

# What do we know (and do not know) about business angels networks? Roles, value added, management and operations

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# Introduction

## Scope:

- ✓ Business angels networks, groups, portals, syndicates
- ✓ Papers published in academic journals (EBSCO) in English (plus some EC papers and book chapters)
- ✓ 34 papers published between 1996 and 2013

## Main areas of literature:

- ✓ Definition, typology, descriptive statistics
- ✓ **Services, roles and value added**
- ✓ **Management and operations**
- ✓ BANs and governmental policy issues
- ✓ BANs in emerging markets

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# BANs' services, roles and value added

- ✓ **Matching services**
  - ✓ Facilitate the match between entrepreneurs and BAs
  - ✓ Facilitate diversification and syndication for BAs
  - ✓ Gateway for other types of finance (formal VC, subsidies, bank loans)
- ✓ **Due diligence, structuring & post-investment services**
- ✓ **Educating the market place**
  - ✓ Enlarging the angel equity market by raising awareness and visibility
  - ✓ Providing training to (new) BAs
  - ✓ Providing coaching/training to entrepreneurs
- ✓ **Institutional roles**
  - ✓ Promoting best practices amongst the angels community
  - ✓ Acting as representative/lobbyists for the angels community

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# BANs' services, roles and value added

## ✓ Matching services

- ✓ Numerous studies on matching (main “raison d’être” of first networks), fewer studies on syndication and access to other types of finance
- ✓ Contribution generally viewed as positive (Aernoudt 2005, Aernoudt and Erikson 2002, Collewaerd et al. 2010, CSES 2012, EC 2002, Mason 2006) but impact on the quantity and quality of deals is questioned (Mason & Harrison 1999, 2002, San Jose et al. 2005, Zu Knyphausen-Aufseß & Westphal 2008)
- ✓ Problems: lack of resources, network scope and management, adverse selection

## ✓ Due diligence, structuring and post-investment services

- ✓ Meet the needs of some angels categories (less experienced, hands off) and reduce transaction costs (Christensen 2011, Freear et al 1994, Mason & Harrison 2002, Zu Knyphausen-Aufseß & Westphal 2008)
- ✓ “Second generation” networks offering a broader range of services and an emphasis on syndication (Gregson et al. 2013, Lange et al. 2003, Mason 2006)
- ✓ Questions:
  - Sustainable demand for these services?
  - Workings and benefits of more formal procedures?
  - Problems with introducing intermediaries between angels and entrepreneurs (agency & cognitive issues)?
  - Risk of losing specificity vs. formal VC (larger deals, less resource provision?) (Sohl 2012)

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# BANs' services, roles and value added

## ✓ Educating the market place

- ✓ BANs have contributed to raise awareness about the angels market (and equity finance): San Jose et al. 2005, Christensen 2011, Collewaerdt et al. 2010, EC 2002, Mason 2009
- ✓ Lack of competency by angels often viewed as a limitation to market growth (Aernoudt 2005, San Jose et al 2005, Riding 2008, Sørheim and Landström 2001)
- ✓ BANs contribute to the professionalization of the angel market (Månsson & Landström 2006, May 2002) but few studies on formal training practices by networks as well as on informal learning processes between members
- ✓ Training entrepreneurs to increase “investment readiness” (EC 2002, Mason & Harrison 2002, Mason and Kwok 2010). Evidence that some networks provide coaching/training services that are valued by entrepreneurs (Aernoudt 1999, Collewaerdt et al. 2010, Mason 2006, Zu Knyphausen-Aufseß & Westphal 2007). Questions: Is it the role of BANs? Adverse selection?

## ✓ Institutional roles

- ✓ Promoting best practices amongst the BAs community (Sohl 2012). Networks and national associations design codes of conduct to professionalize and enlarge the market (trust) (EC 2002) but few academic studies on the design, contents, and impact of these codes
- ✓ Acting as representative/lobbyists for the angels community (no academic studies?)

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# BANs management and operations

- ✓ Limited body of research
  - ✓ Some research on BANs' success factors (Gregson et al. 2013, Mason & Harrison 1996)
  - ✓ Case studies describing internal practices: Cerrulo & Sommer 2002, Christensen 2011, Paul & Wittham 2010, Payne & Macarty 2002, Zu Knyphausen-Aufseß & Westphal 2007
- ✓ Important issue as (1) mixed evidence on BANs value added, (2) BANs tend to offer broader services, which leads to more complex tasks and larger teams
- ✓ Questions:
  - ✓ How are links with environment created/maintained?
  - ✓ How are services actually provided by networks (types, countries)?
  - ✓ Gatekeepers: profile, roles, skills, effectiveness (Paul & Whittam 2010)
  - ✓ Respective roles of employees and angels (experienced/new) in deal selection, due diligence, structuring, post-investment and fund management
  - ✓ Best practices?
  - ✓ How do BANs set objectives and measure performance?

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# Conclusion and future research

- ✓ **Methodology**
  - ✓ Mostly case studies and surveys (cross sectional data)
  - ✓ Few longitudinal studies showing how market and practices change over time (exceptions Gregson et al. 2013, Månsson & Landström 2006, Mason 2006)
  - ✓ Lack of time series: need for regular data on services, activity and membership of networks, as in the US (Sohl 2012)
  - ✓ Mostly US, UK and Northern Europe
- ✓ **Research objectives**
  - ✓ Past research is mostly descriptive: What do BANS do? Do they add value? Should they receive public money?
  - ✓ More research needed: How do they operate? Why do they add value (or not)? What are the best (vs. common) practices on the market? Different network types (business models): rationale, performance?
- ✓ **More theory needed?** Agency theory, cognitive and behavioural approaches, institutional theory, resource dependence, trust

# Conclusion and future research

- ✓ Some research questions:
  - ✓ **Co-investment** with formal VCs or government-backed funds (SCF in Scotland, Angel Source in France, BA+ in Belgium): complementarities, management, impact?
  - ✓ **Business models**: How do various network types emerge (institutional & legal environment, market segmentation, founders/leaders characteristics), perform and evolve along time (Gregson et al. 2013, Lange et al. 2003, Mason 2009)
  - ✓ **Membership dynamics**: How/why do angels enter and leave networks? Link between angels types and services / business model / performance?
  - ✓ **Learning**: How do BAs learn from each others in networks (training, shared due diligence and monitoring, co-investment, funds...)? How do networks learn from each other?
  - ✓ **Networks management**: How are links with environment created/maintained? Which roles are delegated to employees (gatekeepers) vs. angels and how? (Best) practices for deals selection & due diligence, negotiation, monitoring and resource provision, exits?

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