

The Impact of Investor Identities on their Commitment to Entrepreneurs: A Disengagement-Persistence Model

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Abstract

In an inductive study, we examine the identities of venture investors to understand their investment motivations and commitment to entrepreneurs. Our research identifies four different investor identities and reveals how these relate to investor decision-making and impact the interactions with entrepreneurs. Applying an identity perspective, our qualitative findings show how venture investors, as resource providers, reason when engaging with entrepreneurs and we uncover the importance of perceived identity matches in explaining investor entry, persistence, and disengagement within investment relationships. To consolidate our findings, we propose a model that depicts the identity-based dynamics of the investor–entrepreneur relationship.

Introduction

Social identity theory offers valuable insights into the nuanced self-perceptions and interpersonal behaviors of entrepreneurs, elucidating how social affiliations influence behavioral choices (Fauchart et al., 2019, 2022; Powell & Baker, 2014; Tajfel & Turner, 1979; Turner, 1982, 1985). In the literature on entrepreneurship, social identities determine the motivation that guides entrepreneurs as they navigate the uncertain and high-risk landscapes of new ventures and shape their actions to maintain and enhance the positive aspects of their social identity (Cardon et al., 2009; Gruber & MacMillan, 2017; Wry & York, 2019). This focus on the underlying motivations and characteristics encapsulated in social identities is also crucial for understanding the dynamics of interpersonal relations (Hogg et al., 1995; Schmader & Sedikides, 2018).

However, previous research and the entrepreneurship literature have been limited to investigating entrepreneurs' identities, thereby leaving out their important counterpart, the providers of critical venturing resources: investors (Harrison et al., 2016). Prior research has shown the versatile personal motivations that drive the engagement of such entrepreneurial resource providers (Bonnet et al., 2022; Morrissette, 2007; Sullivan & Miller, 1996), especially in the context of early-stage ventures and business angel investors. Although mostly focused on an investor's personal wealth,¹ the literature includes discussions on the importance of identity. That is, while traditional approaches conceptualize venture investing as primarily financially motivated (Hill & Power, 2002; Kelly & Hay, 2003), scholars like Brettel (2003) and Ramadani (2009) highlight social identity and non-financial motivations, including being socially associated with pursuing altruistic objectives, as key drivers.

¹ On average, 64% of all business angel investments have a negative internal rate of return (IRR) on their investments (Wiltbank et al., 2009). Many continue to invest in subsequent funding rounds despite decreasing success probabilities, arguing that it feels justified to do so (Mason et al., 2019; Tenca et al., 2019; Zhou & Kato, 2017).

Social identity theory can help explain why venture investors finance certain companies but not others. Such decision-making has mainly been declared as a gut feel–based black box, identifying investor commitments in presumably lost cases as irrational (Huang, 2018; Landström & Sorheim, 2019; Maxwell et al., 2011). Drawing upon the controversial findings of prior studies about the motivational foundations of venture investors and the presence of different identities and their hybrids among entrepreneurs (Cesinger et al., 2022) suggest that different identity clusters exist, e.g., one personal identity may tie well with another and be a “match,” leading to a functional relationship. Knowledge about these matches is crucial for further theorizing the investor–entrepreneur relationship, which concerns not only the structural barriers to investments and their persistence in the absence of apparent profitability but also the dynamics of social cohesion, investor engagement, and the evolution of relationships between investors and entrepreneurs. A conceptual understanding of them would help clarify investor behavior, decision-making, and commitment, e.g., by linking an investor’s values to entrepreneurial identities that build upon specific social, environmental, or ethical causes (Brewer & Roccas, 2015). Against this backdrop and the dearth of identity research on venture investors, we ask: What are the most prominent motivations and identity clusters of venture investors that drive an investment decision and the subsequent commitment and persistence in funding specific ventures and the entrepreneurs? How do these identities impact the investor–founder relationship?

In an in-depth exploratory study with 52 business angels following the inductive grounded theory approach, we learned several things that changed our perceptions of business angel investing. We identified the existence of four distinct investor social identities: missionaries, communitarians, hedonists, and ego-advancers. Each identity was accompanied by a gradual expression of profit-seeking motives—a Darwinian identity component, turning investor social identities into genuine hybrids.

In addition, we observed that these four hybrid identities per se could not explain an investor's decision to enter into and sustain an investment relationship. Instead, this process is determined by the interpersonal relationship between the investor and founder, which unfolds as a distinct constellation and interaction of different social identities. A favorable investment decision and high persistence in the ongoing investment relationship were accompanied in many cases by what was referred to as a personal "click": a match of social identities. Through an identity click model, we link our insights to the concept of founder social identities, which have previously been identified by Fauchart and Gruber (2011). The identity click model explains why venture investors commit to certain projects, show high levels of persistence, or disengage over time. A match of the investor's and founder's social identities leads to a higher probability of investment and commitment, and is the result of similarity or complementarity of social identities that shape the investor-founder relationship (cf. Fu et al., 2019).

Based on these findings, we generate several new insights for entrepreneurship research. First, we identify four hybrid investor social identity clusters, none of which were previously identified and our results highlight the importance of the identity-based and interpersonal dimensions of venture investing. Second, we explain why resource providers, namely business angels, engage in venture investing, why they commit to specific founders, and why they continue to provide funding—even in situations with deteriorating profit prospects. A favorable investment decision and intensive commitment to a venture are stimulated by a match between the investor's and founder's social identity, which is revealed in interpersonal interactions. Third, we complement the work of Fauchart and Gruber (2011) by expanding their concept of entrepreneurial social identities to the founder's counterpart: venture investors. We show the two-sided nature of social identities and how they impact a venture's funding performance. Herewith, we link our findings to the study of Fauchart and colleagues (2022) that suggests the impact of entrepreneurial

social identities on financial performance, and we answer their call (Fauchart et al., 2019) to further explore how social identities impact a venture's financial and fundraising success.

Moreover, by conceptualizing investor social identities as genuinely hybrid in terms of having a profit component, we expand the previously known perception of social identities as relatively rigid clusters. We identify a more comprehensive and adaptive construct and propose a solution to the frequently criticized subject and research gap of hybrid identities (Gruber & MacMillan, 2017; Wry & York, 2019). Finally, we introduce a theoretical model of identity matches to capture the bilateral character of the founder–investor relationship. Prior research has mainly defined social identities based on distinct individual characteristics, leaving out the two-sidedness of interpersonal relationships and their different identity formations from a processual angle. Our approach aligns with the initial conceptualization of social identity theory by Hogg et al. (1995) as a means to explain group processes and an individual's intragroup relations, which was lacking in prior research on entrepreneurship.

Theoretical Background

Social Identity Theory in Entrepreneurship

Drawing from social identity theory, we understand that a person's actions are deeply rooted in their core motivations (Hogg et al., 1995). This theory captures the underlying socio-cognitive processes and mechanisms that drive these motivations and explains how they translate to behavioral choices (Tajfel & Turner, 1979; Turner, 1982, 1985). Social identity has been proven to be strong in explaining group processes and inter- and intragroup relations as well as being consistent over time (Hogg et al., 1995; Schmader & Sedikides, 2018).

In the field of entrepreneurship, social identity theory can offer deeper insights into entrepreneurs' self-perceptions, their interactions with others, and how those connections influence a venture's strategy, marketing tactics, and overall financial outcomes (Fauchart et al.,

2019, 2022; Powell & Baker, 2014). In their seminal work, Fauchart and Gruber (2011) develop the concept of entrepreneurial social identities from founders. Based on their self-conception and underlying motivations to found a venture, entrepreneurs can be clustered into three main founder social identity categories: Missionaries, Darwinians, and Communitarians (Fauchart & Gruber, 2011; Sieger et al., 2016). Missionary founders are motivated by a purpose that transcends pure self-interest, using their ventures to contribute to the good of the environment or society, which they consider their point of reference. Acting responsibly and making the world a better place are intrinsic motives that drive their entrepreneurial endeavors. For Communitarian founders, creating a venture is a way to strengthen and advance the purpose of a specific community in which they identify themselves, serving as their primary social reference. In contrast, founders with a Darwinian social identity attach great importance to their own interests and the potential monetary upside of creating a venture. They see their competitors as the main point of reference in the social sphere because competitors present a potential threat to their venture's growth and development (cf. Fauchart & Gruber, 2011; Sieger et al., 2016).

