

# I. Angel Investment Research – a huge challenge

Ute Günther, Roland Kirchhof

## Knowing a lot – knowing nothing. Angel Investment in Europe

---

### What is it all about?

As the main source of seed and early stage funding, angel investors play a crucial role all over Europe. They are extremely relevant for business survival and success and a key issue for the future of the EU economy. Voices of market experts within Europe forecast: “The best years of angel investing are yet to come”.

The desire to better understand the diversity of the growing business angel ecosystem is omnipresent: market intelligence is required. From governments to angel associations, market players ask for key indicators about measuring the impact of angel investing.

So, exploring angel investing is becoming more and more important and remains a huge challenge.

### Good news – We do know a lot

Angel investing in Europe is by no means a black box: there is a wide range of literature about this topic. To list all of it would be pointless here.<sup>1</sup> Positive as well: among the field of experts it is now widely recognized that angel investment research is not as easy as it seems (a phrase, which most researchers would consider an understatement). There is the “tip of the iceberg phenomenon” (the division into visible and invisible market) and the fact that the angel market as a whole can be characterised as enormously diverse. On top of that, a lot of angels prefer to stay anonymous and do not like to share their deals, be it successes or especially failures. These factors make it extremely hard to collect reliable and comparable data. Combined with a lack of methodological approaches and varying definitions of what a business angel is, this constitutes the problem of data aggregation even on a national level, let alone on a European level.

Today, no one in the world of researchers and market experts underestimates the value and the challenges of angel investment research.

### But we need more!

So, yes, angel investment research does not need to start from scratch and the assessment of the difficulties surrounding it are broadly shared within the community. But that does not mean that everything is going just fine. We do know a lot, but for some, it still means that we know nothing in terms of being able to provide consistent data.

Of course, European politicians – among others - would love to know the following:

- How many BAs are there in Europe? How many women BAs exist?
- How much is the yearly average amount invested by BAs?
- How many BA groups are there in Europe?
- How many BAs leverage on other source of financing?
- How many training courses exist for BAs?  
...and much, much more...

Not only children know: To wish for is one thing, receiving it the other. The problem with these types of wishlists is the simple fact that they simply cannot be granted. Of course, everybody in the angel ecosystem would like to be equipped with those data, but definitely not at all cost!

What good is it to implement an instrument that fails in practical application because it was developed under completely wrong assumptions about the market as follow-up of bad data? Severe market failures are the results. Bad data destroy reputation, bring more harm than benefits.

The expert community has been tolerating the misuse of data in the field of angel investments a while now. That’s a little understandable: to not be able to deliver good data, facts and figures is painful, especially for those representing a national association or a European federation like myself. It is hard to say that there are many facts and complex issues that we cannot grasp as deeply as we would like to.

---

<sup>1</sup> You'll find a list of significant research here (in German): <http://www.business-angels.de/marktinformationen/forschung-statistik/>

To be honest, the expert community remained silent for too long.

But: Opposition against bad data is growing, critical voices are getting louder. The process of rethinking is on the way.

### **Stop unrealistic expectations**

One aim should be to not publish data at all cost only to fulfil unrealistic expectations. It's an urgent need to reduce expectations to something reasonable. No ifs and buts. Angel investment research is not a journey to never-never-land.

### **Combining the desirable with the feasible**

So, let's start combining the desirable with the feasible! Let's stay confident towards decision makers in politics and funders of projects, tell them what is possible and what is not.

It must be the purpose of our research strategy to identify more representative ways of sampling and to come up one day with a new level of robust data and qualitative research studies on the visible market.

However, we need to bear in mind that the level of actual investing by private individuals in small businesses across Europe will never be fully known.

High-potential top class scientists and academics are strongly required. It's them to set standards and benchmarks and to find best solutions on national and EU level and worldwide. There is no single "golden bullet" to solving the problems of exploring the invisible angel investment markets. Multi-dimensional analysis is needed. We are confident that the research community is able to identify these new ways in studies to come so that we will know even more about angel investing than today.



**Dr. Ute Günther** is co-president of Business Angels Network Germany e.V. (BAND), the national association of the German Business Angels Networks. Since 2013 she also serves as Vice President of Business Angels Europe (BAE). She has been executive board member of Business Angels Agency Ruhr e.V. (BAAR) since 1999 and is additionally CEO of Startbahn Ruhr GmbH as well as Managing Board Member of pro Ruhrgebiet e.V. In 2013 she was appointed to be member of the Advisory board "Young digital economy" at the German Federal Ministry of Economics and Technology. Dr. Günther studied Philosophy, Romance languages and Education and has been active in researching and teaching at the universities of Bochum, Essen, Trier and Vallendar.



**Dr. Roland Kirchof** is co-president of Business Angels Netzwerk Deutschland e.V (BAND). He also serves as CEO of Startbahn Ruhr GmbH, co-president of Business Angels Agentur Ruhr e.V. (BAAR) and member of the Board of pro Ruhrgebiet e.V. The qualified lawyer has made his doctoral thesis at the University of Munich and completed his management career in the Free State of Bavaria, the State administration North Rhine-Westphalia as Assistant Secretary of the County Association NRW and as Chief Executive of the independent city of Herne. In addition to his law career, he is a pioneer of Angel Investment in Germany and an expert in developing infrastructures for young innovative start-ups and capacity building strategies.