

Investment Selection Criteria of Foreign Angel Investors in Startups in Vietnam

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Abstract

Angel investors play an important role in providing capital for startups in the seed stage and normally function as strategic partners who provide capacity building, management knowledge and mentorship for startups. Along with the formation of the startup ecosystem in Vietnam from 2016 to present, there are many foreign angel investors who have invested in startups in Vietnam and there are over 5,000 foreign angel investors paying attention to the Vietnamese market with more than 3,000 active startups most of which are in the seed stage. Applying search and matching theory, research synthesis, Delphi method, survey and data analysis, the author evaluates investment selection criteria of foreign angel investors in startups in Vietnam and suggest practical implications to help startups in Vietnam recognize and prepare necessary qualifications to attract foreign angel investors' funds. From the criteria that foreign angel investors utilize to invest in startups in Vietnam, the implication for startups in Vietnam in attracting investment from foreign angel investors is summarized in 3 keywords: people, markets and products.

Research purpose:

Evaluates investment selection criteria of foreign angel investors in startups in Vietnam

Research motivation:

Suggesting practical implications to help startups in Vietnam recognize and prepare necessary to attract investment from foreign angel investors

Research design, approach and method:

Applying search and matching theory, research synthesis, Delphi method, survey and data analysis.

Main findings:

The criteria attracting investment from foreign angel investors to startups in Vietnam is reflected in people, markets and products, not just in short-term value that business brings.

Practical/managerial implications:

From what foreign angel investors are interested in, focusing on people, markets and products are advices for startups in Vietnam in order to attract investment from foreign angel investors.

Keywords: foreign angel investors, investment selection criteria, startup, Vietnam

1. INTRODUCTION

Startup and Angel Investors are no longer unfamiliar terms in Vietnam. A startup is a newly established company that responds to the needs of the market by creating innovative new products, services or business models, capable of rapid growth in scale (Robehmed & Natalie, 2013). Angel investors are wealthy individuals who have the ability to fund startup and usually in return, they will have partial ownership of the startup (Akhilesh Ganti, 2020). In doing so, the angel investor provides the startup with funds to grow. Besides, they also give their own experiences and knowledge to help startup succeed (Shane, 2009; Mason 2020).

Angel investment is important for startups when they are in between the seed stage and the early stage because they need funds to grow rapidly. A 2010 study by Professor William R. Kerr - Harvard University (USA) showed that after a period of 4 years, startups sponsored and advised by angel investors often have the ability to survive higher, better resistance and better staff as well as the ability to raise capital from other sources such as venture capital funds (William Kerr et al., 2010).

In Vietnam, in 2016 the Government issued the project "Support Innovative Startup Ecosystem in Vietnam until 2025" and up to now, the innovative startup ecosystem has gradually been formed. Vietnam ranks 3rd in Southeast Asia in terms of number of startups with more than 3.000 active startups (Australian Trade and Investment Commission Vietnam, 2019), most of which in the seed stage need mainly investment capital from angel investors. According to Angel List's statistics (<https://angel.co/>), there are over 5.000 foreign angel investors interested in the Vietnamese market and there are many foreign angel investors who have invested in startups in Vietnam. However, the criteria for selecting startups for investment by angel investors in general and foreign angel investors in particular are often not clearly announced, making it difficult for startups to attract investment from angel investors. Therefore, studying the investment selection criteria of foreign angel investors in startup in Vietnam will help startups recognize and prepare necessary to attract investment from foreign angel investors.

