THE 2014 SURVEY OF BUSINESS ANGEL INVESTING IN THE UK: A CHANGING MARKET PLACE

Colin Mason & Tiago Botelho

October 2014

Contact details: colin.mason@glasgow.ac.uk; t.botelho.1@research.gla.ac.uk

BIOGRAPHIES.

Colin Mason is Professor of Entrepreneurship in the Adam Smith Business School, University of Glasgow. He previously worked in the Hunter Centre for Entrepreneurship at the University of Strathclyde and before that at the University of Southampton. He has degrees from the Universities of Edinburgh (MA Hons) and Manchester (PhD). He has held visiting positions at universities in Canada, Australia, New Zealand and Argentina.

His research and teaching are in the area of entrepreneurship and regional development. His specific research is concerned with access to finance. He has written extensively on business angel investing and has been closely involved with government and private sector initiatives to promote the business angel market, both in the UK and elsewhere. He has recently authored two annual reports on Business Angel Investment Activity in the UK for the Department for Business, Innovation and Skills and two reports on Business Angel Investment in Canada for the National Angel Capital Association of Canada. Other recent publications include studies of High Growth Firms in Scotland and Technology-Based Firms in Scotland for Scottish Enterprise and a report on Entrepreneurial Ecosystems and High Growth Firms for OECD. His other research interests include home-based businesses, entrepreneurship education and the concept of 'entrepreneurial campuses'. His research is often featured in the media and he is a contributor to both newspapers and business magazines.

Professor Mason has served on a number of European Commission Expert Groups was has been a judge for the Prince's Scottish Youth Business Trust (PSYBT) National Awards on four occasions and has been a judge for the Scottish Business Awards since its launch. He is the founding editor of the journal *Venture Capital: An International Journal of Entrepreneurial Finance* (published by Taylor and Francis Ltd).

Tiago dos Santos Botelho is final year doctoral student in the Adam Smith Business School, University of Glasgow. He has degrees from the Universidade Autonoma de Lisboa (Undergraduate) and Fundação Getulio Vargas EPGE (Master). His research and teaching are in the areas of entrepreneurial finance and the financing of innovation. His PhD research which is being conducted under the supervision of Professor Colin Mason. is concerned with the decision making criteria of business angels. He has recently worked with Professor Mason and Professor Richard Harrison (University of Edinburgh) on a study of Scottish business angel syndicates.

OVERVIEW

Business angels are widely recognised as a major source of equity finance for new and emerging entrepreneurial businesses. This role is recognised by government which offers them attractive tax incentives via the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS).

However, the angel market has been changing in recent years, a trend that has attracted surprisingly little comment and discussion. Once a largely invisible activity that individuals undertook on their own or with ad hoc groups of associates, angels are now increasingly joining together to invest as part of managed angel groups (sometimes confusingly called syndicates). As we show in this report, this reflects the attractions of being able to invest with others, access to better deal flow and a manager who handles the process of attracting deals and, in many cases, performs an initial screening, thereby reducing the time commitment of the individual investor. Many angels are members of more than one angel group.

This development is having significant implications. This report points to two. First, it has attracted new angels, thereby expanding the supply of so-called 'informal' venture capital. Second, the angel's investment decision is no longer necessarily an individual decision made in isolation. The report shows that many angels are influenced to some extent in their decision whether or not to invest in a particular investment opportunity by the group's gatekeeper and, to a lesser extent, by other angels in the group. A further implication, not directly noted here, is that the visibility of angel groups, in contrast to that of the vast majority of angels, is making angel finance more accessible to entrepreneurs seeking finance.

The report provides a profile of the evolving population of angels, explores the attractions and disadvantages of angel groups, the overlap between angel investing and crowdfunding, the reasons for angels saying 'yes' and 'no' to investment opportunities and the types of investments that business angels are making.

As we show in a parallel study[1], the emergence of angel groups is transforming the way in entrepreneurial businesses are being financed. Out goes the funding escalator. In its place new businesses are increasingly raising a small amount of seed finance and then going on to a large funding round, raising anywhere between £500,000 and £2m from one or more angel groups and perhaps also a public sector co-fund and other investors, such as a crowdfunding platform. In view of the declining costs of starting a business, this might be sufficient to fund a business to an exit. Raising finance from venture capital funds is very much a last resort in view of the antipathy between angels and venture capitalists.

These developments have attracted remarkably little attention in the UK, or even further afield. It challenges our understanding of the financing of entrepreneurial businesses, the investment process and how government should intervene. This report, which is based on one of the largest surveys of business angels, is an initial effort to shed some light on these issues.

[1] Mason, C, Botelho, T and Harrison, R (2013) *The transformation of the business angel market: evidence from Scotland.* Working Paper. Adam Smith Business School, University of Glasgow.

BUSINESS ANGELS

Business angels are individuals who invest their own money directly in new and emerging companies. They were originally identified in the 1990s when the term 'business angel' entered the vocabulary from the USA. However, business angels have been around a lot longer. For example, Alexander Graham Bell and Henry Ford both raised finance from individuals who would be described today as business angels. More recently, when Anita Roddick needed finance to open the second branch of the fledgling Body Shop it was provided by a business angel. The source of Amazon.com first round of external finance also came from business angels.[2] The term's origins go back to theatre 'angels' who funded Broadway theatrical projects.

Business angels are widely recognised as playing a key role in what used to be called 'the funding escalator'. They provide the first round of equity capital after the entrepreneur has used up whatever friends and family funding and grant and soft money is available. Some business angel backed firms will then go on to raise larger amounts of finance from venture capital firms, a process which has been likened to a relay race. Just as significant, business angels provide 'smart money'. Angels are typically 'hands on' investors and since most are experienced business people – the majority are entrepreneurs – the entrepreneurs that they back also benefit from their investor's advice, insights, knowledge and contacts.

Government has recognised the important role of business angels in creating and sustaining an entrepreneurial economy.[3] Initial support to stimulate angel investing goes back to the 1990s. Two forms of support have been particularly significant: (i) the Enterprise Investment Scheme which provides generous tax incentives to investors; and (ii) funding for business angel networks – introduction services which make it easier for business angels and entrepreneurs seeking finance to fund one another. Angel networks also provide training for new angels and investment readiness programmes for entrepreneurs. The number of angel networks peaked at over 40 at the turn of the millennium, a combination of publicly funded networks and commercial networks which focused in larger investments to be economically sustainable. Since then the withdrawal of public support (linked to the closure of the Regional Development Agencies) has resulted in the demise of many angel networks. The most recent form of government support for business angels has been co-investment schemes. These date back to the launch of the Scottish Co-Investment Scheme in 2003, with other co-investment schemes being established in the English regions. A national co-investment scheme (initially covering England) became operational in 2013. These schemes, which match the amount invested by business angels on a pound-for-pound basis, were introduced in recognition of the emergence of a 'second' equity gap starting at about £1m, which is too large an investment for most angels, even investing together, which has arisen as a result of the contraction of early stage venture capital funds

THE CHANGING ANGEL MARKET

The angel market is undergoing a transformation. Until relatively recently it was an invisible market in which individual angels operated on their own or in small *ad hoc* groups of friends, relying on word-of-mouth to find their investment opportunities and made their own investment decisions.