However, current research terminates at the point of founder identities, falling short of capturing entrepreneurial processes through a bilateral lens, that is, considering the crucial role of resource providers such as investors (Gruber & MacMillan, 2017). The processes to engage with resource providers are, in many cases, highly relational; unsurprisingly, the call to capture central entrepreneurial processes from a two-sided perspective has frequently been raised, particularly the relationship between founders and investors, which is of central importance for the growth and success of newly founded ventures (Lim et al., 2013). As it has been shown that the entrepreneur's motivational mechanisms strongly predict strategic behavior and venture performance (Fauchart et al., 2019, 2022; Powell & Baker, 2014), the assessment of whether a founder seems to be “the

right one” is highly personal and subjective, masking the actual processes that drive the venture investor’s decision (Landström & Sorheim, 2019).

Investment Decision-making and the Investor–Founder Relationship

A perceived match between the investor and founder leads to an increased probability of investment (cf. Fu et al., 2019). Prior research has tried to explain factors that influence this perceived match by showing the positive effect of the similarity attraction phenomena (Franke et al., 2006; Murnieks et al., 2011). According to Byrne (1971), this paradigm states that the degree of similarity between two individuals strongly influences their perceived interpersonal attachment. Consequently, a greater extent of similarity leads to a stronger attraction, which follows a linear relationship (Byrne, 1969). Similarity influences how individuals are perceived during evaluations, with higher degrees of similarity leading to better reviews (Byrne, 1971).

People favor individuals similar to them to reduce interaction risks and uphold a positive self-image (self-enhancement; Berger & Calabrese, 1975; Kramer, 1999; Parks & Adelman, 1983). The belief that the most similar founders are also—prospectively—the most successful ones aligns with an evaluatively positive self-concept (Tajfel et al., 1971). Similarity unleashes process benefits, increases trust, and—by reducing perceived risks—serves the natural tendency to prefer less risky investment opportunities over risky ones (Bauer et al., 2007; Lincoln & Miller, 1979; Maxwell, 2018). While the relevance of similarity attraction effects in the investor–founder relationship has been proven comprehensively from a construct perspective, knowledge about the different factors that trigger these similarity attraction phenomena remains scattered. Existing studies observe effects mainly for standalone items like thinking style, education, or professional background (Franke et al., 2006; Murnieks et al., 2011).

However, these item-related approaches fail to capture the complexity of the founder–investor dyad. For instance, the cognitive structures that impact the initial investment decision also

affect the founder–investor dyad over time (Ciuchta et al., 2018). While prior research has intensively analyzed the manifold motivational aspects that drive business angel decision-making, only a few studies have built a bridge between motivations and behavior from a process perspective (Bonnet et al., 2022; Drover et al., 2017). No investigation has put these motivators in context with each other and tried to explain their underlying mechanisms; instead, business angel decision-making is largely believed to be based on mental shortcuts, heuristics, and gut feeling (Huang & Pearce, 2015; Jeffrey et al., 2016). Social identity theory covers the cognitive dimension of these mechanisms, as it defines the self as a mediator between social structure and individual behavior (Hogg et al., 1995; Hornsey, 2008), acknowledging the embeddedness of venture investing into a social context. Social systems constitute the playing ground for the content of social identities to unfold and for corresponding motivators to translate into behavior (Hogg et al., 1995; Hornsey, 2008).

While social identity theory succeeds in explaining founder-related particularities and behavior, the founders’ counterparts—early-stage investors—have been ignored. Prior literature has not recognized venture investing as a two-sided process of resource providers and resource seekers, acknowledging that the founder’s social identity is less important than the unique constellation between the founder and the investor. Moreover, the prior literature falls short in explaining the high levels of persistence of some business angels, even in cases where a venture’s financial prospects might diminish. We find a trace in what is referred to as “psychic income” by Sullivan and Miller (1996), meaning that economic returns are sometimes traded-off against hedonistic returns, for example, in the form of self-actualization.

In conclusion, there must be something beyond a venture investor’s motivation to gain financial returns, ranked even higher in priority than this conventionally assumed basic driver. Despite several calls to shed light into the cognitive black box of business angel decision-making,

which has in some cases been declared irrational (Landström & Sorheim, 2019; Maxwell et al., 2011), and recent studies exploring the processual components of the investment process (Harrison, 2022; Mason et al., 2019), scholars seem to have fallen short of capturing the highly interpersonal nature of early stage investment decision-making as a two-sided phenomenon unfolding within the founder–investor relationship (Ciuchta et al., 2018; Drover et al., 2017; Maxwell, 2018; Murnieks et al., 2011).

We expand the understanding of entrepreneurial social identities to venture investors, putting them into context with their counterparts: founders. This approach illuminates investment decision-making and investor behavior through the existence—or lack thereof—of an interpersonal, identity-driven match. In response to various calls to address this relevant research gap, this study aims to answer the following research questions: What are the most prominent motivations and identity clusters of venture investors that drive their investment decision, commitment, and persistence in funding specific ventures? How do these identities impact the investor–founder relationship?

Methods

To address our research questions, we opted for the grounded theory approach as an inductive, exploratory method, in line with methodological recommendations for poorly understood phenomena as well as those that have not received sufficient scientific attention from a conceptual perspective (Gehman et al., 2018; Gioia et al., 2013). To investigate what fundamentally drives entrepreneurial resource providers, namely venture investors, and impacts their investment decisions, we need first to understand their social identities, then disentangle the interpersonal mechanisms that unfold and shape the founder–investor relationship.

Study Setting and Sampling Approach

The present study focuses on the motivational foundations and higher-level characteristics of venture investors, including their impact on decision-making and behavioral outcomes, from a social identity perspective. In the early development stages of newly founded ventures, where the interaction and interpersonal match between resource providers and the entrepreneur is the most decisive force in decision-making, business angels constitute the most important source of externally injected financial resources. This situation centers business angels as the main object of interest for our study.

For our research approach, only business angels with two or more active portfolio firms were considered to ensure a certain level of recent investment activity and reduce the skewness of perspectives in the sample based on unintended hindsight biases (Roese & Vohs, 2012). In the sample, business angels with industry-specific investment foci and those without clearly pronounced investment preferences were considered. This selection led to a sample of business angels with a broad spectrum of portfolio firms, including the fintech, biotech, medtech, consumer goods, automotive, mobility, cleantech, and foodtech sectors, as well as a mixture of purely profit-focused ventures and those with a social business aspect. Donations to non-profit firms were not considered venture investments and are, therefore, not part of our study.

Business angels in our sample are located in Europe (Switzerland, Germany, Italy, the Netherlands, Sweden, Belgium, Luxembourg, France), the United Kingdom, and the United States. By expanding our geographical focus to several countries, we eliminate biases in the data that might be induced by national-cultural particularities. At the same time, all countries included in our sample possess a strong and professionalized startup investment ecosystem that guarantees a certain degree of homogeneity in understanding how venture investing activities are structured.

The goal of our study is to analyze the maximum range of social identities prevalent among entrepreneurial resource providers in order to attain a deeper understanding of what really drives them, why they decide to commit to specific ventures, and what makes them persist over time (Bammens & Collewart, 2014). To do so, we adopted a theoretical sampling method in accordance with the method chosen by Fauchart and Gruber (2011).

The final size of our sample was determined by its theoretical saturation (Strauss & Corbin, 1998), which is reached once further interviews yielded no new insights into a particular type of investor identity. At this stage, the various investor identity types had been thoroughly explored in terms of their properties and dimensions, displaying sufficient variation. Additionally, the links between investor identity types and their corresponding decision-making processes and ways to interact with startup founders were captured in their relevant properties and to a sufficient level of detail.

Data Sources

Qualitative research calls for multiple data sources to validate theoretical frameworks through triangulation and reduce the potential impact of biases on the conceptual model based on properties inherent to specific data sources. Therefore, business angels included in our sample were identified through different sources under the restriction of meeting the selection criteria outlined above.

