



University
of Glasgow | Adam Smith
Business School



Business angels: a new research agenda

Colin Mason, University of Glasgow

Tiago Botelho, University of East Anglia

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Introduction

- 1981 – first research on business angels (Wetzel)
- 1992 – first research on BAs in Europe (Mason and Harrison; Landström)
- Since then:
 - Research on BAs now global
 - Research shifted from its initial ABC focus (attitudes, behaviours, characteristics) of business angels, to present focus on investment decision-making
- There are still many ‘unknowns’, especially related to market developments



continued

- And the BA ‘industry’ is changing – essential that research reflects the contemporary nature of angel investing.
- Ongoing need for research to inform policy.



Research agenda: 1. The investment process

- Investment decision-making process is fairly well understood.
- Still need more research on the following:
 - Valuation: an area of entrepreneur-angel conflict. So how do angels put a value on their investments? what techniques to they use?
 - Investment contracts: how are these negotiated? What are the key features?
 - Understanding the exit process – how pro-active are angels in achieving exits
 - Returns – need better data on investment returns; variations in returns; influences on returns (extension of Wiltbank study)
 - The follow-on investment decision: angel groups are increasingly making follow-on investments – very different from initial investment decision.



2. Market Structure

- Rise of angel groups
 - Composition of groups
 - Has it changed the nature of angel investing?
 - **Attracted passive angels?**
 - **Less hands on investment? Less band-width for hands-on investing?**
 - **Herd behaviour? Influences on the decisions of individual angels?**
 - Supply-side implications of rise of angel groups?
 - Are angel groups becoming like venture capital funds?
 - Can we capture good quality data from angel groups (the visible market?)



3. BA-VCF relationships

- Do the various complementarities still exist
 - Follow-on investment
 - Co-investment
 - Deal referral
- The funding escalator
 - Does it still exist?
 - If not, what has replaced it?



4. Market Dynamics

- Visible vs. invisible market
- Need better emphasis on getting data on the visible market
 - Needs to identify angel groups
 - Short survey of angel groups



5. BA-(Equity)Crowdfunding relationships

- Are CF and BAs separate markets?
- Is there overlap?
- Perceptions of CF by entrepreneurs
 - Different or substitutes?
 - **Follow-on co-funding?**
 - **The new funding escalator**
 - **Do CF investors and BAs perceive each as different or substitutes**
 - **Evidence that some BAs also use CFs: why?**
 - Angels don't have the same control with CF investments: e.g. due diligence, investment instrument, valuation, ability to add value.



6. Policy

- Need better and more frequent evaluations
- Tax – how important to angels?
 - **Need to drill down: what influence does it have? (“take more risks”)**
 - **Does tax incentives necessarily generate more HGFs**
 - **Evaluation – government criteria is the amount of money that is invested – inadequate. Need to assess outcomes.**
- Capacity building – need renewed emphasis
 - **Training for potential and new angels**
 - **Investment readiness**
 - Design and delivery issues