---

[2] Sohl, J (1999) The early stage equity market in the USA, *Venture Capital: an international Journal of Entrepreneurial Finance*, 1 (2), 101-120.

[3] For a review of angel policies see the following: (i) Mason, C.M. (2009) Public policy support for the informal venture capital market in Europe: a critical review, *International Small Business Journal*, 27 (5), 536-556. (ii) OECD (2011) *Financing High Growth Firms: The Role of Angel Investors*, Paris: OECD Publishing.

They valued their anonymity and therefore tried to keep a low profile. The only part of the market that was visible was the deals that were channelled through business angel networks.

However, the angel market is evolving from this largely invisible, atomistic market dominated by individual and small *ad hoc* groups of investors to a more organised market place in which angel groups are becoming increasingly significant. Angel groups operate by aggregating the investment capacity of individual business angels. They have emerged, first, because individual angels have recognised advantages of working together, notably in terms of better deal flow, superior evaluation and due diligence of investment opportunities, second, because it provides the opportunity to create a diversified portfolio, and third, because of the increasing need to make follow-on investments to avoid the dilution and unfavourable terms that would arise from involving venture capital funds in subsequent funding rounds. We estimate that there are around 100 angel groups, with varying degrees of visibility and operating models, located across the UK. The opportunity to invest as part of an angel group is thought to have attracted new types of angels into the market.

Our understanding of the angel market has not caught up with this change. Both the research base and the practitioner literature are largely based on the era in which angels were largely invisible, had to find their own investments, made their own investment decisions and invested alone or in small *ad hoc* groups.

The aim of this report is to provide some insights into this new angel market. In the following sections we present new findings from a major survey of business angels. This covers the following:

- Angel profiles: gender, age, education, sector and entrepreneurial experience
- Angel career: length of time as an angel, number of investments, group involvement
- Angel group involvement: reasons for membership, advantages and disadvantages of membership
- Overlap between angel investing and crowdfunding
- Investment decisions: reasons for saying no and saying yes to investment opportunities
- Investments: the types of businesses that business angels are investing in.

SURVEY DETAILS

The survey was available to be completed on-line. It was open from April to July 2014. It was promoted through angel groups, angel networking organisations and our personal networks. As with virtually all studies of angels, it is biased to the visible market, with 86% of respondents members of one or more angel groups. However, as noted above, this is a growing part of the market. Moreover, as previous research has shown[4], many angels who operate in the visible market as members of angel groups also operate in the invisible market, making investments privately in deals that they have sourced themselves.

The survey attracted responses from 238 business angels. These investors were members of a total of 71 angel groups based throughout the UK. Just under half were members of more than one

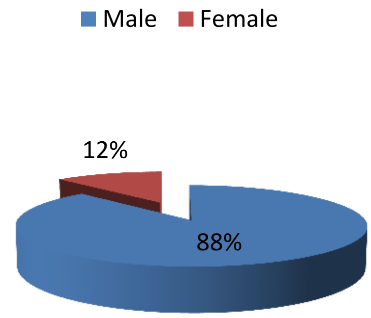
[4] Mason, C M and Harrison, R T (2010) *Annual Report on the Business Angel Market in the United Kingdom: 2008/09*, Department of Business, Innovation and Skills, 88pp.
Mason, C M and Harrison, R T (2011) *Annual Report on the Business Angel Market in the United Kingdom: 2009/10*. Department of Business, Innovation and Skills, 56pp.

group. In addition, we have the main reason that these investors gave for investing in a total of 472 businesses. As such, it is one of the largest-ever surveys of angels in the UK.

ANGEL RESPONDENTS

(a) Gender

Figure 1. Gender



The strong male bias of angels, and the limited number of female business angels has been well documented. In this survey 12% of respondents were women (Figure 1). This is a significantly higher figure than reported in previous studies[5] (and is the largest proportion of women reported in any study of angels), suggesting that there has been a growth in the number of women business angels in the UK over the past two decades. This may suggest that women are more attracted to investing as part of an angel group rather than on their own. Moreover, some angel groups have been established specifically for women. Some of the respondents were from these groups. But, in fact, 85% of female respondents reported being a member of an angel group compared with 90% of males. However, women business angels are more significant in the USA, accounting for around 20% of the total.[6]

(b) Age

The majority of business angels are aged 45 and over (Figure 2). This is to be expected. The key requirements for becoming a business angel are cash that you can afford to lose, business experience, know-how and networks which all take time to accumulate. Accordingly, being a business angel is typically a second career after a successful career either as an entrepreneur or in a senior business position. For some it is a way of continuing to enjoy the buzz of being involved in an

[5] A study published in 1994 reported just 1% of business angels were women (Mason and Harrison, 1994). A survey in 2003 reported that this figure had increased to 5% (InvestorPulse, 2003). A 2008 study reported that only 3% of angels registered with business angel networks were women (Harrison and Mason, 2008). A 2009 survey reported 8% were women (Mason and Harrison, 2011).

Mason C M and R T Harrison (1994) The informal venture capital market in the UK. In A Hughes and D Storey (eds) *Financing small firms*, Routledge, London, pp. 64-111

InvestorPulse (2003) *UK Angel Attitude Survey*, C2Ventures, London, www.c2ventures.com

Harrison, R T and Mason, C M (2007) Does gender matter? Women business angels and the supply of entrepreneurial finance, *Entrepreneurship Theory and Practice*, 31, 447-474

MASON, C M and Harrison, R T (2010) *Annual Report on the Business Angel Market in the United Kingdom: 2008/09*, Department of Business, Innovation and Skills.

