. Identifying a trusted referee is associated with the reliability of the source of referral and how the participant perceives the initial connection.

"It's all started with word of mouth and I started getting a small pipeline on my own and it's expanding…They started referring me to other people…Most people I invested with, I have known for number of years, now I'm open for the idea of referrals someone referred someone to me and she comes from a trusted referee I'm happy to look at them…I was presented to companies through other networks, like the guy I invested with in this biomedical software management systems company he was also a mentor. We invited him first as a mentor for students at the different program, after the relationship evolved over a year" (Angel 5, lawyer)

Another particular angel expressed his thoughts that word of mouth could greatly affect decision-making; this demonstrates the strength of reputation and word of mouth rather than simply being part of particular social networks.

3.1.1Building social capital

Angels expressed their views on how they build their social capital within the entrepreneurial scene. Many of them associated building social capital with building reputation; active angels in the sample go and hunt entrepreneurs they like. Being present in pitch events, demo days and significant events in the ecosystem was identified as an important way to get a sense of new entrepreneurs, ideas and identify their potential investee. One of the angels chooses a specific industry and accordingly starts looking to relevant entrepreneurs and new startups emerging in this area of interest. This particular angel has given insights on reputation as a key factor in decision-making especially if the angel ended up having negative impact on one entrepreneur this will have a domino effect, and entrepreneurs will be very cautious working with him.

"For the sourcing, you go out and talk to people. By time, you get noticed you find that you have so much demand than the money allocated. Being active and talking to people, you find that you have demand more than the supply. By time you develop this reputation as a good angel, our business (angel investment) is all about reputation. You are building a reputation whether as an angel or a fund, so if you screw one entrepreneur all people will know and if you do toxic terms people will know that you do toxic terms…Entrepreneurs who would go to these angels are the worst due to your history you find yourself bombarded with bad teams and deals" (Angel 7, tech-focused angel and established his own fund)

Another particular angel expressed his view on building his own social capital through his unique position in the entrepreneurial ecosystem, which gives him access to new entrepreneurs and/or ideas. Moreover, the ability to do background checks and investigate on new ideas through leveraging the networks' of his own network

"Uniquely positioned as someone in the ecosystem, you see a lot of startups as we help startups…I had access to a lot of startups and also because I am one of the few people – unfortunately, I wish there were more - who exited a business in Egypt a lot of startups would come to me anyway…I did TeDx talk at AUC and the whole room was packed with

entrepreneurs who wanna be and want to start their journey, they just flooded. Then being connected to "XX" very early on and being at every "XX" it is another profile who add access to entrepreneurs all the time 24/7 and then I always been a mentor for wamda at mix N' mentor events; I get to Beirut, Amman and Kuwait. I move around the Region and I see other entrepreneurs who are interesting over there. So my deal flow is very easy because I see everyone and a lot of them need to be close anyway" (Angel 8, serial entrepreneur and tech focused)

Participants expressed different views on the role of social capital at the contracting phase. A particular angel had identified investing with family and friends as much riskier and one should be much more cautious investing within his close circle. Another angel expressed that even the investment is allocated into trusted network only, shareholders' agreement has to be done properly. This is driven by the fact that this participant represents the investment of a family office where the money allocated need to be secured.

"When it comes to his rights, my rights, my tag along… You never know where things can go wrong, you have to protect yourself all together…Shareholders agreement including my rights, your rights, as long as there is nothing fishy going on, they shouldn't say no when I tell you I'm giving you all the money you need but I want this and this" (Angel 9, family office investment manager)

Adding to this, another angel highlighted that coming from a trusted network does not imply a good investment or an eligible entrepreneur. This angel is focused on very specific industries requiring certain specialized knowhow. Accordingly, going through a proper investment process was identified as key to provide minimum assurance to invest with this entrepreneur.

"You know when someone tells you here is your money back and gives you a lot of money, you have two options either you take it and put it in your pocket or the person who is giving you back the money tells you please count it and insist and tells you no you need to count it yourself because maybe I made a mistake that's exactly how. It isn't necessary if a trusted person giving you something back or wants to help you with something or whatever that you don't double check" (Angel 10, family business and runs an incubator)

On the other hand, another angel expressed the view that he lets go the contracting phase in case of investing within his own trusted circle. He prefers to capitalize on the developed relationship rather than going into negotiations and formalized agreement

"Cases with no contracting, are people I already knew for a year and I trust that they take the money and spend it inside the company. I do follow ups as a board member" (Angel 2, professor and clean technologies consultant)

Transparency and consistency are key words used by all participants to assess development of social network and people who eventually perceived as trustworthy.

"Being genuine is the most important element, when they deal with you they will understand if you really care about this business or not. It is clear from the quality of advice" (Angel 7, tech-focused angel and established his own fund)

The lack of any of these factors had caused some angels to bail out from investment, as they perceive it as a distrust behavior

"Any sort of attempts for being deceitful, misleading or misrepresenting to me is a big problem. For example if I come at a pitch event and you say that I'm the only solution globally for this problem and I found out there is a competition that automatically affect trust" (Angel 3, a lawyer)

3.1.2 Social capital and transaction costs

Throughout the interviews, angels mentioned that transaction costs does not constitute a factor in their angel investment decision-making process either in the sourcing, due diligence, negotiations and/or contracting. This is backed either by angels who do not go through all these phases, or who already have their own lawyers and accountants which they leverage in their deals without extra costs, or who use existing templates available online or who are lawyers themselves.

"For me it is simple, I already have an accountant for my consultancy work so I pay him anyway and I include it as part of his job. It isn't very costly for me. No extra payment" (Angel 2, professor and clean technologies consultant)

Another participant who comes from a strong legal background do not put any weight on transaction costs because he already has the knowhow and also he clarified that hiring a lawyer is not needed for this ticket size or the nature of angel investment.

"Does it make sense to go to a lawyer and pay almost same amount and eat the funds; some people tend to think that they do this anyway. But I feel also comfortable and confident because I have legal background" (Angel 5, lawyer)

Another particular angel associated angel investing with zero transaction costs as it's only about allocating free time to invest and help entrepreneurs. Angels are driven by expected long-term returns, which will pay off associated cost. Also, active angels such as this particular one are very engaged in mentoring which he considers a contribution to the society by giving guidance to young entrepreneurs.