2. METHODOLOGY

2.1 Research framework

To study the investment selection criteria of foreign angel investors in startups in Vietnam, the author builds a research framework as follows:

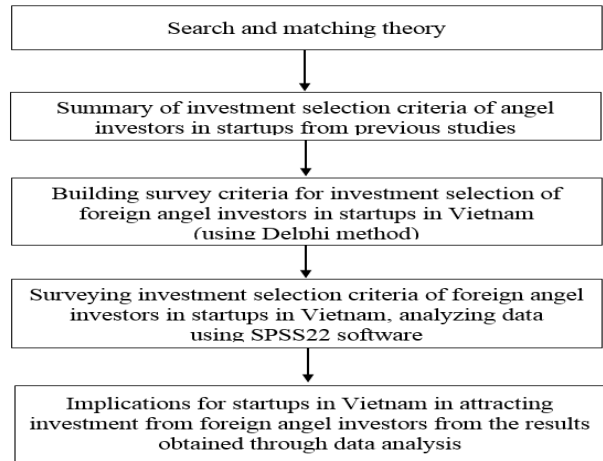


Figure 1: Research framework of the author

2.2 Theory applied to research

Searching and matching theory (Stigler, 1962; McCall, 1970; Mortensen & Pissarides, 1994) explains that in the commodity market, buyers and sellers may have to spend time looking for partners before they agree to exchange products. Therefore, the meeting of supply and demand will require effort on both sides, rather than simply agreeing a price at which supply equals demand as in the basic theory of micro economics. Applying search and matching theory to help explain why angel investors invest in startups. According to Osnabrugge & Robinson (2000), this investment is the result of a search effort on both sides: angel investors select projects that meet investment criteria; while the startup chooses the appropriate capital source for the startup's development. Angel investors invest in startups as a result of the search and matching process of both parties and also highly selective of the angel investors.

2.3. Investment selection criteria of angel investors in startups

The topic of investment selection criteria of angel investors in startups has been studied by many researchers around the world.

- Referring to the research of Nancy E.Haar et al. (1988), some primary investment selection criteria of angel investor are: startup's product and market, founding team and other factors including the familiarity with the startup, the level of trust with the startup, evaluation of the compatibility of the startup's founding team with angel investor and angel investor's experience in the field of startup' business operation.
- Referring to the research of John D. Aram (1989), the experience of angel investor plays an important role in the selection of angel investors to invest in startup.
- Referring to the research of John Freear et al. (1994), the location of the startup proximity to angel investor is an important criteria leading to the investment selection of angel investor.
- Referring to the research of Stephen Prowse (1998) shows that active investors often want to participate in direct management of the startup, including participation in the board of directors, voting rights and access to finance resources.

- Referring to the research of Hans Landstrom (1998), angel investors have different investment standards. Investment criteria depends a lot on the investor's experience. Factors often considered by investors are: market responsiveness, founder's capability, uniqueness of product.
- Referring to the research of Rudy Aernoudt (1999), the quality of the startup founder is a decisive factor in deciding investment from angel investor. Competence, loyalty, startup leadership, trustworthiness and charisma are the most important traits a founder needs to have to convince an angel investors.
- Referring to the research of Kevin Hindle and Robert Wenban (1999) shows that the investment selection criteria of angel investors include non-financial investment factors: startup's founding team, potential growth, uniqueness of product, transaction structure (the percentage of shares of angel investor in the startup), the competitive advantages of product, the development stage of the market and the company/industry, the possibility of divestment (exit) and angel investor experience suitability.
- Referring to the research of Mason and Harrison (2000) points out several important points: Although angel investors seek financial returns through placing their trust in the quality of the management team, startup founder and the startup's development potential to decide to invest, however, they also consider non-financial goals to accept lower-than-expected profits. In addition, most angel investors will play a role on the board of the startup they invest in.
- Van Osnabrugge (2000) points out 10 key factors startups attract angel investors, including: founder's passion, founder's trustworthiness, potential revenue, founder expertise/quality of management team, trustworthiness of the founder, potential market growth, product quality, return on investment (ROI), niche market and founder profile.
- Referring to the research of Roger Sørheim and Hans Landström (2001), angel investors are often interested in startup with capable founder. In addition, angel investors will operate mainly in the areas where they work and live because the close geographical distance helps angel investors to have some form of direct participation in activities. startups they invest in.
- Referring to the research of Hill, B., and Power, D (2002), the top three factors of startups to attract angel investors: quality of management team, potential growth of the market and competitive advantages of product.
- Research by Sudek (2006) shows that angel investors focus on four main factors, including: founder's passion, founder's trustworthiness, quality of management team and exit strategy. In which, the founder's passion is the most important factor. Specifically, the fact that a founder shows passion will attract the attention of angel investors more than a startup with a good business idea or competitive advantages of product.
- Referring to the research of Stephen G. Morrisette (2007), financial profit is the most powerful motivator for angel investors' investment and up to two-thirds of