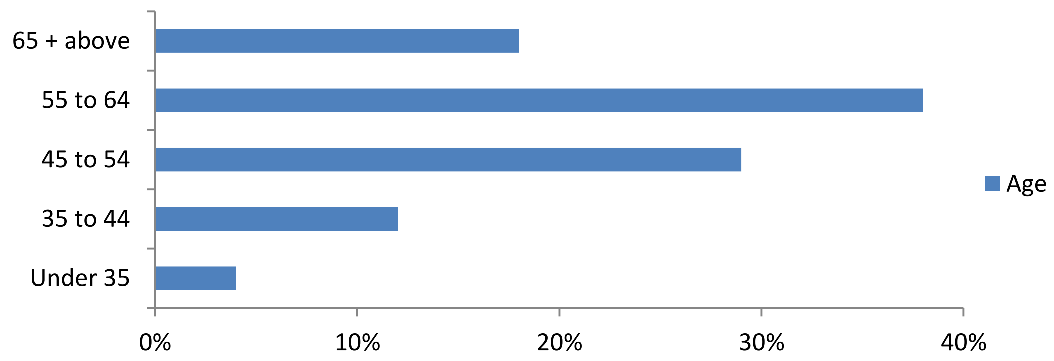
MASON, C M and Harrison, R T (2011) *Annual Report on the Business Angel Market in the United Kingdom: 2009/10.* Department of Business, Innovation and Skills.

[6] Sohl, J (2014) *The angel market in 2013: a return to seed investing*, Center for Venture Research, University of New Hampshire.

entrepreneurial venture but without the 24-7 commitment. (As someone[7] once observed, it is similar to the benefits from being a grandparent – you can enjoy the child but know that at the end of the day you are able to pass it back to the parents for the heavy duty parenting tasks).

It is therefore not surprising to see that 29% of business angels are aged 45-54 and 38% are aged 55-64. A further 18% are 65 years and older, suggesting that angel investing may be difficult to give up. However, the emergence of younger business angels – observable in the USA and reflecting technology entrepreneurs cashing out at an early age – is also apparent in the UK.

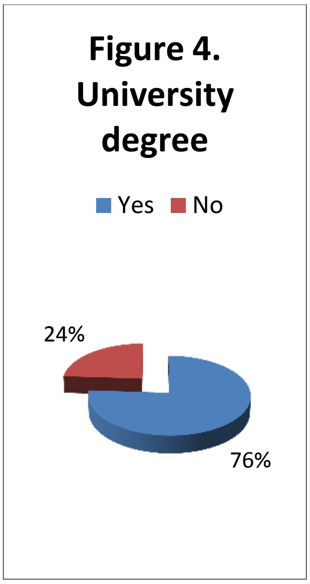
Figure 2. Age

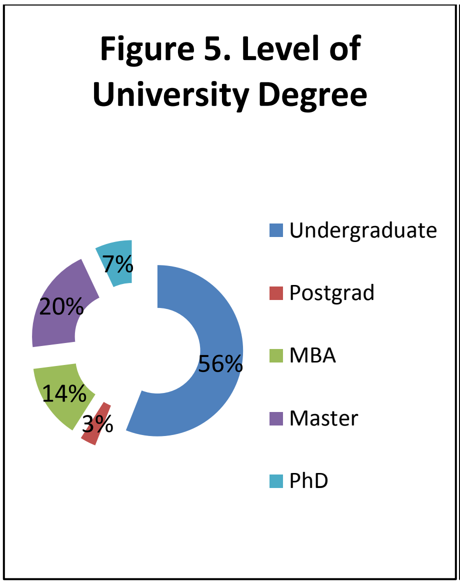


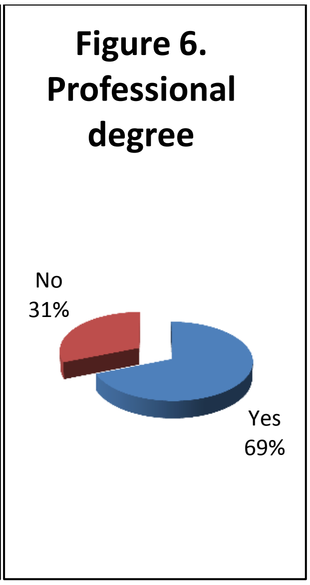
(c) Education

Angels are fairly well educated with 76% having a university degree (Figure 3). Just over half of these respondents have an undergraduate (bachelor's) degree, with remainder also having a post-graduate degree, typically either an MBA (20%) or a Master's (14%) (Figure 4). The subjects are extremely diverse, covering sciences, law, economics and business. However, arts-related subjects are rare. Just over two-thirds (69%) of angels also have a professional degree (Figure 5). Here again these are in a variety of subjects.

[7] It was actually Prof Harry Sapienza, currently Curtis L. Carlson Chair in Entrepreneurial Studies in the Carlsson School of Management, University of Minnesota, who made this observation at a PhD training session led by Colin Mason at London Business School in 1998.

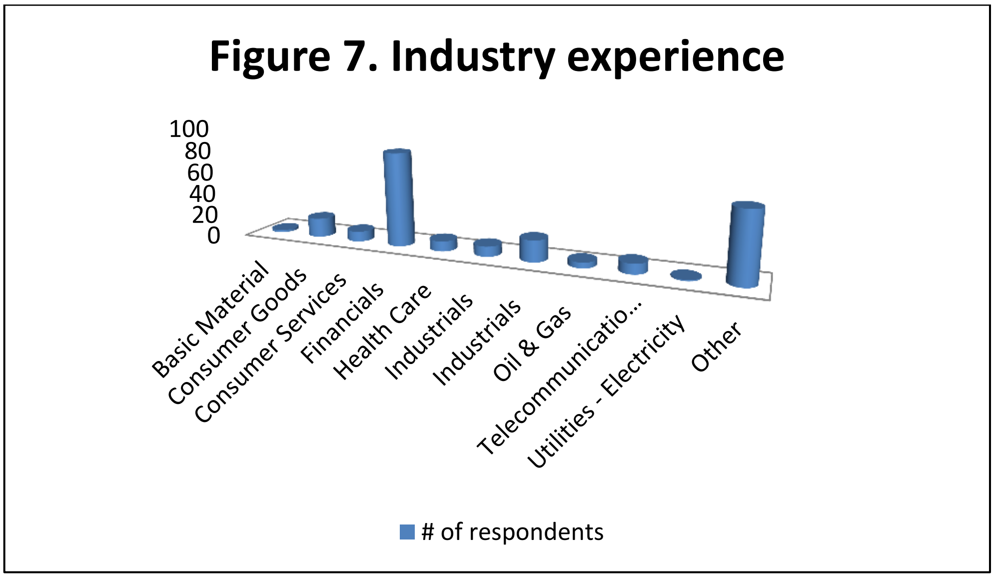






(d) Working experience

The respondents have worked, or continue to work, in a wide variety of industrial sectors. However, the dominance of Financial Services, which accounts for 37% of respondents, is striking. This may suggest the emergence of a different type of angel with different motives for becoming an angel.