"I have a theory, my theory is ultimately these businesses will make money and a lot of money. But my investment horizon and approach is different from traditional angel investor. I will put the time, I will put the effort, and I will work with the entrepreneurs. My investment philosophy is very resource intensive in the short term, very low returns in the short term but I believe the returns will be large and sustainable in the long term. That's the big bet" (Angel 6, entrepreneur and active mentor)

3.2 Angels views on trust

Throughout the interviews, participants had expressed views on trust and how they perceive it from their perspective. Also, some participants have developed their own mechanisms to form trust and build relationships with entrepreneurs. The majority of the participants – eight participants out of ten – believe that trust has to be built over time.

Angels discussed trust from different perspectives and they associated trust with feelings, intuition and emotional judgment. Even if they spent time building trust through different mechanisms, they end up with their personal judgment that they feel a particular entrepreneur is trustworthy. This is what is sometimes referred to as "gut feeling" and was used by the participants to conceptualize trust.

This participant is one of the angels that do not invest in its close network and prefers to invest with people not affiliated with his network of friends and family. He identified a process that would give him logical reasons to invest and build some assurance, which comes out as a feeling.

"The process is first you study the entrepreneur very very well, try to see his track record, verify his track record, listen to the presentation, challenge the numbers, see if he will come back to support his numbers. It takes 2 – 3 month unless you really feel that this person is trustworthy, it is a verification of everything being said whether on paper mainly his CV or the numbers he achieved or the numbers promising to achieve. You have to challenge it and verify it meticulously" (Angel 4, engineer)

Another participant identified the role of intuition in building trust and the evolution of relationships through meetings and discussions. Coming from a legal background, trusting the entrepreneur is key and he could let go a very good opportunity in a business sense if he had doubts on the entrepreneur's trustworthiness

"If we click, we meet again and again, maybe for 3 – 4 times to discuss things and I get the feel of the person how they do things, think, their mindset, react, the exposure and the level of their commitment. Engaging for my own intuition towards the entrepreneur and validating the idea…It isn't one time talk and you put the money, it is more talk before putting the money to validate and feel comfortable you can play along and feel the tango…If you feel that the entrepreneur is not trustworthy, this is key no matter how good the idea is" (Angel 5, lawyer)

The notion of trust building is not a factor of time only; it appeared to be about quality time where a genuine connection can be built between angel and entrepreneur. The building process might be long or short depending on the quality of meetings and discussions. Participants identified quality time as productive meetings where the entrepreneur shares information and ask for feedback or guidance related to their business.

"It differs depending on the person, the time we spent together, the stage of the business, you have to allow time. It is a factor of time and effort…You need to spend good 50-100 hours with the entrepreneur to get the feel of each other, quality time…Having the right discussions, substantial discussions, asking the right questions, getting the answers" (Angel 6, entrepreneur and active mentor)

A participant perceived trust as having confidence in the entrepreneur's capabilities to grow the business and deal with the associated challenges. This participant is one of the most experienced angel investors within this study who looks for successful businesses more than following his feelings. This investor is driven more by a business mindset where the focus is on trusting the entrepreneur to succeed not on the personal trust level as he believes the success of the business is tied with the capabilities of the entrepreneur who is keen to grow his business.

"Trust from my perspective is built whether this guy is making the right decision, if he is making the right decisions then he will succeed and I will succeed with him. I'm not putting my money in the bank to act as a custodian, this guy will be the most screwed if the company went down, I'm only for him a person who is tagging along" (Angel 7, tech-focused angel and established his own fund)

Feelings emerged as a major theme throughout the interviews, specifically when angels attempted to unpick what trust meant to them. They reflected on it from an emotional judgment perspective on how it started to develop trust towards certain entrepreneurs.

"I get a good feeling about the person that I like the person, and I think he got those smarts I'm looking for and the resilience he might have; that takes maybe 1 to 4 meetings. The first one must be I like that person and that idea… I have to be really interested in the first time, I will just tell them straight out if it isn't my thing…if I'm really interested, I say let's meet again couple of times…" (Angel 8, serial entrepreneur and tech focused)

In addition to feelings associated with building the trust and the evolution of relationships, one of the participants gets involved with the entrepreneur through different mechanisms such as mentoring, acting as their advisor, and/or joining the board of directors. However, when it comes to investment decision, he requires extra assurance from a third party either to invest or not invest. This implies that trust could be built between angel and entrepreneur but not necessarily end in a decision to invest, as the final investment decision requires a higher level of confidence in the idea and the team. This is illustrated in cases where participants had identified pulling out of deals at final stages due to concerns on the idea or feasibility of the startup from other trusted people or other investors.

"Normally I meet people one, twice, sometimes they approach me we would like you to be our advisor, mentor, join our board of directors, they are sneaky, they don't come straight up and say would you put money in our business…Then if I get nearly drawn in I like them and think about them as potential investment, I help them get ready for that, then I invite them go talk to this person and this so I'm not the only person who wants to invest, so I help them find other investors" (Angel 8, serial entrepreneur and tech focused)

3.2.1 Mentorship as a mechanism to build trust

In the decision making process, mentoring was identified as a means to get closer to entrepreneurs, get to know them, more exposure to their startup, and get a sense of how the entrepreneur(s) are developing their ideas and test their capabilities indirectly. Mentoring was one of the mechanisms highly identified as a way for deal sourcing as well as building a relationship between angel and entrepreneur. They highlighted the evolution taking place throughout the mentoring period prior to considering an investment in any of these entrepreneurs or startups. This trust building process through mentoring does not only entail personal relationship but also trusting their capabilities and relevant skills to grow the startup. Participants who were open to invest outside of their social trusted networks had identified that mentorship is a mechanism to work on relationship with entrepreneurs.

This particular participant used mentoring as a mechanism to establish relationship with potential investee leveraging the exposure he gets to the entrepreneur and the startup. Being a sector focused, he cared a lot about the potential market for the startup. He defined trust as the combination of the entrepreneur's capabilities as well as certain qualities such as resilience, passion, persistence and eagerness to learn.