As part of our study, 54 interviews with 52 individual business angels were carried out between March 2022 and June 2023. Interviews with business angels that failed to meet our selection criteria—for example, due to a lack of recent investment activities—were excluded from the sample, resulting in the final data set described above. Business angels were identified following four complementary approaches:

Identification through business angel networks. We identified business angels based on their memberships in business angel associations. Information about their activities and contact

details were retrieved from the web pages of the corresponding associations. We included business angels in sector-agnostic and sector-specific business angel associations (for example, *Business Angel Netzwerk Deutschland BAND e.V.*, *Austrian Angel Investors Association aaia*, *FoodTech Angels*, *MEDA Angels*). For all business angels belonging to business angel associations, we ensured during the interviews that the individual investors made the investment decisions and that their membership in the club was not associated with a fund-like structure.

Identification through a targeted search on Crunchbase and LinkedIn. With a targeted search on Crunchbase, including the selection filters stated above, we identified additional candidates for our interviews. Out of the thousands of suggestions of potential interview candidates, we determined who to contact using a random algorithm. For the business angels we reached out to, we cross-checked the data available on Crunchbase and on LinkedIn to ensure that it was up-to-date and met our criteria. Business angels were contacted via email or LinkedIn and invited to participate.

Snowball sampling. In addition to the two main sources, we applied snowball sampling to expand the range of business angels included in our data set (Denzin & Lincoln, 2000). We asked business angels to name fellow investors in their network who (1) pursued a similar investment approach as themselves, (2) had contrary views on and approaches to venture investing in comparison to them, or (3) were active investors with low public visibility (cf. Miles & Huberman, 1994). Business angels identified through recommendations were introduced by interviewees or contacted directly via email or LinkedIn.

Convenience sampling. As a final source of interview candidates, we reached out to the researchers' university networks. All individuals were checked against our inclusion criteria and contacted via email. Only individuals with no direct relationships to the researchers were involved to avoid interference due to their knowledge of the purpose of our study. Extending a randomized

and snowball sampling approach with convenience sampling has been widely applied in prior studies on entrepreneurship and has been shown to lead to robust and reliable insights (cf. Denzin & Lincoln, 2008; Miles & Huberman, 1994; Parker et al., 2019).

In addition to the data collected during the interviews, we enriched our understanding of the resource provider's behavior with publicly available data on Crunchbase, Pitchbook, LinkedIn, and publicly accessible web pages (cf. Croce et al., 2017; Kanze et al., 2018). This information enabled us to better understand the specific manifestations of the information given in the interviews. For example, one business angel with an ego-advancing identity stated that it was important for them to talk about their business angel activities publicly. By scanning their LinkedIn profile, we found several posts referring to their public speeches, where they discussed their investment strategy and personal investor journey. For some business angels, this strategy enabled us to confirm the information given in the interviews.

Interview Structure

Following the grounded theory approach, our interviews consisted of a set of mainly open-ended questions, including follow-up questions. Some questions were pre-defined, and others were adjusted based on previously given answers, e.g., to specify the phenomenon observed in the answer to the main question (Spradley, 1979). As part of our interviews, we addressed the following subject fields: (1) general educational and professional background; (2) overall investment strategy; (3) personal motivation and drivers to engage in venture investing; (4) characteristics and motivations of preferred founders; (5) role within portfolio ventures and level of involvement; (6) determinants of perceived success as an investor and personal goals of investments made; (7) closing remarks to pinpoint the meaning of venture investing for each individual.

At the end of the interviews, we asked respondents to add any further information or perspectives they felt were important but had not been covered in the interview. Interviews were conducted through a video conferencing tool and recorded to enable a precise analysis of the data. In addition to recording, the interviewer took notes to ensure that emotional reactions not recorded verbatim were captured. The interviews had a duration between 25 minutes and 1.75 hours. Interviews were conducted in English or German.

Data Coding and Analysis

Following the analytical approaches of prior research on social identity and best practices for analyzing qualitative data (Cornelissen et al., 2007; Strauss & Corbin, 1998), we explored the prevalence of distinct social identities, including their unique properties, drawing upon the transcripts of our interviews. Our approach to analyzing the interview data was highly iterative, moving between raw data and theory (Gioia et al., 2013; Miles & Huberman, 1994). We took various measures to ensure the accuracy and validity of our interpretations, conceptualizations, and core findings. To reduce biases inherent in coding, every interview has been coded by at least two members of the research team independently. The coding results were compared, and sufficient intercoder reliability was confirmed. The analysis entailed four main steps:

Step 1: Iterative initial coding

We coded the transcripts line by line and supplemented the verbal transcriptions with the notes taken by the interviewer during the conversation. After the first 20 interviews had been completed, we conducted the first round of coding to check whether our questionnaire was suited to trigger the creation of data which matches the goal of our study. This was confirmed by the raw data in the first coding round. Before conducting the additional 34 interviews, some questions, according to the method suggested by Gioia et al. (2013), were slightly adjusted to encourage more informative responses.

Once the data set was completed, the outstanding interviews were coded again. We then conducted an initial sorting of the codes, including the creation of preliminary code groups and subordinated themes. We repeated the coding process for all interviews to refine its preciseness in capturing all identity-related information. Specifically, we focused on information related to the general educational and professional background of the venture investor, their investment strategy, their personal motivation and drivers to engage in venture investing, their self-image and self-conception in the context of venture investing, the meaning they attributed to venture investing, the characteristics and motivations of preferred founder(s), their typical role within portfolio ventures and level of involvement, the determinants of perceived success as an investor, and the personal goals of the investments they made.

Step 2: Refining first-order codes

We coded the data and sorted the codes according to two criteria. First, we verified that the information provided about the resource provider included their motivations and the meaning attributed to the investment activity. Second, we linked this information to the data on the investor–entrepreneur relationship and matches.

Referring to the three core dimensions prior research has relied on to define social identities—basic social motivation, basis of self-evaluation, and frame of reference (cf. Brewer & Gardner, 1996), we clustered and sorted the data. As we coded the data, corresponding first-order concepts emerged. We evaluated and compared the similarities and differences on an intra- and intergroup level, leading to a further iterative cycle of data compression.

Coding the information about specific constellations of and processes within the investor–founder relationship, we differentiated between situations where investors initially perceived no fit and decided not to invest, where they assumed the founder to be “the right one to invest in” and

maintained a high level of involvement and high persistence over time, and those situations where they perceived an initial “click” but disengaged at a certain point.

Step 3: Creating theoretical categories

Moving from first-order concepts to second-order themes, we iterated between our data and the relevant literature (Eisenhardt, 1989; Gioia et al., 2013). Based on our first-order themes and the corresponding sense-making in iteration with social identity theory, we refined superordinated clusters of meaning (cf. Tajfel, 1978; Tajfel et al., 1971). We paid special attention to the core dimensions of social identities according to Brewer and Gardner (1996): basic social motivation, basis of self-evaluation, and frame of reference. For each of the three social identity dimensions, we identified four distinct clusters of meaning, each of them representing one specific social identity category:

Basic social motivation as a venture investor: At an individual level, basic social motivation stems from an individual’s self-interest (Brewer & Gardener, 1996). We identified significant variance related to this dimension in our interviews, leading to clustering according to four main guiding motives: (1) For some resource providers, being an investor means realizing one’s own mission and advancing a specific purpose, for example, to make the world a better place, contribute to society at large, or to fight the grand global challenges. (2) For others, venture investing is a way to support a specific community based on an inherent logic and purpose, which strengthens the investor’s sense of belonging. (3) For some venture investors, providing funding equates to self-enhancement, increasing one’s status and perceived prestige. Finally, the fourth group of investors (4) is defined by the desire to obtain personal enjoyment and gather experiences, for example, by expanding one’s horizon or interacting with inspiring individuals.

Basis of self-evaluation as a business angel investor: The basis of self-evaluation captures an individual’s traits respective to their roles in social interactions (Brewer & Gardener, 1996).