(e) Entrepreneurial experience

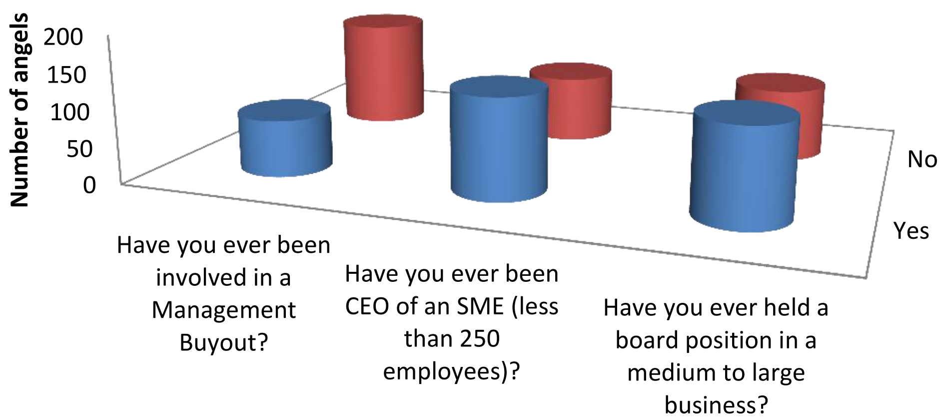
The single characteristic that distinguishes business angels is their entrepreneurial background. This takes several dimensions:

- 59% have been the CEO of an SME: although we did not explore further it can be assumed on the basis of previous research that many of these respondents will have been the founders of these companies
- 57% have held board positions in medium- and large-sized businesses
- 34% have been involved in a management buyout

This experience is not only what makes business angel investing 'smart' money but also gives them the empathy to relate to, and understand, the entrepreneurs that they have financially backed.

These figures suggest that the proportion of business angels with an entrepreneurial background may have declined slightly. In previous studies the question was framed rather differently, asking respondents if they had started a business: two-thirds reported positively in an early 1990s study,[8] 71% reported positively in a mid-1990s study[9] and 63% reported positively in a mid 2000s study.[10]

Figure 8. Entrepreneurial experience



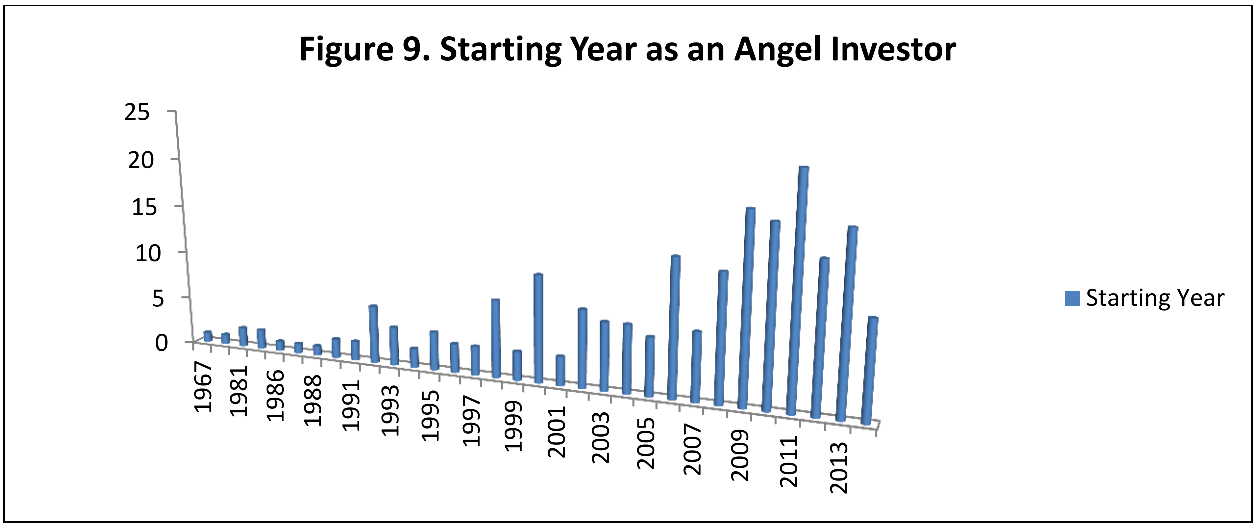
	Have you ever been involved in a Management Buyout?	Have you ever been CEO of an SME (less than 250 employees)?	Have you ever held a board position in a medium to large business?
Yes	78	137	130
No	151	92	99

ANGEL CAREERS

(a) Length of investing career

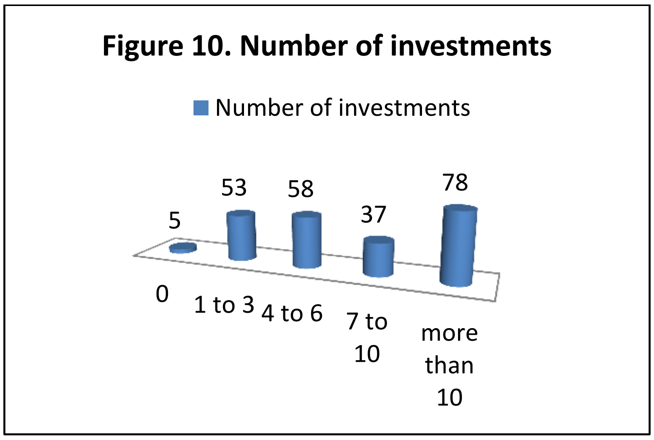
Respondents range widely in terms of the length of their experience as angels (Figure 9). Apart from one outlier, the longest established angels started investing in the 1970s (1) and early 1980s (4). Meanwhile, at the other extreme nearly one in five respondents started investing as an angel as recently as 2012. The average length of time as an angel investor is ten years (starting in 2007).

[8] Harrison, R T and Mason, C M (1992) International perspectives on the supply of informal venture capital, *Journal of Business Venturing*, 7, 549-475.
[9] Mason, C and Harrison, R (2002) Barriers to investment in the informal venture capital market, *Entrepreneurship and Regional Development*, 14, 271-287.
[10] Harrison, R T and Mason, C M (2007) Does gender matter? Women business angels and the supply of entrepreneurial finance, *Entrepreneurship Theory and Practice*, 31, 447-474.



(b) Number of investments

Respondents were split between those who had made just a handful of investments (23% having made between 1 and 3 investments) and those that had made more than 10 investments (34%) (Figure 10).



(c) Syndicate membership

The vast majority of respondents (90%) were members of one or more angel groups, syndicates and networks (Figure 11). To a large extent this reflects the survey's reliance on angel groups as a means of reaching angel investors. However, it also reflects, in part, the growth of angel groups. Indeed, more than half of the syndicate members only joined in the past five years (2010 or later) (Figure 12). This underlines the dramatic transformation of the angel market to one that is increasingly organised and managed.