- angel investors pursue profit goals. However, one-thirds of angel investors have a strong motivation to invest in startups because of their love of actively participating in startups, helping startups succeed; so they can accept risk, low return on investment or lose all investment. According to Stephen G. Morrisette, non-profit goals are the biggest difference between angel investors and Venture Capital funds. Stephen G. Morrisette cites the founders' factors that attract angel investors: founder's enthusiasm, founder trustworthiness, competitive advantages of product, and expertise of the founder.
- Referring to the research of Ibrahim and Darian M (2008), the majority of angel investors invest is for financial reasons. However, the most important non-financial motivation for angel investors is the interest in the opportunity to participate in the development of the startup. Besides, geographical proximity is an important factor for angel investors to consider investing in startups. Angel investors typically invest in startups located within an hour or two of their home/office so they can visit and mentor on a regular basis.
- Research by Eli Gimmon and Jonathan Levie (2010) shows that important factors affect the investment selection of angel investors: characteristics of startup founder, growth potential of the business and expected value of investors when exiting.
- Referring to the research of John R. Nofsinger and Weicheng Wang (2011), two factors of angel investors' investment selection: experience of founder in startup management and startup products.
- Research by Cheryl Mitteness et al (2012) shows that the founder's enthusiasm of the founder is a very important factor for angel investors to consider investing in startups.
- Referring to the research of Alina Dibrova (2015) evaluates the factors that attract angel investors: Expected return, exit strategy and favorite investment field of angel investors. This study particularly emphasizes the expected return of investors (ROI). High expected return is one of the main reasons angel investors invest.
- Research by Suat Teker and Dilek Teker (2016) evaluates the role of startup founders: experience, skills, motivation, what brings them together is an important factor in persuading angel investors.
- Referring to the research of Benjamin J. Warnick et al. (2018) evaluates the founder's passion as an important factor for angel investors to invest in startups.
- Research by Douglas Cumming and Alexander Peter Groh (2018) shows that that executive power is a factors that angel investors require when investing in startups. Angel investor often hold positions on the board of directors and become mentor for startup.
- Referring to the research of Mircea Epure and Martí Guasch (2019), the startup's growth potential and the startup founder's management style are two factors that determine the investment of angel investors.
- Referring to the research of Joern Block et al (2019), a good business model and a competitive advantage over

a startup's competitors are two important factors that determine the selection of angel investors to invest in startups.

Thus, it can be seen that there are many investment selection criteria of angel investors in startups. The author synthesizes the investment selection criteria of angel investors in startups through research works that the author knows, details as follows:

Table 1: Summary of the investment selection criteria of angel investors in startups through research works

Criteria	Research	
	Ylvar Einarsson et al. (2008)	John Four et al. (2004)
Trustworthiness of the founder	X	X
Quality of management team	X	X
Market growth and attractiveness	X	X
Enthusiasm of the founder	X	X
Competitive advantages of product	X	X
Geographical distance	X	X
Expected return on investment (ROI)	X	X
Level of familiarity with the startup	X	X
Angel investor's experience in the field of startup' business operation	X	X
Expected return on investment	X	X
Geographical distance	X	X
Angel investor's role in managing startup	X	X
Possibility of exit	X	X
Expertise of the founder	X	X
Evaluation of angel investors on the possibility of long-term engagement	X	X
The level of familiarity with the startup	X	X
Angel investors' favorite investment fields	X	X
Management style of the startup founder	X	X
The interest of angel investors with the opportunity to participate in the development of the startup	X	X