We also found substantial variance in this dimension. Based on our data analyses, individuals base their self-evaluation as a resource provider upon their (1) degree of responsibility taking and foresight in the context of advancing a higher purpose and giving back; (2) contribution to a specific community they feel connected to in order to make it stronger and achieve its internal *raison d'être*; (3) perceived prestige and visibility, with a focus on enhancing one's (self-) perception in positive ways; or (4) enjoyment in personal interaction, which goes hand in hand with one's self-identification with the startup in-group.

Frame of reference as a business angel investor: The frame of reference grounds the interpersonal comparison (Brewer & Gardener, 1996). Along this dimension, we observe considerable variance. We examine four main clusters according to which a venture investor's frame of reference can be characterized: (1) society and the ecological environment as a whole; (2) a specific community the investor feels attached to; (3) the social environment or the individual investor identity; (4) the founder(s) and core team members of the investment object.

Our analyses transcend merely capturing the social identities of venture investors to include their relevant counterparts: the entrepreneurs. In a similar three-dimensional analysis (basic social motivation, basis of self-evaluation, frame of reference), we also drew upon the information given about the social identities of the founders with whom investors interacted.

Furthermore, we gave particular attention to the information interviewees shared about the investor–founder relationship. We identified three main stages: the pre-investment stage (including information about the initial screening, deal flow, and due diligence), the investment stage, and the post/reinvestment stage (aggregated in the post-investment stadium). We describe the investor–founder relationship in the post-investment stage as a sequence of ongoing additional investment decisions to commit further monetary and non-monetary resources.

More specifically, we focused on hints we received about a change in involvement: business angels who intensified their initial commitment and turned from initial investors of “smart money” to join the expanded team and those who, at a certain point, decided to decrease their involvement significantly and take a passive role. The latter was often associated with a phenomenon we labeled “missing identification with the portfolio venture.” We analyzed concrete behaviors that could be traced back to distinct social identities and how they were influenced by the characteristics of the founder. We observed patterns consistent in their prevalence across investor social identity clusters but triggered by different founder behaviors from a processual perspective.

Step 4: Development of a theoretical model

The first- and second-order themes were discussed regularly in the research team, as well as with non-involved scientific peers, and have been revised on an ongoing basis (Miles & Huberman, 1994). We investigated the connections among the various themes and incorporated relevant literature to create a theoretical framework that explains the how’s and why’s of the distinct relations (Whetten, 1989). We combine the themes that capture the self-conception of entrepreneurial resource providers, the underlying motivations, and the associated meaning of investment activities in the concept of investor social identities.

Conceptualizing the investor–founder relationship, we added an existing theory about founder social identities (Fauchart & Gruber, 2011; Sieger et al., 2016) to better understand when a constellation was perceived as a match or interpersonal “click” and when it was not. We complemented this approach with the data we gathered about the perceived social identities of the founder from an investor’s perspective. A “click” was not per se associated with a high degree of similarity but could also be triggered by a specific complementary constellation between the social identities of the founder and the investor. We refer to this ambiguity as “paradox clicks.” We

observed that a “click” was associated with high levels of involvement, increased interest, and a positive attitude toward investing.

Once the initial theoretical conceptualization had been developed, we conducted member checks with practitioners from the business angel ecosystem to test our interpretations and sense-making (Lincoln & Guba, 1985). Doing so, we received an external confirmation that the facets of the investor–founder relationship captured by our model are of actual relevance and succeed in representing the overall complexities of this interaction.

Findings

By taking the perspective of social identities, we introduce the framework of investor social identities and the “identity click” model. Based on our interviews, we found that the majority of venture investors can be assigned to one of four main identity clusters, which significantly diverge from one another along the three identity dimensions that are captured as second-order themes in our categorization, as depicted in Figure 1 (cf. Brewer & Gardner, 1996). We defined the four main identity clusters as the “missionary identity,” the “communitarian identity”—in reference to Fauchart and Gruber (2011), the “ego-advancing identity,” and the “hedonist identity” (see Figure 1). Some of the resource providers analyzed exhibit the characteristics of two or more distinct identity clusters. Those are referred to as multiple hybrid identities.

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In addition to the defining characteristics of the main clusters, every identity is accompanied by some expression of a profit-seeking motive. In the categorization of founder social identities by Fauchart and Gruber (2011), the substantial prevalence of a profit-seeking motive indicates a distinct social identity category: the “Darwinian identity.” As “making a profit” or “making some profit” is inherent to the activity of investing, however, it can take different

gradual expressions. Generally, it is not a determining factor but an ancillary characteristic of investor social identities, meaning that investors' social identities are genuine hybrids.

Notably, no resource provider in our study was driven primarily by monetary gain. Even those who ranked highly on the Darwinian scale explained that making a profit was an instrument to enhance another superordinated motive, which was captured in their core social identity. This finding confirmed our theorizing that the Darwinian motivation is a hybrid secondary factor rather than a fundamentally standalone social identity cluster.

Based on the data of our interviews, individuals are driven by the following four motivational clusters, supplemented by a gradual profit-seeking motive, that are captured by their investor social identities:

Missionary Identity

We observe the existence of the missionary identity, which is similar to the missionary founder social identity introduced by Fauchart and Gruber (2011). Missionary resource providers perceive their investment activity as a powerful tool to realize their mission of positively impacting the social or environmental sphere. By supporting ventures that aim at making the world a better place, contribute to fighting the grand global challenges, or serve another political vision, venture investors see themselves as agents of change due to their monetary and non-monetary investments.

“If we want to save ourselves, we need to invest in innovation, in people that drive change. [...] So it is the existential threat that is motivating me to act as an investor, entrepreneur, and businessperson, as a whole human being. Everything in anything that we currently do on this planet has to be guided and focused in this direction [to fight the grand global challenges].”

The principle of giving back guides missionary resource providers. They perceive their privileged position of possessing sufficient funds to pursue investments as an obligation to assume greater responsibility and spur social or environmental change.

“I want to give back. It's really easy. [...] I want to give back in a field I am good at. So, I'm good at entrepreneurship. I want to give back to entrepreneurs because

entrepreneurship is a medium to create wealth for my country—for my community. But not in a strict way. It's not my community, only where I live. It's my country, the society, like everything surrounding us. [...] So, I go for giving back in a broad sense.”

The missionary identity can occur concurrently with an investment focus on social businesses; however, it is not to be equated with impact investing, which constitutes a unique investment category. The prevalence of a missionary identity is not correlated with a deprioritization of the motive to seek profit—quite the contrary. Some interviewees in our sample stated that generating profit was an integral component of their investment strategy as it was seen as integral to increasing their impact over time.

“Of course, financial sustainability is important. We see that from social enterprises that are very often financially not sustainable and are dependent upon donations. That's not sustainable. That's just as bad as pursuing profit only and profit maximization. So, we need to get rid of schizophrenia. [...] It is not about impact or profit. We need them both.”

Communitarian Identity

Based on our sample, we determine the existence of a communitarian identity, which also overlaps conceptually with one of the identities observed by Fauchart and Gruber (2011). From a communitarian perspective, venture investing aims to strengthen a specific community and increase perceived belongingness. The community can refer to different reference groups: a specific technology-driven domain, a collective of investors, the entrepreneurial ecosystem as a whole or with a regional focus, or a specific startup team. Business angels who, for example, saw the local investment ecosystem as their frame of reference declared it to be their mission to increase the availability of startup funding in their home country. Concrete steps included providing their own funds and motivating others, through the strengthening of business angel associations, to engage in venture investing.

“I invest a lot or actually only in Rhineland-Palatinate. After all, we have a special task in Rhineland-Palatinate: We want to attract more companies here that are innovative. We want the startup ecosystem to grow. [...] I was also involved in setting up the business angel network of Rhineland-Palatine, an association that now has 90 members.”

In the case of a specific technological domain with its members constituting the relevant others, some interviewees described the great potential they saw in the industry and their intrinsic desire to support its progress. Some of those resource providers also had a personal connection—for example, a professional background in the specific domain.

“The food tech sector, that is where I am a lot. And there is also a strong community that is driven to change something in the world: Plant-based meat from the 3D printer; alternative proteins. And the more you are involved there, the more you get to know—and also from the network perspective. [...] For example, I’m invested in a startup in Israel. They think very differently than the local food scene. [...] So in the area of food tech, I’m incredibly concerned with the community.”