Figure 11. Member of Angel Network/Syndicate/Group

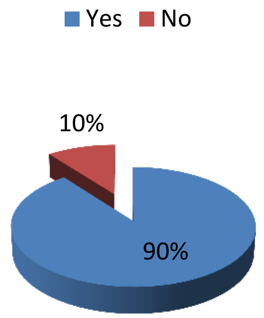
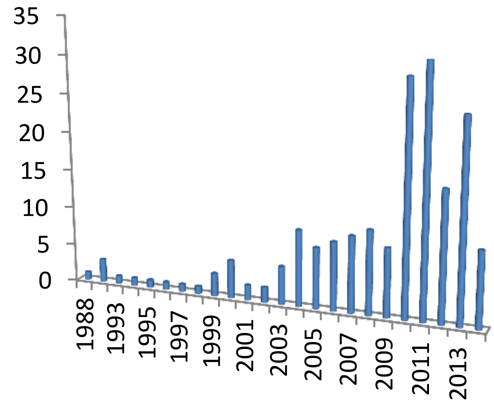


Figure 12. Year of joining angel group/syndicate/network



Two further pieces of evidence give strength to the argument that the opportunity to join an angel group has expanded the angel population. First, comparing the year when respondents started to invest and the year in which they joined an angel group indicated that 44% started investing the same year that they joined an angel group and a further 15% only started to invest a year after joining a group. It seems legitimate to infer that for vast majority of these respondents, joining an angel group was the critical step to becoming a business angel. This link is further supported in Table 1 that 30% of angels only became business angels because of the opportunity to invest with others ('agree' or 'strongly agree').

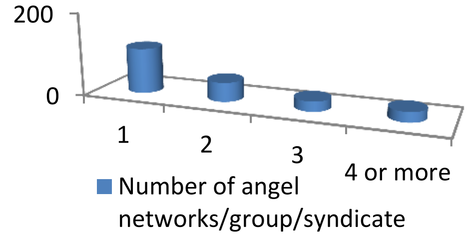
Table 1. Opportunity To Invest With Others As The Key Reason For Becoming A Business Angel

I only became a business angel because of the opportunity to invest with others:						
strongly disagree	disagree	somewhat disagree	neither agree nor disagree	somewhat agree	agree	strongly agree
6.5%	14.6%	10.6%	18.6%	19.6%	20.1%	10.1%

N=199. Mean = 4.31

Moreover, just under half (46%) of the angels who were members of an angel group (40% of all angels) were members of more than one group (Figure 13). Collectively, the respondents were members of 71 different groups located throughout the UK (see Appendix 1).

Figure 13. Number of angel networks/group/syndicate



SYNDICATION

Angels report multiple advantages of being part of an angel group (Table 2). The first group of advantages can be grouped under 'process' (cited by 41% of angels). The key process advantages were seen as being (i) the pooling of experience and knowledge, (ii) the level of knowledge of the investment process in the group and (iii) the reduction in individual effort on account of the gatekeeper's activities and the sharing of roles between group members. The second main group of advantages related to deals and deal flow (cited by 37% of angels). Key benefits were the deal flow that the group attracted (e.g. through its visibility and referral sources), the volume of deals and the opportunities for diversification and reduction of risk. Social advantages lagged behind these advantages (cited by 22% of angels). (See Appendix 2 for a full breakdown of advantages).

Table 2. Advantages of Being a Member of an Angel Group

advantage	1st advantage	2nd advantage	3rd advantage	cumulative
Deals and Deal Flow	50	31	19	100
Process	38	42	32	112
Social Networks	11	18	21	50
Other	2	3	3	8
Total	101	94	75	270

Respondents also identified disadvantages of angel groups, although these were considerably less numerous than the advantages that were cited. Disadvantages were quite diverse, suggestion that they were largely investor and group specific. The only disadvantage cited by more than handful of angels related to the inevitable person-to-person interactions that arise which were identified as having negative effects on investment decision-making. Specific points include the influence of others on investment decisions, peer pressure, herd instinct, and the investment strategies being followed. (See Appendix 3 for a full breakdown of disadvantages).

Table 3. Disadvantages of Being a Member of An Angel Group

disadvantage	1st disadvantage	2nd disadvantage	3rd disadvantage	cumulative
Deals and Deal Flow	15	7	2	24
Process	45	23	9	77
Other	9	3	1	13
Total	69	33	12	174

Just under one-third angels (31%) wanted other benefits from being a member of an angel group. These comprised an assortment of issues mentioned by just a handful of investors. Some related to the criticisms made earlier, notably relating to the quantity and quality of investment opportunities. More substantive issues related to better networking opportunities, better information and reporting on investments and opportunities for involvement in investee businesses, including board representation (Table 4). However, only 18 respondents indicated that these issues could prompt them to consider leaving the syndicate (9% of respondents who are members of an angel group).

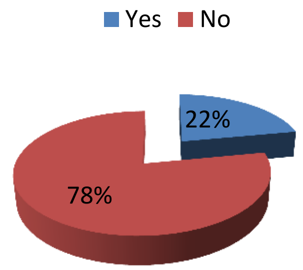
Table 4. Additional Benefits Wanted From Membership Of An Angel Group

benefit	number	% of responses
More networking and introduction opportunities	11	20.0
Improvements to the investment process	9	16.4
Deal flow – better quality and quantity	8	14.5
Better information and reporting	7	12.7
More involvement in investee businesses (incl. Board representation)	6	10.9
Exits/returns	4	7.3
Better investment support (e.g. legal, accounting, portfolio management)	3	5.5
Different types of investment vehicles (e.g. pooled investment fund, nominee investment)	2	3.6
Other	5	9.1
Total	55	

CROWDFUNDING

The growth of crowdfunding is an alternative means both for an entrepreneur to raise finance for their business and also for individuals to invest in emerging companies. Of course, only one of the types of crowdfunding takes the form of equity investing. Nevertheless, it has been questioned whether equity-based crowdfunding is, or will become, regarded as just another form of business angel investing. The evidence suggests that it may be premature to reach such a conclusion, since only 22% of respondents reported having invested through a crowdfunding platform (Figure 14).

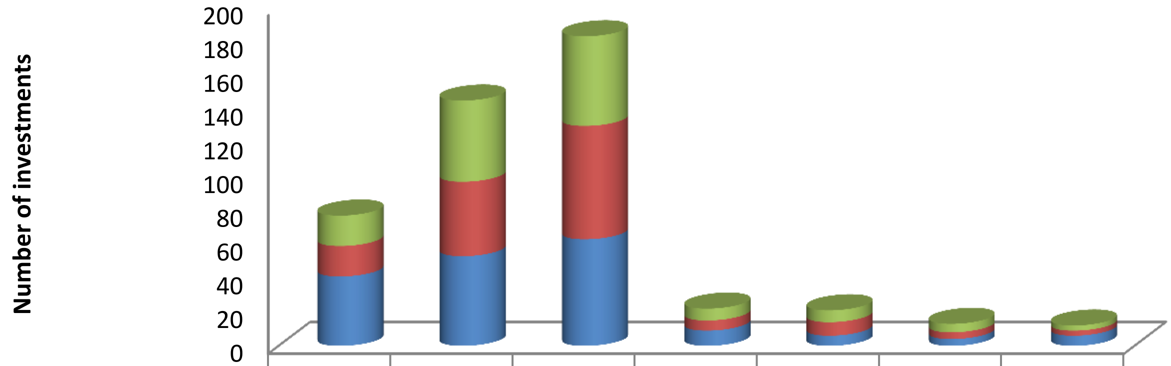
Figure 14. Have you ever invested through a crowdfunding platform?