Source: Compiled by the author

Based on the frequency of occurrence of the criteria, the author proposes the investment selection criteria of angel investors in startups ranked from high to low:

Table 2: Investment selection criteria of angel investors in startups

Criteria	Ranking
Trustworthiness of the founder	1
Quality of management team	2
Market growth and attractiveness	3
Enthusiasm of the founder	4
Competitive advantages of product	5
Growth potential	6
Angel investor's experience in the field of startup' business operation	7
Expected return on investment	8
Geographical distance	9
Angel investor's role in managing startup	10
Possibility of exit	11
Expertise of the founder	12
Evaluation of angel investors on the possibility of long-term engagement	13
The level of familiarity with the startup	14
Angel investors' favorite investment fields	15
Management style of the startup founder	16
The interest of angel investors with the opportunity to participate in the development of the startup	17

Source: Author's suggestion

2.4. Investment selection survey criteria of foreign angel investors in startups in Vietnam

In order to study the investment selection criteria of foreign angel investors in startups in Vietnam, the author conducts to supplement and complete the table of investment selection criteria of angel investors in startups.

Applying the Delphi method (Rowe, G., 2007), the author has selected 5 experts who are 5 foreign angel investors from different countries, including: 1 Korean angel investor, 1 Singapore angel investor, 1 Hungarian angel investor, 1 Japanese angel investor, 1 US angel investor; who all have invested in 2 or more startups in Vietnam. The implementation period was from April 2nd 2021, and ends on May 15th 2021 through the form of sending and receiving surveys directly from angel investors.

After 3 times of completing the set of criteria according to the Delphi method, the factors that have been eliminated include: The level of familiarity with the startup, the management style of the startup founder. Factors of co-investment, founder's gender, good sense of founder and leadership team, pitching ability, products targeting to the global market are included in the second round of comments, however, only products targeting to the global market were selected to be added to the list of criteria.

The author closes the table of criteria used to survey investment selection of foreign angel investors in startups in Vietnam as follows:

Table 3: Criteria used to survey investment selection of foreign angel investors in startups in Vietnam

Ordel	Criteria
1.	Trustworthiness of the founder
2.	Quality of management team
3.	Market growth and attractiveness
4.	Enthusiasm of the founder
5.	Competitive advantages of product
6.	Growth potential
7.	Angel investor's experience in the field of startup' business operation
8.	Expected return on investment
9.	Geographical distance
10.	Angel investor's role in managing startup
11.	Possibility of exit
12.	Expertise of the founder
13.	Evaluation of angel investors on the possibility of long-term engagement
14.	Angel investors' favorite investment fields
15.	The interest of angel investors with the opportunity to participate in the development of the startup
16.	Products targeting to the global market

Source: Author's suggestion

Based on the table of criteria, the author sent survey sheets via the community group of 5 angel investors who are mentioned above, each angel investor sends 10 sheets to have a total of 50 sheets. The survey uses a Likert scale with 5 levels: (1) Completely disagree; (2) Disagree; (3) Confused; (4) Agree; (5) Totally agree. The time to send and receive survey questionnaires was from May 20th 2021, ending on July 10th 2021, 26 votes were collected, rate 52%.

3. RESULTS AND DISCUSSION

3.1. Survey results on investment selection criteria of foreign angel investors in startups in Vietnam

The obtained survey results were analyzed using SPSS22 software and gave the following results.