"All angel investment I do, I had known for 6 months or a year. I've seen them for enough period not as an investor but as a mentor, providing any kind of support or as a client. So I never had a situation where a startup approached me directly. For me, it takes a while to assess the individual. For me, it is two aspects, I need to know that the market exists and there is a chance of profit, I don't focus a lot on the details of business model and the other part I would like to see people who can learn and are direct, clear and transparent. These qualities create my trust, so I need time to develop this about the team" (Angel 2, professor and clean technologies consultant)

Another participant engaged in a similar approach but he is passionate about mentoring not necessarily for the purpose of investment solely. Mentoring creates a reputation for the angel as being cooperative, supportive and invests time with entrepreneurs. This participant is one of the most active angel investors; he works closely with entrepreneurs to build their startups and does not believe in the role of passive angel investors. That is why being in harmony with the entrepreneur before investing is crucial for him.

"First I agree to commit to the business as a mentor, that's my approach. First I have to like you because if I do not like you or your idea I won't mentor. I check first does this guy qualify for me to mentor. It could be good for mentoring but not for investing…So far, my first investments I approached and got in touch with the entrepreneur. At the beginning, it was pure mentorship" (Angel 6, entrepreneur and active mentor)

Also, mentoring was used as a process to have hands-on assessment of the startups and develop investment decisions. It represented a tool to assess the investment opportunities. Participants talked a lot about their preferred type of entrepreneurs and its importance as criteria for early stage investment. The process of mentoring creates a lot of feelings that governs the angel – entrepreneur relationship where angel gets more enthusiastic about investing in the entrepreneurs themselves versus their idea.

"In order to do that you have to have a good relationship, you have to see eye to eye on something, the person has to be able to listen to you, so through mentoring I got to understand how to talk to startups and how to listen to startups. I took this into how I make my decisions about whether to invest or not, so I used mentoring as a way of filtering investments…So it was kind of a natural progression, once I start mentoring a startup and I really like the business and I really like the founders, actually the founders more than the business then I will be more prompt to become an investor and helping them get other investors as well" (Angel 8, serial entrepreneur and tech focused)

Mentoring in some cases has been used as a platform for investment by both angels and entrepreneurs. Specially, for angels who are known to invest in specific sectors that require technical know-how and they are known for their strong expertise in certain areas. This participant is an expert in his area from a technical perspective and normally entrepreneurs approach him for technical know-how, which makes him leverage his strong stand in the sector.

"Usually the teams I got to know, had approached me as a mentor or a stakeholder not necessarily investment like answering some technical questions. Along this process I get to know the person, I only invest in the sectors I'm expert in. From my side, I validate that the market exists so I try to make sure that there is demand and it isn't satisfied. Then if this is ok and people ok I start to work with them on the business model just to make sure that they've viable numbers and know how to grow the business and how much capital needed" (Angel 2, professor and clean technologies consultant)

Some angels engage in mentorship and allocate time due to their passion to grow businesses and help them restructure their business model. This participant is very driven by building a reputation on being a supporter for entrepreneurs not only on the financial side but also on the technical and business side. From his perspective, allocating time to mentor entrepreneurs is his non-economic contribution to the country.

"I'm a particular type of angel investor, my economic returns are not my only priority they are a very important consideration but they are not the main consideration. All the mentorship I do costs me and I don't get anything in return, there is a direct benefit to that and I start as a

mentor anyway so that is time I allocate. All ties in with my personal philosophy" (Angel 6, entrepreneur and active mentor)

Change of roles from mentor to investor, when using mentorship, as a mechanism to build trust is very delicate as moving to the investor seat might jeopardize the relationship. Therefore, care should be taken to maintain the relationship smooth and at the same time having a more business-oriented relationship

"Once before the startups open and say why don't you invest with us, once this question is raised, I try to make a clear distinction between my previous role of supporting them and coming as an investor. I try at this point to make a stop and say you just need to know that I'm actually investing to make money and because I trust you. Trust evolved over time but now the phase of making money we have to approach it differently" (Angel 2, professor and clean technologies consultant)

The role trust plays when changing seats on the negotiations table from being a mentor to an investor have been identified as a key element in reaching sustainable agreement and ensure success in the angel – entrepreneur relationship. Transparency and mutual understanding of the change in roles are both key in reaching an agreement capitalizing on the built trust without jeopardizing it.

"I'm not a conventional angel investor, for me trust building is the absolute parameter before negotiating, if we are negotiating without trust we can conclude in the short term but we won't succeed on the long duration. If we are engaged and we don't trust each other, when we get married things get worse. Engagement is like the pre-investment phase" (Angel 6, entrepreneur and active mentor)

3.3 Relationship evolution

A common theme emerged is angels' perception of the relationship being built through trust as similar to personal or marital relationships. The angels' views relied on feelings in explaining their personal preference to deal with certain entrepreneurs; there is a human element associated with their decisions to pursue a certain opportunity not only the viability and/or profitability of business. One angel investor identified that is not a factor of someone is good or bad, or ethical or unethical as such, he relied on his feelings even though this investor is very cautious in following a precise investment process; he reflects on this relationship as initiating a friendship with a stranger.

"It is like relationships, you might meet somebody why do you come friends or not? Not because everybody else is bad. Some people you can get close to and build trust while other people you don't get to this stage" (Angel 3, a lawyer)

The notion of developing a bond with an entrepreneur was defined as similar to a friendship or other forms of close kinship; giving an essence of being comfortable and signals the support provided by the angel as a friend

"If I go to people I trust is easier, other people you need to build trust…Most of the time, it became a friendship, and if doesn't become a friendship you can still manage it you put some money with people but most of the time it becomes a friendship" (Angel 5, lawyer)

Another insight was that the relationship building process is a conscious process where the angel assesses the entrepreneur's capabilities to turn his startup into success. It is not an issue of feelings; it goes beyond the feelings into assessing the ability of the entrepreneur. This participant had used marriage as reference, which is more complex in its structure from getting to know friends. Also this participant is a long-term active investor so he related to marriage. The need to analyze the potential investment as a marriage partner entails the level of commitment and harmony to ensure continuity of a viable business relation

"We have to build personal rapport which is chemistry, focus on listening, giving feedback, then you have to demonstrate professional capabilities, out of these two things personal trust evolves in my mind; because trust is not only trusting your ethics it is also trusting your capabilities…In any relationship even in marriage, you have to trust that your partner will be able to fulfill his role in the marriage and you have to define what is the role in this marriage and see him in that light, so it is not only liking the person… Yes she is a lovely person; will she be the wife I need? Will she be the mother I need? And she also has to check hence, these discussions are important" (Angel 6, entrepreneur and active mentor)

Another participant had a similar view reflecting on the relationship with an entrepreneur as dating. The relationship with an entrepreneur builds up like dating where each party should act more than talk to gain the trust and attention of the other party. This participant had identified the impact of building trust in a smoother decision making process as trust pays off in less screening and investigation.