INVESTMENT DECISION-MAKING

Angels were asked for the principal factor in their decision to invest in their three most recent investments (if applicable). We received responses relating to 473 investments. It indicates that there are two factors which dominate – market/product (i.e. what does the business do?) (39%) and the people running the business (31%). The business plan, financial attributes and the exit carry very little influence in most cases (Table 15). Investor attributes – the 'fit' between the investor and the business – also has little influence.

Figure 15. Principal Reason for investing



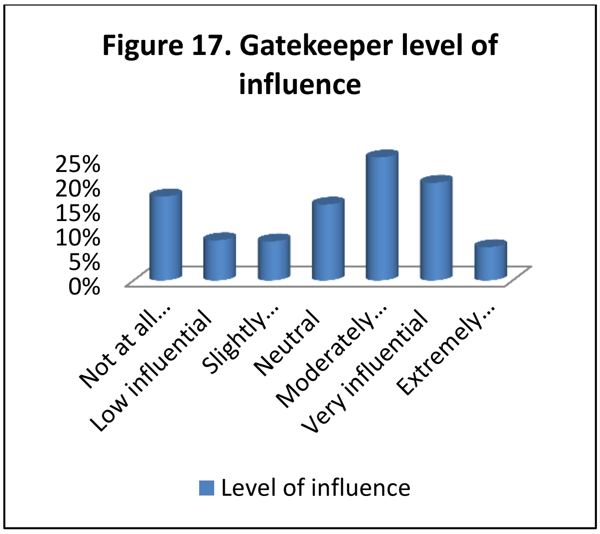
	Attributes of the Business	The People	Market/Product	Business Plan	Financial Attributes	Exit	Investor Attributes
Third Investment	18	48	53	7	7	5	3
Second Investment	18	44	67	6	8	4	3
First Investment	41	53	63	9	6	4	6

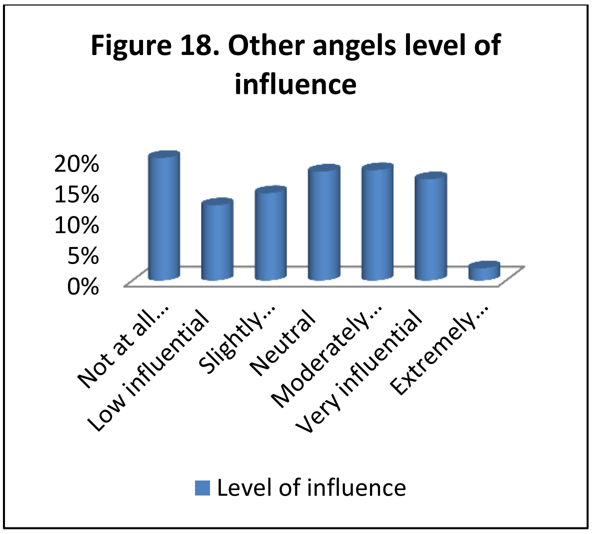
Intriguingly, the main reasons why angels turn down investment opportunities are not the mirror opposite of the principal reason for investing. People factors dominate the decision to say 'no', cited by 59% of angels, followed by the product/market, cited by 49% of angels. However, a variety of other factors are also influential, carrying more weight in the reason not to invest than for investing (Table 16).

Figure 16. Factors for rejecting an investment opportunity (more than one reason could be given)

#	Answer		Response	%
1	The People		88	59%
2	Product/Market		73	49%
3	Exit		19	13%
4	Business Plan		35	24%
5	Financial Attributes		37	25%
6	Attributes of the Business		39	26%
7	Investor Attributes		11	7%

As a member of an angel group, individual angels are no longer making their investment decision entirely on their own. They may be influenced by the opinions and decisions of both the gatekeeper (angel group manager) and other angels in the group. The evidence suggests that both have some influence on a majority of angels, and significant influence on a minority of angels. The gatekeeper plays the more influential role (Figures 17 and 18).



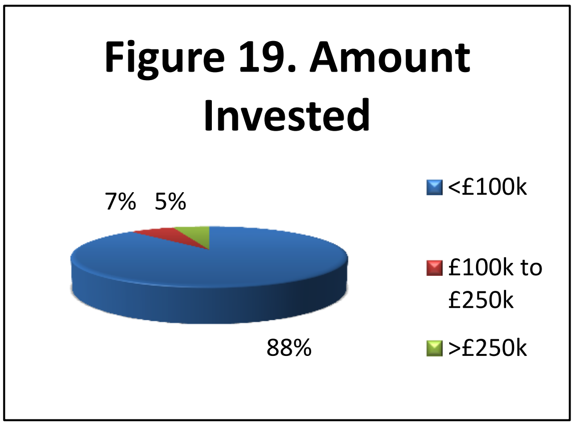


Note: response to question "to what extent was your investment decision influenced by …" Individuals responded on up to three of their investments.

It should be noted that at the individual investor level these external influences differ by investment. This might reflect that investments are sourced from different groups with different operational models or competences. Alternatively it might reflect the extent to which an investor is moving out of their domain knowledge when making an investment.

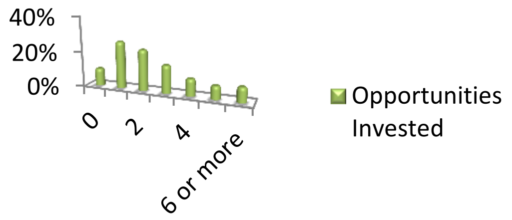
INVESTMENTS

Angels typically invest under £100,000 per investment (88%). Few angels invest larger amounts (Figure 19). This is a significant change. Previous studies have reported higher proportions of angels investing larger amounts. However, these studies were focused on solo angels. The angels in this study are much more likely to be investing with other angels (77%), so whereas entrepreneurs are raising the same, or larger amounts from angels, in this changing market it is more likely to come from several angels rather than just from one.