Communitarian investors are excited about positively impacting the community through their monetary and non-monetary contributions. They appreciate their internally and externally perceived membership in the community, which is enforced by their contributions. They view their role as investors as being a significant force in advancing the growth of the community and its monetary success. Their accomplishment as an investor is correlated to the positive impact they have on the community. They aim to support the group’s goals and improve cohesion.

Ego-advancing Identity

The third social identity cluster we identified is the ego-advancing identity. Resource providers with an ego-advancing identity pursue startup investments with the goal of self-enhancement and strengthening their perceived status, which can refer either to the status that is attributed to them by others or their own perception of their position in society. Status refers to a general social perception and is not oriented toward a specific community. The perception of status is associated with proving one’s capabilities in a monetary and non-monetary dimension to others or oneself. Venture investing is seen as a high-status activity that is open only to individuals with extraordinary investment skills due to its high-risk profile—for example, those who have made a fortune in the past and can afford to take losses.

“So, for me, it’s all about wanting to prove something to myself. That gives me a kick. [...] And when I invest in social entrepreneurship stuff, I’m actually showing off a bit coquettishly. It seems to me that ego plays a role. [...] And when it is about prestige, it means demonstrating your own value to others or even increasing it, or something like that.”

“It’s a little bit of prestige in the sense that you belong to this exclusive community. Because you can only be a business angel if you can bring the capital. [...] But [it is] definitely kind of prestigious when there are LinkedIn posts and things like that. And you show that you invested.”

As with other social identities, the expression of ego-advancing attributes is not associated with any specific expression of the profit-seeking motive. We observe individuals who (1) see venture investing as a pure status symbol with no actual goal to realize returns, (2) perceive their investment activities as a status symbol while simultaneously focusing on continuing their perceived previous success by maximizing returns, as well as (3) have different approaches for the sub-portfolios constituting their entire investment activities, with differing return expectations, ranging from no pronounced interest in realizing returns to ambitious portfolio strategies.

“It’s an important part not to build up a fortune, but to show success. [...] So when the ventures perform well, I chose them right. And then my friends see that investing is paying off. [...] But for some impact investments, it is different. Don’t even expect anything there. That’s like splitting up the portfolio.”

Hedonist Identity

As a fourth cluster, our analyses reveal the existence of a hedonist identity. Resource providers with a hedonist social identity are motivated by the desire to obtain personal enjoyment, e.g., having fun, supporting and interacting with inspiring individuals and young people, and expanding their personal horizons through the acquisition of knowledge. “Hedonist” refers to the ancient philosophical concept of hedonism, in which the primary criterion for evaluating a possible action is based on the presence of pleasure or the absence of pain, with the overarching goal to maximize the prior. Pleasure can encompass short and long term-oriented experiences, as well as any intrinsically valuable experience (Striker, 1993; Veenhoven, 2003). Consequently, the term hedonist succeeds in capturing both short term-focused experiences like having fun by engaging

in venture investing, as well as long term-oriented facets like expanding one's horizon and sharing knowledge.

Hedonist resource providers seek new experiences and feel intrinsic satisfaction from the exposure to new environments. Their primary goal to be involved in the entrepreneurial context is to increase pleasure and have joyful moments, which is frequently referred to as “having fun.” “Having fun” can be triggered by different activities, ranging from trivial tasks like supporting the founders in recruiting a new team member to longer-term projects such as elaborating the fundraising strategy for a portfolio venture. A strongly pronounced hedonist social identity is often associated with high levels of involvement in portfolio ventures.

“So, I mean, it’s just that I’m buying these experiences—like a ticket to a fun park. [...] So the team is always the most important element—everywhere. The person behind it with the idea and with the drive to implement this idea, and it’s just fun participating in it. [...] You have your finger on the pulse of time when you work with the teams and support them, and contribute your own knowledge. Really cool people. That’s exciting. [...] And I support them wherever I can. I mean, they do the operational things, but when they need me, we can work together really closely.”

Another common motive of hedonist investors is the desire to tap new sources of inspiration. They enjoy being part of innovative environments and accessing new technologies—staying “ahead of trends” gives them a feeling of pleasure. The desire to find inspiration is also associated with the interaction with young people. Getting involved in projects that are founded by persons who are, in many cases, younger than the corresponding investor makes them feel agile and is often referred to as a source of “fun.”

Interacting with young people is typically accompanied by the desire to learn something new and broaden one's horizon. The startup ecosystem opens up an unconventional space for knowledge acquisition beyond traditional academic approaches, and getting involved in it is seen as a cognitive pleasure.

“Investing is like acquiring know-how, let’s put it simply. The learning factor is really exciting to me. [...] I always want to learn something new. This has always fascinated me.

And with startups, you learn something new every day, with every business case. [...] And the it's about the people. Young, ambitious folks that live up to their dreams. For me personally, that's a true source of inspiration."

"In the startup space, you can learn a lot very quickly, a lot of new ideas out there, new information, and also whole processes. To absorb information as quickly as possible and then also reflect accordingly and ask the right question, I think that gives me a lot of satisfaction."

We observed a random pattern for the expressed importance of the profit-seeking motive, including related behaviors in the due diligence and post-investment phase. No correlation was observed between other social identity–related items and the degree of expression of a profit-seeking motive.

We identified a similar number of investors among the Missionary cluster and Hedonist cluster that did not pay as much attention to generating profit. Some of the Missionary investors with less desire to generate pronounced returns, for instance, argued that realizing their purpose-related goals, like making the world a better place, was more important to them. Similarly, some Hedonist investors with the same degree of profit-seeking desire explained that the actual investment sum was comparable to a “ticket price in a fun park,” and that was why realizing returns did not rank high in their prioritization.

However, there was no clear tendency for the prevalence of a strongly pronounced profit-seeking motive to correlate with a certain identity cluster either. For example, there was no significant difference in the relative number of profit-seeking investors among Missionary and Hedonist investors. For profit-seeking Missionary resource providers, a common argument was that high returns were needed to increase the long-term possibilities of having a relevant impact. Hedonist resource providers justified the same superordinated goal with the justification that it was “just more fun to be successful” and to realize significant returns.

As we observed no correlation between distinct identity clusters and the profit-seeking motive, the degree of profit-seeking was not captured as a facet of individual identity but included

in the overall model as a gradual feature accompanying every standalone identity. Conceptualizing investor social identities as genuinely hybrid, e.g., consisting of a central identity accompanied by a gradual expression of a profit-seeking motive, is in line with the observation that venture investing is made of providing and, in turn, potentially receiving financial and non-financial resources, though the weighting between these individual factors can vary in degree.

Introduction to the Identity Click Model (ICM)

To capture the matching constellations between investors and founders leading to the initial and potentially subsequent investment decisions or the disengagement, we analyzed hints relating to the perceived social identities of founders by investors when the investor–founder relationship starts to develop. Our analyses of founder social identities build upon the construct of Fauchart and Gruber (2011); however, instead of how founders see themselves, we assessed how founders are seen by others, namely investors in our case.

We introduce the identity click model (ICM) to describe the underlying mechanisms of the investor–founder relationship that develops along the pre-investment, investment, and in the after-investment phases. Such a processual perspective demonstrates the interpersonal, and therefore highly fundamental, mechanisms from the perspective of resource providers as a continuous sequence of ongoing decisions of commitment or disengagement. Social identities are predictive of the decision-making and behavior of an individual (Tajfel et al., 1971) and we observe an impact of social identities on investment decision-making processes and outcomes, as well as on the investor’s persistence over time that we capture in the ICM framework.