"It is the same trust you try to build in meaningful human relationships so if you are a boy and a girl on a date, over several dates you get to know each other and try to build up a relationship that is built on trust…So you build human trust relationship; this is very important because that is your first decision making is built on those trust factors. The entrepreneur said things to you and they have to work out that those things are true and trust their words. So after many true things, that he really did that, and he really said it and it happened…Later on, anything they say is taken with less proving mechanisms. For me trust is built, I go way on trust" (Angel 8, serial entrepreneur and tech focused)

A participant who has expressed a lot of trust aversion in terms of building relationships and not preferring to invest within his own circle; has also reflected on trustworthiness as a feeling but it needs to be backed with scientific facts either through background checks on the entrepreneur, multiple presentations of the idea and/or technical due diligence.

"Building trust is not easy. Saying that this person is trustworthy is not about how you feel, of course how you feel is something important but not be blindly followed, you have to verify your feelings which comes with the process" (Angel 4, engineer)

Trust evolution happens at the level of the angel and the entrepreneur as well not only unilaterally from the angel side only. This participant highlighted that he tries to detect signs that the entrepreneur started to trust him; therefore easing the decision making process and reaching an agreement depending on reading mutual trust signs.

"Trust has to be mutual. Once that is identified, negotiations around closing become a lot smoother, negotiations around valuation become smoother because the word I always get which is my click "Angel 6" I want you on board I don't want your money I want you on board. When I find the entrepreneur telling me that you will include in the term sheet that you

will allocate X hours of mentoring per week. That's when I know that I succeeded, he values my contribution" (Angel 6, entrepreneur and active mentor)

3.3.1 Manifestation of trust in decision making process

Some participants identified that trust circles are not key element in their decision making process. On the contrary, a participant associated emotions with negative implications. This was driven by a negative experience in a previous investment that did not work out within his trusted circle.

"When it comes to business, we have to put emotions aside and whether you know the person or not, now it is business. You have to be very cautious with emotions and people you know" (Angel 4, engineer)

Another participant who is a risk taker with a business mindset, he does not limit himself to a certain circle. From his perspective, trust is so hard to find or build and talking about investment is not related to personal trust. Trust, in his sense, entails confidence in the entrepreneur's capabilities to achieve success. Also, he believes that angel investment is the riskiest type of asset. It requires a risky mentality that looks for hidden opportunities and bet on people beyond the trusted circle where one could face limits on expected returns. This participant would even go to invest in an entrepreneur that has the skills and ability to overrule him, because for him entrepreneurs have to build a unique startup that surpasses expectations.

"I don't only invest in people I trust, because if so I'll be limited to a few people that are really good in everything and ethical. I don't think I ever invested in someone that I 100% trust, actually, I never invested in someone unless I perceive him as super smart that he can screw me anytime" (Angel 7, tech-focused angel and established his own fund)

Going through the decision-making process starting with deal identification and concluding with an agreement with the entrepreneur is a process that entails trust building as discussed earlier, not necessarily social trusted network.

"None of them are people I know as a friend, it isn't like they are my social network…I've seen them, seen their pitches couple of times, they come to summits, stalk me, there are a lot of intersections with entrepreneurs all the time so I get to know who is who and some of them I really like." (Angel 8, serial entrepreneur and tech focused)

Moving into the decision-making process, angels started to develop a set of signs for themselves that signals the level of trust has been built. These signs differ according to the type of investor and the way deals are sourced. An active angel who relies a lot on mentorship prior to investing had highlighted the crucial role of trust from reputation perspective especially on the entrepreneur's side in his decision making process. His sign for built trust is allocating the money prior to the conclusion of any formalized legal agreement.

"If I can't give this guy a check without signing a document, I shall not be investing with him…That's my strongest point of leverage, I trusted you…I gave you a trust down-payment, in my experience it pays off…When you give trust, you get trust…The more you let things hinge on trust, the more people will preserve it, the more people have to lose if they lose your trust the more people try to retain your trust, the more you are value added to them the more they will care to retain your trust…He will lose his reputation" (Angel 6, entrepreneur and active mentor)

The decision to give the funding is affected by two judgment processes: the first emotional judgment and the second the human assessment taking place either through mentoring, meeting entrepreneurs in different places and doing background checks. Trust manifestation in this stage was associated with instinct by one participant. Being very connected and exposed to the Egyptian entrepreneurial ecosystem, this particular angel has access to entrepreneurs all the time giving him a lot of accessibility to information about entrepreneurs and startups. One can say that his instinctual judgment is also largely helped by the immense accessibility to information he has.

"Do I trust this person to give him my money? I just go with my instinct, I feel that they won't get married with this money or put it on a horse or go to Vegas…It's about clues of what they are saying, body language, their circles, who they are, where they are from, and something about their history" (Angel 8, serial entrepreneur and tech focused)

Another particular participant has identified that he has to mentor the entrepreneur and get to know the startup at least six months prior to considering investment. He believes that starting the decision making process after getting to know the entrepreneur for a minimum of six months gives him more confidence in allocating the money without waiting for the conclusion of the legal process.

"I usually trust them and give them the money till the legal process is concluded. There is a lot of trust, I don't police them for example for how the money is spent, I don't like to put the money into tranches and give them the capital needed at the beginning so I do way less of follow up. Give them check or bank transfer " (Angel 2, professor and clean technologies consultant)

Being a lawyer, this participant feels confident throughout the process leveraging his background and experience. He does not care about formalized agreements or documents, knowing that contracts are not enforceable in Egypt. Adding another dimension of decreasing information asymmetry, he believes promoting trust would have positive impact on this point.