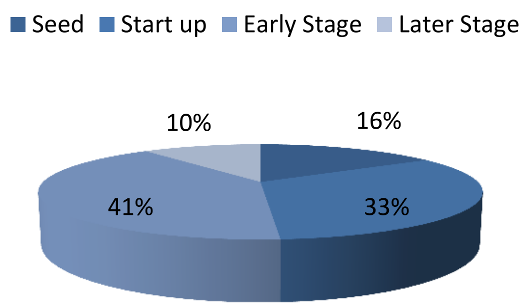
They are often investing in industries where they have deep domain knowledge: referring to their most recent three investments, 51% report having more than five years of experience in the industries in which their investee businesses operate. Nevertheless, most utilize at least one, and in most cases, several sources of due diligence before making their investments (Figure 20). Just over half report portfolio diversification as being an influence on their investment decision.

Figure 20. Number of sources of due diligence



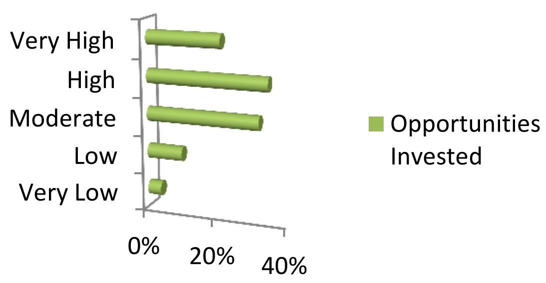
Angels predominantly invest in start-ups (32%) and early stage (41%) businesses (Figure 21). However, what stands out here is that 16% of investments were at the seed stage, a much higher proportion that reported in the BIS studies of the angel market in 2008-9 and 2009-10 (3% and 7% respectively).[11] We attribute this increase in seed investing to introduction of the Seed Enterprise Investment Scheme (SEIS) which was introduced in 2012-13, offering higher tax incentives than available under the existing Enterprise Investment Scheme (EIS) for investments in seed stage companies. This begs the question whether the SEIS has attracted new investors who are making seed investments or resulted in existing investors shifting their investing to the seed stage.

Figure 21. Stage of investee business

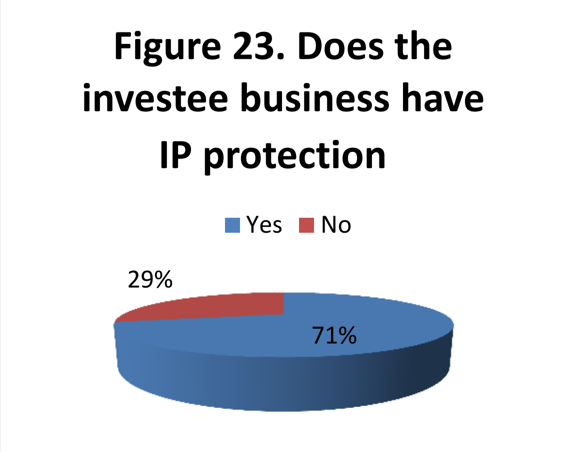


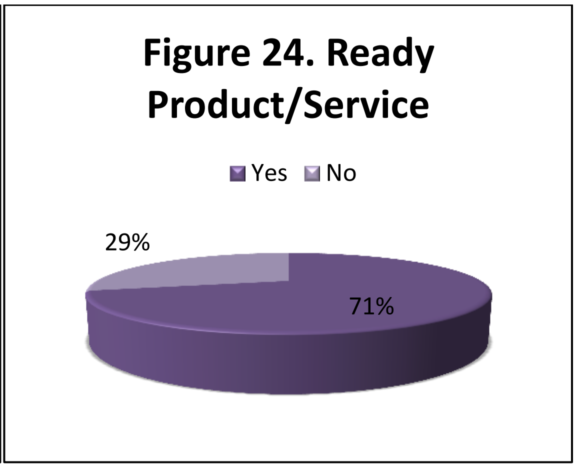
The majority of investments by business angels are in innovative businesses. One-third are classified as having a moderate level of innovation while nearly half have either high (24%) or very high (21%) levels of innovation (Figure 22). Confirming the bias to technology businesses, over half (57%) have IP protection (Figure 23). Angels also exhibit a preference to invest in businesses that have already developed a product or service (Figure 24). This is consistent with the small proportion of seed investments made by angels.

Figure 22. Level of innovation in investee businesses



[11] Mason and Harrison (2010; 2011): see footnote 5 for details.





IMPLICATIONS

The angel market is undergoing a change as angels increasingly invest as part of organised angel groups rather than on their own on in ad hoc groups. The aim of this group was to examine in more detail the nature and implications of these changes.

The first, and arguably most important, conclusion is that business angels continue to play a critical role in the UK's entrepreneurial ecosystem, providing initial funding for new and early stage businesses, many of which are innovative and knowledge-based. The key differences are, first, that it is often the gatekeeper of an angel group, rather than an angel, who will undertake the initial screening, and that that entrepreneurs now have to convince several angels, rather than just one, to write cheques.

The growth in the number of angel groups has had several positive outcomes. First, because of their greater visibility it has enhanced the ability of entrepreneurs to find angels and potentially pitch to them. Second, it has attracted new angel investors, thereby expanding the pool of angel finance. Third, it has helped close the 'second equity gap' (£500,000-£2m) that has arisen from the decline in venture capital and their shift to later and larger deals. One area for further research is the relationship between business angels and crowdfunding. This study suggests that currently only a minority of angels also invest through crowdfunding. This relationship need to be monitored over time. What is the attitude of angels to investing in a business that has previously raised funding through crowdfunding? Would angel groups be comfortable in bringing a crowdfunding platform to fill out a 'bundled' round of finance?

The visibility of angel groups also provides the opportunity to collect data and monitor investment activity on a regular basis. We have found the vast majority of angel group managers to have been willing to promote our survey to their members.[12]

There are also some other implications of the increase in angel groups.

[12] We attribute this to two factors. First, we had credibility because we were known to many of the gatekeepers, having built up relationships with them over the years, and on account of our previous angel research. Second, for each group for which we received more than five respondents we offered to undertake some customised analysis.

First, by attracting new kinds of angels – disproportionately from the finance sector, wanting to invest with others, more likely to be influenced by others in their investment decision - angel groups are contributing to changing the nature of the business angel population and further increasing its heterogeneity. Future research needs to revisit the question of what motivates individuals to become business angels.

Second, angel groups change the investment process from one that is individualised. Previously an entrepreneur only needed to convince one individual – the angel – to invest. Now more people are involved – and hence more people need to be convinced to say 'yes'. And what effect does the intra-group dynamics have on decision-making? Does group think occur? Is there peer pressure? Is deference shown to more experienced – or more successful – angels?