Table 4: Survey results on investment selection criteria of foreign angel investors in startups in Vietnam

Order	Criteria	Mean	STD	Rank by author's compilation
1.	Enthusiasm of the founder	4.77	.430	4
2.	Trustworthiness of the founder	4.73	.452	1
3.	Market growth and attractiveness	4.42	.758	3
4.	Growth potential	3.96	.445	6
5.	Competitive advantages of product	3.88	.588	5
6.	Quality of management team	3.73	.724	2
7.	Angel investors' favorite investment fields	3.77	.652	14
8.	Angel investor's experience in the field of startup' business operation	3.50	.510	7
9.	Angel investor's role in managing startup	3.12	.431	10
10.	The interest of angel investors with the opportunity to participate in the development of the startup	2.88	.326	15
11.	Expected return on investment	2.77	.815	8
12.	Expertise of the founder	2.69	.788	12
13.	Products targeting to the global market	1.77	.815	16
14.	Evaluation of angel investors on the possibility of long-term engagement	1.50	.510	13
15.	Geographical distance	1.46	.508	9
16.	Possibility of exit	1.27	.452	11

Source: Analysis results

Survey results show that foreign angel investors when investing in startups in Vietnam pay more attention to the founder and startup's products than other factors. Specifically, the 6 most important factors: 1) Enthusiasm of the founder, 2) Trustworthiness of the founder, 3) Market growth and attractiveness, 4) Growth potential, 5) Competitive advantage of products, 6) Quality of management team are all human factors and products of the startup.

The 3 factors at the 1st, 2nd and 6th positions in the criteria that foreign angel investors selecting to invest in startups in Vietnam are similar to the research results of Sudek (2006) when conducting a survey on the investment process of angel investors in Southern California (USA) to select investment opportunities and to rank the criteria for evaluating such investment opportunities. The results show that angel investors focus on 4 main criteria: Enthusiasm of the founder; Trustworthiness of the founder; the quality of the management team; exit strategies and investment flexibility of angel investors. In particular, the enthusiasm of the founder is the most important factor. When startup founder show enthusiasm, they will attract the attention of angel investors more than they have a good business idea or competitive product. The reason may lie in the perception that a successful startup is very difficult, so startup founder who lack enthusiasm and

passion will have little chance of success (Sudek, 2006). Likewise, according to Elitzur and Gavius (2003), angel investor decisions relate to the amount of money they intend to invest in the startup, the shares they expect to receive, the amount of money expect to deal in the next rounds. However, above all, angel investors want to be sure of the efforts and determination of the startup founder because without it, the startup has little chance of success (R. Elitzur, A. Gavius, 2003). Research by Bernstein et al. (2017) through a survey of nearly 4,500 angel investors in the US shows that 90% of angel investors choose human resources as the top condition when considering projects are still in the testing phase and looking for the right business model (Shai Bernstein et al., 2017).

The 3rd, 4th and 5th position factors in the criteria that foreign angel investors select to invest in startup emphasize the startup's market and products. Startups respond to market needs by creating innovative new products, services or business models that can grow rapidly in scale (Robehmed, Natalie, 2013). Startup starts from an idea (concept) and will be realized by founder to develop products that they believe have market demand. Statistics show that up to 90% of startups fail, of which 70% fail within 2 to 5 years of operation (Embroker, 2020). Meanwhile, angel investors often invest with their own money and they invest earlier than Venture Capital funds, so there will be higher risks for their investment. In order to limit risks, angel investors need to assess whether potential of the startup's, whether the product has a competitive advantage or not, and is it capable of growth. This result is similar to studies by Hans Landstrom (1998) by interviewing 44 angel investors in Sweden, Kevin Hindle and Robert Wenban (1999) by interviewing 36 angel investors in Australia.

The factors from 7 to 10 include: Angel investors' favorite investment fields, Angel investor's experience in the field of startup' business operation, Angel investor's role in managing startup, the interest of angel investors with the opportunity to participate in the development of the startup are related to the investment characteristics of the angel investors. This can be explained by the reason that angel investors are or have been successful entrepreneurs in a particular field and they tend to be interested in business ideas in the field they are strong in knowledge and experience. In addition to the goal of seeking high return of investment, angel investors can invest in startups because they want to contribute and love to participate in startups as a social responsibility for younger entrepreneurs by helping and investing in new projects and business ideas.