----- Insert Figure 2 here -----

Getting to the “click”

The founders constitute the most important decision criterion in a venture investor’s decision-making process (Mason et al., 2017). Based on intuition and the cues given by the founder during

their interactions with the investor, the investor perceives a positive or negative gut feeling toward the founder, which imprints on the perceived attractiveness of the investment opportunity (Blohm et al., 2022; Huang & Pearce, 2015). The development of such positive or negative gut feel is dependent upon discovering matching social identities during the pre-investment phase. Getting to know the founders well during this pre-investment phase is of high importance as it builds the fundament for a “click” to unfold (Van Osnabrugge, 2000). Discovering traces of identities during investor-founder interactions serves as a magnet promoting further interaction, which reveals more information and confirms the perception of a specific founder identity. In the case of a matching identity constellation, there is a click that leads to the investment decision. This is also illustrated in one of our interview quotes:

“I have to like the team. So, to me, honestly, that’s step number zero. If I don’t like the team, they can come with gold and a 1,000,000% return on investment: I don’t care. I do not invest in people who I don’t like. [...] I think I need to truly get to know the founder. So, it becomes a personal relationship. Understanding what motivates and drives him or her. I think our values need to be aligned. [...] And this is all very much gut feel.”

Identity match and involvement

With the investment decision, the investor–founder relationship is formalized and the following, ongoing investment period can be described as a continuous repetition of small investment decisions. A perceived interpersonal match increases the identification of the investor with the founders and the venture (Lenton et al., 2016) and triggers the ongoing reinvestment of monetary and other resources. In some cases, this leads to the phenomenon when investors become part of the extended team and extensively engage in extra-role behavior by contributing financial and non-tangible resources (Zhou & Kato, 2017). We observed the level of involvement to be independent of whether growth prospects objectively justify it.

Notably, such involvement is derived from the level of identification of the investor with the identities of founders, which, in accordance with social identity theory, leads to the formation

of an in-group (cf. Pickett & Brewer, 2001). Membership in an in-group is linked to implicit or explicit expectations of success (Schmader et al., 2001) to verify one's existing positive self-views (Hornsey, 2008; Swann, 2012; Tajfel & Turner, 1979). This expectation of success is projected onto the venture, leading to high levels of commitment in order to achieve the shared goal. The definition of success in this context is a subjective one and is not limited to a financial dimension (Block et al., 2019). As long as the perceived fit with the founder or founding team's identities is upheld by resource providers, they remain committed to the goal due to their personal sense of identification and belonging. This characteristic holds even in situations when objective facts might suggest rescinding additional commitments to the venture.

“You are part of the crew, of the team, and when you lose, then this is—obviously—also a problem for me personally. And that’s completely independent of the financial aspect. [...] Because I see myself as a part of it.”

“So, I am all in. For sure, because it is also your baby. And with your baby, you want to be involved. [...] And this is not only about money. Rather, it is a thing you really identify yourself with. That’s what you get. [...] This is why I want to be active. It’s like I am an ancillary team member.”

Click constellations and their mechanisms

Based on our data, we identified the existence of different “click” constellations. As the evidence provided by the business angels clarifies, “click” constellations lead to an increased probability of funding in the pre-investment phase and facilitate high levels of involvement once the initial investment has been made, resulting in high levels of persistence. In the following, we will describe the five predominant “click” constellations we identified with the strongest prevalence and empirical evidence in our data.

The Missionary investor with a high Darwinian profile matching with the Missionary founder: In this “click” constellation, the investor and the corresponding founder are driven by a similar logic to focus their activities on making the world a better place. By supporting a founder who aims to contribute to positive societal or environmental change at large, the investor realizes

their own aspirations. The investor strives to increase the founder's sensitivity to profitability, as this is understood as a booster of impact. Once the investor–founder dyad succeeds in realizing promising returns from the resource provider's perspective, this paves the way to enhancing the sustainability-related vision.

“My entire strategy is based on making transformation feasible [...] and addressing the UN SDGs. Human survival on this planet is at stake if we do not act and bring all of our resources, including capital, [...] to the process of how we build companies—how we use capital to address the global challenges. So it's—today, it's a much, much bigger motivation. It's about consciousness, about our survival. And about profit. I always seek monetary benefits. I think the most important measurement criterion from your perspective would probably be the financial return on investment. Impact and profit, it's like the blood in the system: it's not an either-or. It's a one 'and' the other.”

The communitarian investor with a low Darwinian profile matching with the Communitarian founder: The investor and corresponding founder attach the same importance to community-related dimensions. The business angel wants to support the founder's mission to strengthen a specific community and, by doing so, joins this community. Business angels, for example, who perceive a specific regional cluster as their relevant community might follow an investment strategy that focuses on ventures domiciled in this region and are led by founders who share a similar geographical attachment. Monetary motives might rank second as long as the venture stays true to the values inherent to the community.

“Finally, it is really about building a strong community that creates momentum. Here, in Mecklenburg-Western Pomerania, the entrepreneurship ecosystem is not as strong as in capital cities. [...] When I am investing, I am not investing just somewhere but really trying to add value and make the network grow. This is the reason why I basically only invest in ventures here from the region. And founders really share this spirit that we are up to building something together.”

The Hedonist investor with a low Darwinian profile matching with the Missionary founder: The business angel enjoys becoming part of the founder's journey along a sustainability-related mission. The specific domain is perceived as an interesting field to expand one's horizon and acquire new knowledge and, at the same time, bring in one's own experience, even if from another

domain. Supporting a higher purpose is perceived as an exciting experience, and working together with a founder who is driven by an altruistic motive conveys inner fulfillment.

“I always call it “from vision to venture”: There has to be someone who is up for inducing change. Because their enterprises are the tools to change the world—to make it better. And if you don’t have this mindset, you are not an entrepreneur. You are a normal person. [...] And then we are talking about curiosity. I would really like to check out whether it [the mission-driven approach of the founder] is working. That’s fascinating. [...] It’s about the process: It must be useful for you as a person. You have to learn something new, something new that could help you to analyze the complexity of the world.”

The Hedonist investor with a low Darwinian profile matching with the Communitarian founder: The investor enjoys becoming part of the founder’s journey and contributing to the relevant community. The founder’s community is seen as an exciting social sphere to gather new experiences and insights into new domains. The group-level focus of the founder strengthens the investor’s sense that “we are in this together.” Working closely together with ambitious individuals is perceived as a source of inspiration.

“For me, it is about the entrepreneur’s community, which I find incredibly interesting. So, the people who are in this environment, who simply have the courage to start their own company. [...] I like to have people around me who are intelligent, have courage, create something [with and for their peers], take a risk. It just fits for me. That’s really exciting to be part of it.”

“I go for founders who are driven by a passion for the subject they are in or genuinely passionate about a technology. They care about their customer base or just their community. [...] Being part of a journey with some very interesting founders and watching those companies grow and reach their milestones and, you know, seeing them fulfill their dreams, being part of that journey, I think is fun.”

The Ego-advancing investor with a high Darwinian profile matching with the Darwinian founder: The resource provider feels attached to the Darwinian founder as they assume their Darwinian motive to lead to the financial outperformance of the corresponding venture, which in turn reflects well on their investment portfolio. The financial outperformance of portfolio ventures is seen as the main status symbol of one’s success and expertise in investing.

“I want to be independent. [...] And then, for me, it’s about making cash. [...] Some founders don’t tell one that their primary motivation is to become a billionaire. But for me, this is a signal of someone being honest. That’s it. [...] If someone has this “go big”-

mindset, bold visions, big dreams, and wants to make cash. That's good. Then, our interests are aligned. [...] I am in a club and like telling my friends about those ventures then."

Revealed Misperceptions Trigger Disengagement

In some cases, the initial assessment of the founder(s) by the investor turns out to be erroneous. Frequent and intensive interactions between the investor and founder might reveal that the initially presumed match of identities does not exist to the expected extent. Once the perceived match and identification with the founders decreases, investors identify less with the venture, lose interest in continuing to support it, and disengage (cf. Tajfel, 1978), independently of deteriorating or improving financial situations. In some cases, we even observed investors who spoke more positively about one of their investments with a high degree of identity match but with poor prospects of success and a below-average development trend. They preferred to allocate additional resources there than to another portfolio venture that was objectively very successful from a profit perspective but missed the "click" component between the investor and the founders. The investor-founder relationship loosened as the investor found their initial perception of the founder's social identity to be erroneous, leading to a loss in trust, commitment, and ultimately disengagement as reflected in the ICM (see Figure 2).