"I wouldn't mind if there is no term sheet, I would give them the money and they transfer some shares. I'm a highly trusted person and I like to develop a circle of trust, and that helps for information asymmetry again trust is one of the best thing can help. Trust is a culture even when you come to law, this saves a lot of time, cost and more pleasant as well" (Angel 5, lawyer)

3.3.2 Impact of trust on due diligence

Due diligence is very subjective in its definition and process, this study looked at the manifestation of trust within this stage of decision making process which emerged as a theme during data collection. All participants concluded that a kind of human due diligence which entails knowing the entrepreneur, their background, and personality checks is important. This was done differently by entrepreneurs and associated with their trust building approach.

Emotional judgment had been identified even in due diligence, a participant defined due diligence as a process to verify his gut feelings regarding the team and idea. Being a lawyer, he believes that he has the skills to judge people and understand their intentions

"Gut feeling is 70% about the idea and the team…Essential part of the due diligence is meeting the team, asking questions, getting to know them, you verify your gut feeling" (Angel 3, a lawyer)

Trust represented an element towards taking further steps into the decision making process. Reaching the due diligence phase, some participants prefer to do simple form of due diligence, others do not go through this stage and the rest do a normal in-depth due diligence. For this particular participant, it is not a matter of trustworthiness at this point; it is more of business checks and trusting the entrepreneur's capabilities, most importantly transparency and consistency in disclosed information

"We do due diligence but not hardcore as in M&A transactions, the last element we ask around about entrepreneurs that's where trust comes in, it isn't about knowing them almost none of my investments I knew them before, some I knew from friends or acquaintances. But you find that you want to ask around. Is this person trustworthy? Is this person had any business before? What happened? Not so much about trust but verifying the quality of the candidate. I'm a team oriented investor so it is very important for me that the team is correct and the team members themselves are trustworthy in a sense that verifying the information comes back positively because you can't take any risk on that" (Angel 3, a lawyer)

Being an active angel and a lawyer, this participant is focusing on finding ways to bridge information asymmetry gaps. In his decision making process, he does not go through a conventional due diligence; he leverages his network to validate the idea. Also, he is confident when it comes to the legal part as this is his area of expertise.

"Small companies there is no much due diligence anyway, legally you need to check the documents you need to ask them how did you become to this structure, how you will grow

it…Technical due diligence, I do validation if I am still feeling that the idea is not clear to me I reach out to people in my circle who can validate and maybe also the business model I would talk to an expert. I have a decent network that I can depend on to validate. You need to do brief due diligence where you don't need to hire a lawyer or financial accountant…You try to bridge the gap of information asymmetry between yourself and the entrepreneurs who is in control of the company" (Angel 5, lawyer)

This particular participant does not go through due diligence process. From his perspective, he already spent enough time knowing the entrepreneur and his startup; also, he capitalizes on trust and tries to create personal rapport with the entrepreneur through initiating acts that would give the entrepreneur more confidence to deal with him as an angel.

"I don't do due diligence, I do shareholders agreement, already we spent time I know the entrepreneur and the company. There has to be trust…I give the money without any document and we take our time till we conclude the shareholder agreement regardless of the time it takes" (Angel 6, entrepreneur and active mentor)

Another participant prefers to involve other investors from his trust circle to co-invest with him. This mechanism increase his level of confidence in the investment and it is a way to test his gut feeling through acquiring second opinion.

"To get a strong due diligence process along with trust is to get many other angels, that's why I almost never invest alone, I always invest with other investors because I want to know how they think about it, they will think differently, will add value, and see things that I just couldn't see...Even if my gut feeling say go go, if I have 1 or 2 persons that I trust a lot and I really respect are not backing up this deal and this could make me back off" (Angel 3, a lawyer)

Either it is detailed due diligence or a more simplified one; angels prefer to do this process themselves especially the phase related to the entrepreneurs themselves. Some might seek technical verification for the idea, but when it comes to people it is their judgment, because people is the core asset and mainly they are investing in entrepreneurs.

Some more sophisticated angels prefer to go through venture capital due diligence which is known to be hardcore and detailed in both legal and financial aspects. However, this participant also mentioned that they should pass human test first giving priority to trusting the entrepreneur in terms of capabilities.

"I like it, now I'm doing due diligence I say send me your deck, send me your financial projections if you have any, walk me through them, what is the basic economic unit, are you talking about users, EGP, dollars, transactional, what is it gonna drive your business; the typical type of VCish due diligence. But they already passed the human test…Sometimes I will bring other people to have a look, someone close to the field, a friend of mine who knows about this sector or type of business" (Angel 8, serial entrepreneur and tech focused)

As it became clear from the latter and former participants, knowing the person or trusting him get the angel through the decision making process to the due diligence phase. At this phase, the factor of having already built trust does not matter because the due diligence process would remain the same. This stage is exactly prior to the final negotiations and to reaching formalized agreements. Some angels prefer to build a proper investment case because at the end they are investing to achieve economic returns and also to secure their rights and the entrepreneur's rights.

"We do due diligence 100% professionally, there is no room to I know him we won't do it properly…When it comes to that we run it correctly at least to have as much visibility as we can…You know the person as a person, when he says for example that he is in talks with DHL that they will be his biggest client, we try to double check" (Angel 9, family office investment manager)

3.3.3 Impact of trust on negotiations and contracting

Negotiations and contracting represent the final stage in the decision making process where angels discuss terms, investment structure, equity allocated and other relevant terms. This theme emerged while angels were talking about their behavior at this stage and how trust could play a role in smoothing this process or in some cases this phase turns into a more formalized structure regardless of the trust factor. A participant, who only invests within her social network with only people trusted from her perspective, highlighted that there is no need to engage in negotiations related to valuation or any contracting as she is leveraging her social network and position within the entrepreneurial ecosystem. Nevertheless, this angel is limiting her investment to a certain category of people being a risk-averse investor given her banking background. Also, the idea of no contracting is related to the relatively small ticket and to the knowledge that this type of investment is very risky.