The difference that is surprising to the author is that the factors of expected return on investment, the possibility of exit is not important criteria in the selection of foreign angel investors to invest in startups in Vietnam. However, this makes sense considering that Vietnam's startup ecosystem has just been formed since 2016,

when the number of Vietnamese startups has increased rapidly to about 3,000 startups, but in general the quality of startups is still not high and currently in Vietnam there are not many channels to divest capital (exit) for angel investors. Thus, when foreign angel investors have decided to invest in startups in Vietnam, they will engage for a long time and focus on helping startups develop.

3.2. Implications for startups in Vietnam in attracting investment from foreign angel investors

From the obtained results, the author recommends some implications for startups in Vietnam in attracting investment from foreign angel investors:

1. International research shows that 90% of angel investors choose human resources as the top condition when considering projects are still in the testing phase and looking for the right business model (Shai Bernstein et al., 2017). The results from the survey also prove that investors choose to invest in people as the top factor. Therefore, startups need to realize that it is not a good idea or product that attracts angel investors the most, but the enthusiasm and trustworthiness of the founder and the quality of management team. The founder needs to show to angel investors in general and to foreign angel investors in particular their enthusiasm and trustworthiness for the project and focus on building a management team that investors willing to trust and invest. Founder and manager team need to show to angel investors that the startup is being run by knowledgeable, professional and reliable people who have strong motivation to overcome all difficulties to achieve success.

2. The second important criteria is the startup's product and market. Angel investors are interested in what problem the startup wants to solve, whether the market is big enough, what is the competitive advantage of the product. This comes from the founder himself when thinking of a problem to solve that needs to determine the market size. In a newly startup ecosystem like in Vietnam, most startups have not paid enough attention to the process of estimating the market size, or even ignoring it. The reason is that startups look for new markets and therefore available research information about that market is almost nonexistent. Due to not pre-estimating the market size, many startups still pour a lot of money, resources and effort into pursuing a market that is too small, so that it is not enough for that startup to make a profit. Determining the market size is an extremely important step in the beginning process, not only for the startup itself, but also for investors. Very few angel investors will dare to put money into a market that is too small to make a profit, and the question of how big the market is will certainly be raised with every startup that wants to attract investment capital from angel investors. Startups that want to develop and raise capital from angel investors need to create products with competitive advantages, capable of rapid growth in a large market enough.

3. Some investment selection criteria of foreign angel investors are feature; the investment nature of foreign angel investors does not show great impact. The small impact proves that these are separate criteria, not the same among foreign angel investors. Therefore, startups do not need to pay too much attention to external factors, but focus on internal factors to build solid foundations for startups to develop; then the startup will have the opportunity to call for investment from many angel investors interested in the startup

4. Through the research results, it can be concluded: The criteria attracting investment from foreign angel investors to startups in Vietnam is reflected in people, markets and products, not just in short-term value that business brings.

- People: The founder is passionate, determined, reliable, together with capable team members, engage with the startup to overcome difficulties.

- Market: The market is large enough and potential that the startup can achieve rapid growth.

- Product: Solve market problems, have competitive advantages compared to competitors.

4. CONCLUSION

With a growing startup ecosystem like Vietnam, startups have a great need for angel investment because this is the main source of funding for startups between the seed stage and early stage, including the increasing investment participation of foreign angel investors in startups in Vietnam.

Applying search and matching theory, synthesizing investment selection criteria of angel investors in startups and developing criteria for surveying investment selection of foreign angel investors in startup in Vietnam based on Delphi method, conducted survey through questionnaires and analyzed data obtained with SPSS22 software. The survey results show the impact of foreign angel investors' investment selection criteria on startups in Vietnam. From what foreign angel investors are interested in, focusing on people, markets and products is advice for startups in Vietnam in attracting investment from foreign angel investors.

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