"I was really disappointed about the situation because I had not been capable of evaluating that guy properly beforehand. [...] So, for those startups where I have a poor relationship? I don't care. So, the regular relationship between the president and the investor is key for me. [...] I usually decide, okay, I put some money in the game. I can lose my money. I don't care. I don't care any longer about this startup and forget it."

"It will change my relationship with the startup company. [...] If, in the meantime, things change, the behavior of the CEO changes. I probably will not be helping him or her a lot to raise money. Even if it's not good for my money invested in the first time in the first place, you know, it doesn't matter. It really doesn't matter."

Discussion

Our study's findings provide answers to our initial research questions about the most prominent motivations of venture investors that drive investment decisions, commitment, and persistence as well as how investor identities impact the investor-founder relationship. Capturing the

fundamental motivations and self-conceptions of venture investors, we introduce the construct of investor social identities and how they unfold within a genuinely hybrid construct. Apart from recording the existence of the four main clusters of investor social identities and their properties and identifying their hybridity based on the Darwinian gradual scale (cf. Pan et al., 2019, for a critique on the absence of such hybridity), we analyzed how investor and founder social identity matches impact the mechanisms of the investor–founder relationship.

With the concept of investor social identities, we build on existing findings about the monetary and non-tangible motivations for venture investing. We overcome the hurdle of an “either/or” perspective on profit orientation toward a flexible model that better matches the actual characteristics, motivators, and behaviors of resource providers in early-stage venture investing. These findings extend the understanding of the role of social identities in entrepreneurship to explain one of the most central dyads in the context of venture growth and success: the investor–founder relationship.

Implications for Research

Our study contributes to entrepreneurship research, with a particular focus on entrepreneurial finance, in manifold ways (Cumming et al., 2019; Cumming & Groh, 2018). One of our main contributions is to provide a systematic scheme to classify entrepreneurial resource providers, namely venture investors, in accordance with social identity theory, as we have depicted in Figure 1 (cf. Brewer & Gardner, 1996). Classifying venture investors in this way is relevant: social identities, capturing the underlying motivations and drivers of individuals, are a powerful predictor of behavior (Cumming et al., 2019).

A systematic overview of what venture investing can mean to individuals helps us to better understand what really drives resource providers and why they pursue specific decisions, even those that outsiders might perceive as irrational. The concept of investor social identities

contributes to a more holistic understanding of how external resources relevant to venture growth and success are allocated to specific startups, underscoring the criticality of identity-rooted and interpersonal facets within venture investing (Fraser et al., 2015). Our analysis demonstrates that a favorable investment decision and deep-rooted commitment to a venture are spurred by congruence between the investor's and founder's social identities, as discerned through interpersonal interactions (Bammens & Collewart, 2014; Fu et al., 2019).

We also contribute to research in entrepreneurial finance, investigating the balance between monetary and non-monetary driven facets of venture investing, which departs from the view of entrepreneurial resource providers as purely financial investors. With the construct of investor social identities, we respond to the call of Fauchart and Gruber (2011) to further analyze the role of hybridity in social identity theory. We go beyond a cluster-dependent approach by adding hybridity as a genuine component of every individual's unique social identity, building upon what has been criticized by Pan et al. (2019). We achieved this system of classification by combining the main conceptual social identity cluster with the Darwinian gradual scale.

Our study brings forth pivotal contributions to the understanding of investor–founder dynamics. Central to this is the ICM, a model that offers a nuanced lens to dissect the intricate investor–founder relationship, particularly in the realm of early-stage venture investing. Through the ICM, we demystify certain decision-making processes that were previously characterized as “irrational” (Huang, 2018; Landström & Sorheim, 2019; Maxwell et al., 2011). Notably, the ICM combines the constructs of founder and investor social identities, encapsulating both perspectives in early-stage investment decision-making dynamics.

Building on the foundational work of Fauchart and Gruber (2011), our findings underscore the instrumental role of social identity theory in the broader context of entrepreneurship. Traditional approaches in the field have often portrayed venture investors as entities primarily

driven by the allure of significant financial returns (Mason, 2008). Contrary to this, our research points to varied motives and perspectives. By extending the previous investigations into founders' social identities, we present a model that is more encompassing, taking into account the nuanced behaviors and expectations of both entrepreneurs and investors. As such, our study provides a robust framework to reassess certain perceived irrationalities in early-stage venture decisions. This addition promises significant value not just to the entrepreneurial finance discourse but also teases its potential adaptability beyond the narrow confines of the entrepreneurship domain.

Responding to the call by Pan et al. (2019), our study ventures into the realm of investor social identities, researching the varied, often subjective, conceptions of investment success. The traditional yardsticks for investors, which are often narrowly defined by profitability metrics, are challenged by our findings. Our research suggests that investment strategies, with their inherent biases and orientations, can influence outcomes in ways previously unknown. Especially when individual success metrics do not align with conventional benchmarks, the true measure of success can remain overlooked, underscoring the need for a broader, more inclusive perspective of success.

In an effort to understand the cognitive mechanisms that trigger the perceived “clicks” between investors and founders, which we conceptualized in the ICM, our study has also meaning to the literature on authenticity (Hogan & Cheek, 1983; Jones et al., 2012), which is rooted in social identity theory. Generally, the concept of authenticity is delineated across three dimensions: a cognitive self-concept fit, a motivational goal fit, and an interpersonal social fit. A match of social identities between investors and founders increases cognitive, motivational, and interpersonal fluency, which is a precursor to being authentic (Markus, 1977; Schmader & Sedikides, 2018; Steger et al., 2008; Swann, 2012). Our findings contribute to the understanding of these dimensions as we exemplify how identity matches may increase either of these fits in environments subject to high information asymmetries between investors and founders.

Finally, in extending the purview of social identity theory to include entrepreneurial resource providers, we have attempted to shed light on its applicability and relevance within the entrepreneurship sphere. This integration not only resonates with the insights of Fauchart and Gruber (2011) but also marks a starting point in applying social identity theory to financial contexts. Effectively, our study forms a bridge, uniting the domains of social identity theory and behavioral finance, suitable for future research to build on.

Implications for Practice

The findings of our study carry some important implications for practitioners. By giving evidence that the desire to obtain financial returns is not a primary driver of venture investing, we change the view that is commonly held by the general public about entrepreneurial resource providers. We present a broad range of meanings that individuals attach to venture investing, with safeguarding a monetary upside to certain degrees being one component of it, though preponderantly not the defining one.

For venture investors, our results provide fertile insights into their discipline and the often opaque and subconscious mechanisms behind their decisions. Being aware of the existence of the distinct investor social identity clusters helps them to reflect on their self-perception and the meaning they attach to investing. This kind of awareness improves their decision-making processes as it supports them in bringing subconscious patterns to a conscious state of mind and thereby builds the fundament to objectivize and verify their choices.

For entrepreneurs, our results help to understand investment rejections that might primarily not be based on the investment opportunity as such but on the misfit of identity constellations. Screening investors for similarities in identities may help to increase funding success and building powerful relationships.

Limitations and Avenues for Future Research

Several limitations of this study highlight meaningful opportunities for future research. Firstly, to develop the concept of investor social identities and the identity click model, our data puts business angels at the center of attention to capture social interactions in the purest form possible. By intention, we limit our observations and conceptualizations to investments conducted by private individuals, who, in contrast to institutional investors, follow a less formalized and more personal investment process. Future studies could explore the gradations and different shades of which investor social identities can be applied to institutional investors that act more professionally and with more standardized assessments or in different industries.

Second, taking the perspective of founders, Pan et al. (2019) show the role of social identities in social entrepreneurship. In our data set, we observed some business angels who pursued a two-part portfolio strategy: one part of their portfolio consisted of venture investments in the conventional sense, and another part was comprised of impact investments. For the different portfolio divisions, diverging KPIs were applied to measure success, and expectations about the desired path of development varied. For impact investment sub-portfolios, return expectations were commonly lower, while higher importance was attached to sustainability metrics. Future studies could link such observations to analyzing the prevalence of the four identity clusters and differing expressions of the Darwinian profit-seeking motive (cf. Roche et al., 2023). Conceptualizing alternative definitions of investment success would contribute to a more nuanced perspective on entrepreneurial success, which is assumed to be shaped by social identities (cf. Pan et al., 2019).