"No valuation for companies, your money is crucial for the business to survive. Depends on the need, I take 10% against amount of funding. No term sheet nothing no contracting…When they establish the Company, they give you shares…No contracting, you follow up through different format, I like giving them call every month…Contracts are of no relevance, if you will take it legal whatever money you are putting it is equal to the money you invested as angel due to the small ticket. Do I want to go legal or friendly? I 'm already aware that it is risky money. It puts you in a position will people come back to you? Are you going to use these contracts? Contracts are not enforceable at all in Egypt" (Angel 1, Serial entrepreneur with strong banking background)

All other participants go through the negotiation phase, regardless of the level of the evolution of relationship with the entrepreneur. One of the participants had identified that knowing the entrepreneur could make the process shorter clarifying that it is only a factor of time but the process remains the same.

"Negotiation phase takes 4 to 5 sessions, first is how much capital needs to be raised, second is about equity, third is that sometime there is back and forth discussion on equity and to discuss in-kind support I'm bringing in. I believe it would have taken longer if I didn't know them earlier" (Angel 2, professor and clean technologies consultant)

The idea of maintaining the same decision-making process had been identified by another participant. He highlighted that the level of trust would affect the level of involvement post investment. This participant prefers systematic processes as he had an experience with a bad investment due to letting go his preset process.

"Now after several years of investing, I would rather always make the process the same not shorter. But the level of involvement in the business itself differs. If I have trust and confidence in those people, I wouldn't have got involved and allocate time with those entrepreneurs. But if I really feel that I still don't know the people well though they went through the process. I would rather be there as a consultant because I have to monitor more their indicators that we agreed on" (Angel 4, engineer)

At this stage, angels approach negotiations and contracting based on their definition of trust. Whether when setting terms or deploying the money; this particular participant - who identified trust as building trust in the entrepreneur's capabilities and ability to run the startup – focuses at this level on how to support the entrepreneur and developing friendly terms to assure long-term smooth relationship.

"New deal analyzed, unit economics are fine, market potential itself and capacity of scaling the product can be really something huge, and we start talking about deal terms. Deal terms are governed by the mindset of the angel, are you coming to support this entrepreneur because you respect that he is better than you? If you don't see this entrepreneur as better don't invest. This guy can do something, you cannot do" (Angel 7, tech-focused angel and established his own fund)

A different perspective is the beginning of trust building at this stage after finalizing all checks. Being a lawyer, this participant had a different view that trust building starts upon completion of all criteria and technical due diligence. The trust and feelings emerged at a later stage compared to other participants driven by his skeptical nature where he even mentioned not signing deals after going through all stages of pre-investment.

"…One of the things that is very important is that by the time we get to come into an agreement I need them to have come to realization that I'm an asset not a liability, not only an asset but a big asset and I want to come to the point where they pick up the phone…Can I ask you a really stupid question because these are the smartest questions when I get this level of trust that's more important. Of course, putting aside all other checks the technical and idea after passing all the other criteria comes the trust building and it is very important I really feel comfortable at this level…At the negotiation phase when you come at that level

and start to negotiate, if the entrepreneur is too greedy then shows automatically this is going to be bad and I have walked away from several deal at the eleventh hour because my gut feeling told me no they are too greedy or they are not being transparent or straight with me" (Angel 3, a lawyer)

This phase is not uniform across participants and also each participant had some exceptions to his/her usual decision making process, some try to maintain a unified process. However, each one had mentioned exception where he got out of his preset process. One participant who goes through heavy mentorship prior investing will leverage on the trust he built through the process and simply allocate money even prior the legal process is concluded.

"I don't do term sheets, I do shareholders agreement and valuation…I do bank transfer which are easy to transfer and there is email documenting our agreement. I just minute the agreement and I ask the entrepreneur to write it just minute the agreement with %, board seat…etc" (Angel 6, entrepreneur and active mentor)

Trusting the entrepreneur's capabilities had played a crucial role with some participants where it even impacted the development of the agreement. This participant had put a lot of weight on developing good reputation with entrepreneurs and on the strength of word of mouth. This reflected on having friendly terms in the formalized agreement as well as continuing to build the relationship even post investment.

"There are templates for Seed deals, very well known in the industry and it is worldwide SAFE (Simple Agreement for Future equity) and variations of it, it's standard, you don't need lawyers, you have special agreements, only the partner fills in the information in this document and signs back…He (the entrepreneur) understands what he's doing you only need to support him not to constraint him. You need to put some really really friendly terms…And you start building rapport with him and work with him hands on. I do at least twice a month calls or meetings with the guys I'm working on" (Angel 7, tech-focused angel and established his own fund)

This participant advocates for the creation of culture of trust, which from his perspective is scarce in Egypt. He would rather avoid opening negotiations and detailed terms not to jeopardize the built relationship with the entrepreneur. For him, this is much more important than having strict terms.

"I'm sophisticated enough not to negotiate, it will screw the chances of the company for other funding…I don't do shareholders agreement, I go like everybody else, I take the percentage and make sure for the money I put and make sure it is the right team and we meet often… By the time you keep opening negotiations that put you in opposite side, so I don't want to open this even for a shareholders agreement" (Angel 5, lawyer)

In contrast, this participant perceives negotiations around valuation as an important aspect by which the angel judges the entrepreneur more objectively uncovering the real motives of the entrepreneur.

"Valuation is a big one, people can be a lot of things but when it comes to money this is really when you get to know a person. You can have a lovely dinner with a bunch of people but when it comes to how we are going to split the check this is really when you get to know people depending on their behavior; it is the same thing with entrepreneurs when it comes to valuation" (Angel 3, a lawyer)

This chapter presents the empirical findings of the research conducted to examine the angel investors' decision-making process from a social capital and trust perspective. Three main themes emerged from the data: the role of social capital in decision making processes, angel views on trust and manifestation of trust in decision making processes. The following chapter discusses these findings in contrast with existing literature and concludes with implications for both practice and further research.