Gatekeepers are involved, especially in the initial screening of investment opportunities, and a significant minority of angels are influenced in their investment decision by either the gatekeeper or other angels. This is very different to the situation reported in studies of business angel investment decision-making over the past 20 years where the focus was on individual angels making their own investment decisions. Do gatekeepers assess investment opportunities differently to those of solo angels investing on their own (which used to be the norm)? This raises the very practical question whether entrepreneurs need to pitch differently to gatekeepers and angel groups than to solo angels? Our current research suggests that there are differences.[13] Meanwhile, the syndication of investments between individual angels also requires that several investors to say 'yes'.

Third, we can question whether angel investment will continue to add value as effectively as previously. Some groups actively promote themselves to passive investors, limiting their active angels to a small core. This begs the question whether they will have the bandwidth to play a hands on role across all their investee companies. Many angels are attracted to join angel groups precisely because the 'heavy lifting' is either shared or done by others. Future research needs to explore to extent to which angels still add value to their investee businesses through their hands-on involvement.

Fourth, there are criticisms of some groups by some angels who are dissatisfied by the volume or quality of deal flow, networking opportunities, or the way in which the investment process works (notably with respect to the provision of information), or, in some cases, the lack of opportunities to play a hands-on role. This suggests that there is a need for greater sharing of experience and transfer of best practice.

Fifth, it is important to emphasise that there is considerable variability amongst angels groups. Further research is needed on the different organisational and operational models and the effectiveness of these different approaches.

Finally, US commenters have expressed concerns that angel groups will evolve into venture capital funds, resulting in a reallocation of angel capital away from smaller, seed investing to bigger and later stage deals.[14] There are certainly examples of where this has occurred. In the UK this evolutionary path is to move to fund management. However, the evidence presented here does not indicate this to be a problem, but it should be monitored on a regular basis.

[13] Mason, C and Botelho, T (2014) investment decision-making by business angel group gatekeepers. Paper to the ISBE conference, November, Manchester.

[14] Sohl, J (2012) The changing nature of the angel market. In H Landström and C Mason (eds) *The Handbook of Research on Venture Capital: Volume II.* Edward Elgar: Cheltenham, pp 17-41.

In summary, the changes occurring in the angel market – notably the emergence of new organisations and new actors – have moved ahead of our understanding of how this reconfigured market works, and how it is interacting with other financial innovations that are occurring in parallel, notably crowdfunding. Ongoing research is needed to ensure that the practical advice to entrepreneurs on how to raise finance from business angels continues to relevant, and to underpin both the need for and design of policy interventions. Specifically, there is a need for regular surveys to monitor change over time. The evidence in this report on women angels and on the increasing focus on seed investing are just two examples of the value of a longitudinal perspective. This approach is essential in examining the impact of government initiatives.

APPENDIX 1. Location of Angel Groups

Appendix 2.

Advantages of joining an angel group

Advantage	**1st**	**2nd**	**3rd**	**Total**
1. Deals and Deal Flow	**50**	**31**	**19**	**100**
1.1 - Deal flow (filtered, screened, vetted opportunities)	6	7	6	19
1.2 - Deal flow	34	6	7	47
1.2.1 - Volume	30	4	2	36
1.2.2 - Variety	3	2	1	6
1.2.3 - Quality	1	0	4	5
1.3 - Bigger seal sizes	1	0	1	2
1.4 - Deeper pockets	1	4	3	8
1.5 - Diversification/Reducing risk	8	14	2	24
2. Process	**38**	**42**	**32**	**112**
2.1. - Reduced costs/shared costs	1	2	0	3
2.2 - Reducing effort in investment process (sharing, gatekeeper functions)	11	13	9	33
2.2.1 - shared DD	6	9	1	16
2.2.2- Gatekeeper functions	3	2	4	9
2.2.3 - Easier process	2	2	4	8
2.3 - Provides an Independent view of investment opportunities	0	3	1	4
2.4 - Structured events	0	2	2	4
2.5 - Scottish co-investment scheme	1	1	2	4
2.6 - EIS	2	1	4	7
2.7 - Increased influence (on the business)	0	1	0	1
2.8 - Influence/credibility	0	1	1	2
2.9 - Security	1	0	0	1
2.10 - Access to Expert advice/access to external expertise, professional support	3	4	2	9
2.11 - Pooling of experience and knowledge	19	14	11	44
2.11.1 - Level of Knowledge	15	9	8	32
2.11.2 - Type of knowledge	4	5	3	12
3. Social network	**11**	**18**	**21**	**50**
3.1 - Networks	3	8	8	19
3.2 - Social benefits	8	9	13	30
3.3 - Learning	0	1	0	1
4. Others	**2**	**3**	**3**	**8**
4.1 - Help to early stage businesses	1	1	2	4
4.2 - Others	1	2	1	4
Total	**101**	**94**	**75**	270

APPENDIX 3.

Disadvantages of angel groups

Disadvantage	1st	2nd	3rd	Total
1 -DEALS AND DEAL FLOW	**15**	**7**	**2**	**24**
1.1. - Amount of investment opportunities	5	1	0	6
1.1.1. - Too many opportunities	3	1	0	4
1.1.2. - Too few	2	0	0	2
1.2. - Quality of the investment opportunities (higher risk, worse, etc…)	5	2	2	9
1.3. - Lack of sector orientation (increase of risk, lack of interest, etc…)	0	2	0	2
1.4. - investment characteristics	2	1	0	3
1.5. - Lack of investment focus	2	1	0	3
1.6 - Repetition of the opportunities	1	0	0	1
2 - PROCESS	**45**	**23**	**9**	**77**
2.1. - Paperwork (amount)	1	1	0	2
2.2. - Time (time consuming, time between investments, time to make a decision)	8	4	1	13
2.3. - Interaction with others (peer pressure, decisions being influenced by others, investment strategies, not new blood, herd instinct , personalities, non-investors)	14	6	2	22
2.4. - Trust the Gatekeeper/leading angel views	2	0	1	3
2.5. - Complexity and lack of organization of the investment process	3	0	0	3
2.6. - Lack of involvement with the investee companies	4	3	0	7
2.7. - Lack of information regarding evaluation of companies	1	0	0	1
2.8. - Quality of the DD	3	1	0	4
2.9. - Investment pressure	2	2	1	5
2.10. - Tax (investment driver, complexity, etc…)	1	1	0	2
2.11. - Investment terms (high valuations, cannot be personalised)	4	4	1	9
2.12. - Events (too long, too frequent, too informal)	2	1	3	6
3 - OTHER	**9**	**3**	**1**	**13**
3.1. - Cost	5	0	0	5
3.2. - Exit (difficulty, timing, too much focus, forced to sell)	0	2	0	2
3.3. - Lack of founds	2	1	0	3
3.4. - Others	2	0	1	3
Total	**69**	**33**	**12**	**114**