Third, a limitation of our qualitative and explorative study is that we provide an understanding of the general mechanisms; however, we do not provide robust output data to assess whether a certain constellation is going to lead to mutual success in the investor–founder dyad.

That is, we may theorize about causal relationships, but our data does not allow us to test them. It would be a fruitful avenue to be taken by future studies to generate an exact categorization of match constellations. Drawing upon longitudinal data, these match constellations could be linked to effective outcomes, for example, predicting the financial performance of certain investment constellations. Additional research could build upon our qualitative conceptualizations and underpin them with quantitative insights from empirical observations, especially with a view to further understanding the mechanisms of the diverse click constellations.

Conclusion

Although social identity theory is a powerful approach that explains individual behavior and action, the understanding of how it impacts entrepreneurial processes and outcomes is still in its infancy. Initial studies have analyzed the role of social identities from a founder's perspective, including its impact on funding performance. The counterpart, the corresponding identity of investors, has remained unexplored. The social identity approach does not only explain the various meanings that resource providers attribute to venture investing but it also clarifies the mechanisms of the investor–founder relationship. This approach sheds light on how this relationship evolves and why venture investors persist in funding ventures that perform less promising.

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Figure 1

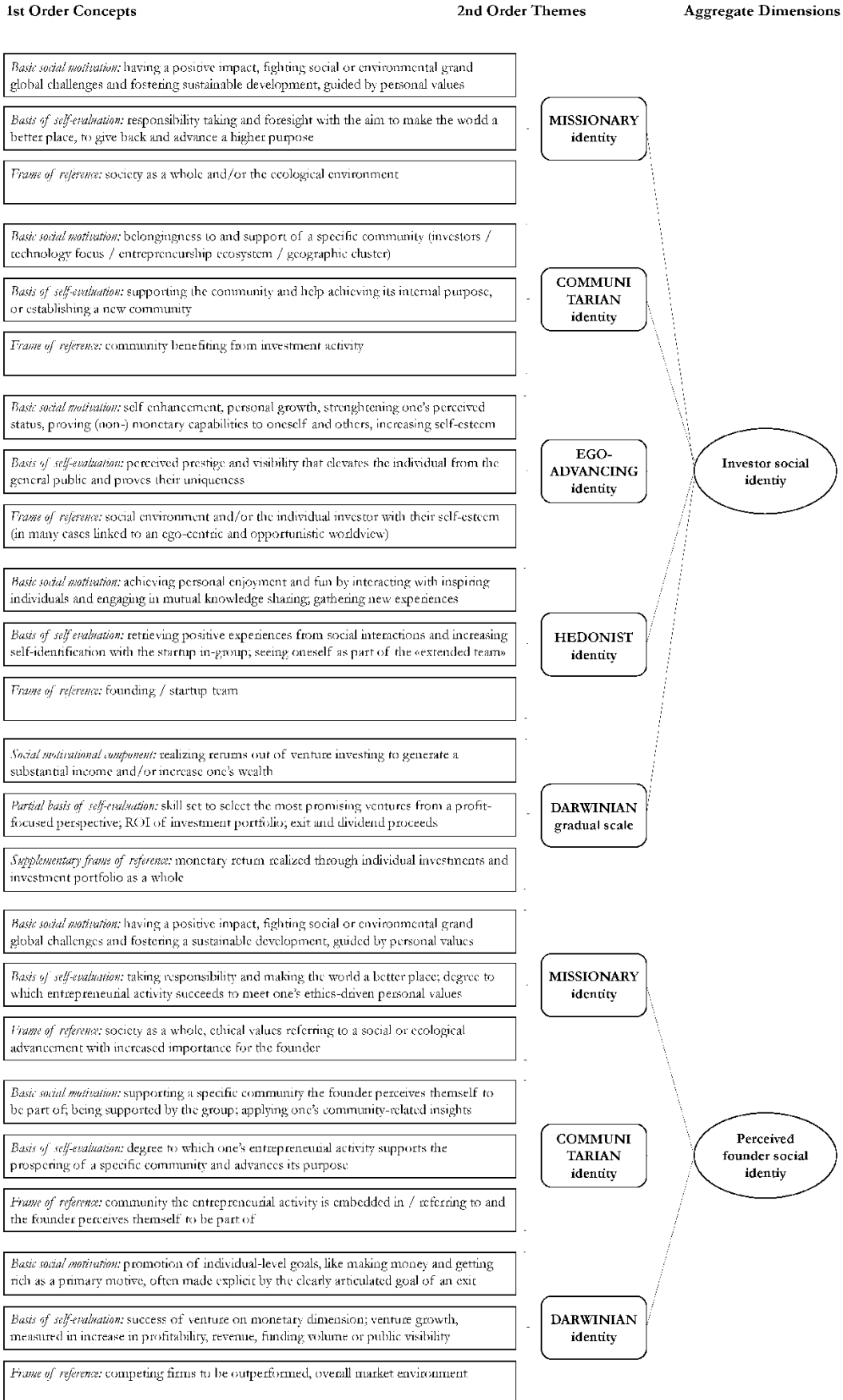


Figure 1 continued

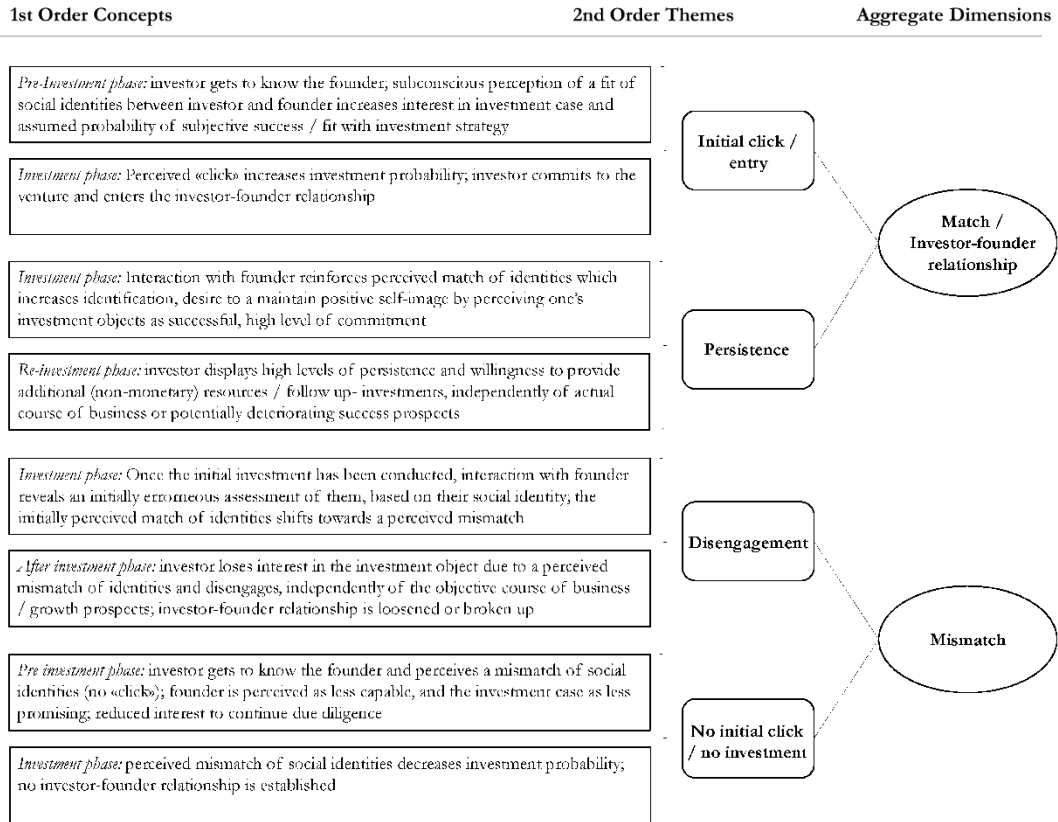


Figure 2

A Model of Motivational Alignment: Identity Clicks