4 Discussion and Conclusion

This study focused on examining the role of social capital and trust in the decision making process of angel investors within the Egyptian context. Many scholars identified a special investment process for angel investors; however, it was assumed to be linear as illustrated in the model Paul, Whittam and Wyper (2007). On the other hand, participants in this study did not exhibit a linear process with identified phases as identified in existing literature (Shane, 2008; Paul, Whittam and Wyper, 2007). This is also aligned with the study of Haines, Madill and Riding (2003) concluding that most probably the real informal investment process is non-linear. Even the participants who developed a specific process for their investment, in many cases do make exceptions and do not follow subsequent phases where in some case was triggered by the role of trust and/or social capital. In the analysis, the change of behavior in decision-making process was associated with trust, emotions, and feelings. Existing literature identified an important dimension to be considered while studying entrepreneurial studies, is the social interaction including relationships as well as emotions emerging from the entrepreneurial process (Shepherd, 2015). A key finding emerged in this study is the conceptualization of trust as feelings and emotions. Also, the role of social capital and trust played differently across each phase in the pre-investment process.

4.1 Trust and angel investment decision making process

Interestingly, findings of this study had disassociated trust from social capital which contradicts views of (Fukuyama, 1995,) and more aligned with the notion that trust is a collective asset built from working on social capital (Lin, 1999). The findings of this study suggest that angel investors tend to build trust using different mechanisms such as mentorship, consultation, building reputation and being present within the entrepreneurial ecosystem,. Time was identified as a crucial factor in the participants' definition of trust, this resonates with the view that trust is learned or built (Freitag, 2009). However, participants' views in this study on trust included trusting the capabilities of the entrepreneurs which is part of their definition of trust implying that trust is relational (meaning that it depends on a bidirectional interaction between the angel and entrepreneur). Building up on this view, angels in this study perceive entrepreneurs with entrepreneurial skills as more trustworthy. Also, they exhibited common mechanism to move from generalized trust to particularized trust through mentoring. The findings of this study show that angels go through a mentoring period with entrepreneurs with whom they do not share particularized trust i.e. not from close social networks to build trust with the entrepreneur and as a tool to help them in the decision making process.

One of the key contributions of this study is how feelings and emotions emerged in the definition of trust and during the decision-making process. Feelings and emotions emerged throughout the findings of this study as a key decision making factor for the evolution of the angel

– entrepreneur relationship during the decision-making process. In this study, participants used marriage or friendship as a metaphor to their relationship with the entrepreneur reflecting the emotional dimension they confer to their interactions with the entrepreneurs. These findings resonate with existing literature, signifying that the investor's internal emotional or mood state, while making an investment decision, could affect their judgment as well as their behavior to allocate equity towards a company (Lucey and Dowling, 2005). However, angels in this study's findings associated emotions with their decisions not only at the equity allocation and making the final decision but also throughout the different pre-investment activities. Moreover, their perception of trust and how it relates to moving from one stage to another or even surpassing certain stages had an emotional dimension triggering the decision.

As mentioned angels in this study conceptualized trust as feelings and emotions; they referred to trusting an entrepreneur or deciding to invest in certain venture as a gut feeling. These findings built on Huang and Pearce's (2015) study examined angel investors decision making given extreme uncertainty conditions concluding that early stage investors, rely on intuition and formal analysis to develop "gut feeling" to identify their relevant type of investment. Taken into consideration the aforementioned findings, this study suggests integrating non-economic factors as trust and emotions into the angel investment process specifically in the decision making process taking into consideration the hybrid decision making model developed by (Li, Ashakanasy and Ahlstrom, 2014) to accommodate the impact of emotions and cognition. Findings of this study also highlight the importance of dissecting the specific emotions associated with risky decision-making process involved in angel investment.

These findings also highlight the importance of "gut feeling" in this informal type of investment which can be used as a model for the economical concept of bounded rationality in contrast to models of complete rationality. A lot of interest in intuition emerged in entrepreneurship research; however, research in this area is fragmented and lack of focus this is reflected in different meanings for intuition developed by scholars (Baldacchino, Ucbasaran, Cabantous and Lockett, 2015).

Different definitions of intuition exists in both applied and research literature, for instance, applied definitions of intuition tend to be related to personality, unconscious process, observations and in some cases "paranormal power" (Mitchell, Friga and Mitchell, 2005). Generally, it is defined as a form of knowledge not associated with logical, rational and/or logical way of reasoning. A recent study suggested the need to expand the themes associated with intuition in the entrepreneurship research in order to comprehend more intuition, its role and how it affects decisions (Baldacchino, Ucbasaran, Cabantous and Lockett, 2015). This resonates with the different views expressed by the participants in this study where each angel investor referred to intuition as a factor in decision making or an element to deal with specific entrepreneur and/or to move from stage to another within the pre-investment process.

This resonates with existing research on the importance of emotions and feelings in investors' decision-making process. This also was highlighted as an area of potential research on bounded rationality by previous studies (Lucey and Dowling, 2005). However, this study focused on a specific type of angel investor; it is an interesting area to assess differences between formal and informal investors in this context. The need for further research in this area is to comprehend more the role of intuition which was perceived by Hogarth (2001) as: "we experience feelings about what is or is not the right decision, but the reasons that underlie these feelings escape us. We know but we cannot explain why. It seems as though we have an intuition or sixth sense that is beyond our own comprehension"

This study examined trust and its impact on due diligence as part of the decision making-process. Due diligence aims to reduce information asymmetry and get more in depth information concerning the company (Osnabrugge, 2000). This is associated with the view that social capital contributes to the reduction of both the adverse selection and moral hazard issues related to information asymmetries (Venkataraman, 1997). Extant literature has suggested that due to time and financial constraint, angels do not conduct due diligence (Kelly and Hay 2003; Shane, 2008). However, the findings of this study had shown diverse views concerning conducting due diligence varying from simple meetings to excessive detailed due diligence. Interestingly, one of the participants who conducts in-depth due diligence, invests only within its trusted circle. This implies a relationship between trust development and reaching this phase where trust does not play a crucial role. Also, some participants leverage their social networks to do either technical due diligence or background checks on entrepreneurs. This is aligned with the view that due diligence process results in developing a "social relationship" between angel and entrepreneur (Amatucci and Sohl, 2007). Building on this social relationship, findings of this study suggest that contracting phase entails a lot of trust where the allocation of fund is not necessarily associated with signing legal documents.

4.2 Social capital and angel investment decision making process

Social capital theory has been identified as a contributor to better understand the angels' pre-investment process (Sorheim, 2003). The Findings of this study suggest an important role for the social capital in the sourcing phase for angels who rely on referrals and in the due diligence phase. Participants in the study leveraged their social network to conduct both human test and technical due diligence where angels leverage their social networks and network of networks to access relevant information and potential opportunities. The concept of weak ties developed by Burt (2000) has been illustrated in their explanation of their connections and how they leverage these ties. Also the role of social capital in the sourcing phase is aligned with the definition of social capital by Burt (1992) who tackled social capital from the potential opportunities to be leveraged stating that: "Friends, colleagues and more general contacts through whom you receive opportunities to use your financial and human capital". The study of Sorheim (2003) focused on the deal identification and screening/evaluation phase. The findings of this study resonates with Sorheim's (2003) study in his conclusion on the deal identification in terms of strong and weak ties as mentioned earlier as well as the role of investor's reputation in getting good deal flow. In the screening/evaluation phase, Sorheim (2003) identified a linkage between the relational and cognitive elements of social capital in this phase which was also confirmed in the findings of this study. However, the emotional dimension was highlighted in the findings of this study during the whole decision making process and defined trustworthiness independently from weak or strong ties.

The findings of this study reflect the views on the role of networking and actively building networks as beneficial which is aligned with Portes (1988) who tackled the social capital benefits from the actors perspective reflected as "The ability of actors to secure benefits by virtue of membership in social networks or other social structures". Moreover, the findings of this study highlight that networks developing and reputation building is associated with the egocentric approach of social capital (closely associated with the weak ties approach); defined as the person direct relationship with others and the relationships others can help connect to and to which this person tied directly (Sanderfur and Laumann, 1998).

This study took into consideration transaction costs while examining the decision-making process of angel investors. This was motivated by the hypothesis that transaction cost economics is built on the assumption that individuals might behave opportunistically, which could be offset by the social embeddedness theory based on the idea that social relationships will eliminate this opportunistic aspect (Fiet, 2001). Moreover, social capital literature on entrepreneurship showed the impact of trust on decreasing transaction costs related to the searching/accessibility of information as well as the monitoring phase (Kwon and Arenius, 2010). However, the findings conclude that transaction costs are not factor in the angels' decision-making process. The participants of this study perceived both time and effort allocated as their contribution to the economy and they are driven by their belief that these investments would achieve very high returns on the long term. Moreover, they did not associate their social capital with transaction costs as it was not a factor in their decision-making process whether the potential investment is within their social capital or not.

Practical implications

This study sheds light on different dimensions related to the angel investors' decision making-process. A crucial aspect to be considered in the Egyptian context is the diminished existence of institutionalization versus other markets with low level of contracts enforceability and unfavorable business environment. The decreased institutionalization heightens the effect of the social capital beyond formal structured institutions into more traditional social forms such as family and closed kin networks. Implications of this study would affect various stakeholders.

Angel investors

The findings of this study highlight different practices that enable more angel investment stemming through understanding of how angel investors make their decisions. The significance of this study is that it examines non-economic factors hand in hand with economic factors implications in the angels' decision-making process. This study concludes that angels need more access to information on different sectors, which could facilitate their evaluation phase and give them more confidence.

Sustainability and survival of early stage startups depend on ensuring access to capital through angel investors; new angel networks need to be established to decrease the trust building process that angels go through with entrepreneurs. Angels should be more engaged in the entrepreneurial journey early to develop relationships at earlier stages and reach a trust base in a relatively shorter period. A change in the mindset of demo day and/or pitch day is essential and the start of showcasing new startups through different venues including universities, incubators, co-working spaces…etc. This is much needed to build more trusted networks of angels – entrepreneurs and decrease the emotions associated with the uncertainty faced by the angels. Connecting angels through the establishment of an angel investors' club is important where they can then share insights on sectors, global trends and share knowledge. Finally, considering the creation of entrepreneurs in residence (EIR) within angel networks identified by Schwarzkopf, Lévesque, and Maxwell,(2010) as a means to facilitate the trust building process and shortens its duration.

Entrepreneurs

In Egypt, entrepreneurs lack understanding of how angels make decisions. This study provides a resource that entrepreneurs can use to understand the decision making process specially the role of networks and social capital in providing helpful feedback and in building their own startup. In addition it helps them understand the trust building process. Finally, capabilities are key in gaining angel investor trust; this is a key factor that entrepreneurs need to take into consideration when approaching any angel investor even from their own social network.

Policy makers

This study highlights the need to ensure more policies are in place to enforce contracts, which will create a more trustworthy environment. Moreover, the lack of commercial courts in Egypt generates many unsettled legal issues in the business environment and hampers the process of trust building. Finally, an open discussion between government, Egyptian Financial Supervisory Authority (EFSA) and angel investors is needed to address their needs and to ensure the growth of this source of funding through the appropriate social, financial and legal policies.

Limitations and implications for further research

The findings of this study highlight an important role for the feelings and emotions in the decision-making process and in how angels build trust. Moreover, the study suggests a crucial role for trust and social capital throughout the decision-making process of angel investors. However, do entrepreneurs share the same feeling? Does the evolution of the relationship is equally perceived by the entrepreneur? These questions highlight the importance to perform studies that take into consideration the entrepreneur perspective, views and feelings.

Even though this study did not associate transaction costs with the angels' decision-making process contradicting previous literature on the role of social capital in decreasing transaction costs, a more in-depth quantitative study needs to be done to assess the associated transaction costs with each pre-investment activity and extend it to post investment phases. Moreover, examining negative social capital and its implications on the angel – entrepreneur relationship is important to understand the impact on the decision-making process and how to mitigate these negative implications. One of the key limitations of the study is the sample size, which was limited due to the time constraint of the study. Another shortcoming is that the angel investors interviewed were predominantly male so this study could not signal differences attributable to gender in the decision-making process. This reflects the predomination of males in this type of informal investing.

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