1 Business angels as a research field

Hans Landström and Colin Mason

1.1 THE AIMS OF THE BOOK

This is the third volume of the Edward Elgar Publishing book series 'Handbooks in Venture Capital'.[1] This volume focuses on Business Angels (BAs), that is, 'high net worth individuals, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors' (Mason and Harrison, 2008, p. 309).

Our knowledge of BAs is now more than three decades old and our understanding of the phenomenon has gradually increased over this time (Landström, 2007; Landström and Mason, 2012). Nevertheless, some researchers have pointed out that this knowledge and understanding is highly fragmented – the field seems to have moved from providing 'no answers' to presenting 'a flora of answers' about the nature and activity of BAs (Shane, 2009). It is therefore important to take stock and synthesize our knowledge about BAs. This is the purpose of this volume of the *Handbook of Research on Business Angels*.

A further need for this *Handbook* arises from the expectations that politicians and policy-makers have been directed to the BA market over the past two decades as a solution to the financial gaps that have been identified among new and entrepreneurial ventures around the world. Consequently, the BA market has, and continues to attract, considerable interventions by policy-makers. However, most of these policy initiatives have been made without being anchored in the knowledge that has been developed about the market. Thus, a further objective of this *Handbook* is to compile and synthesize our knowledge in a way that is helpful to policy-makers.

1.2 THE IMPORTANCE OF BUSINESS ANGELS

As a phenomenon, private individuals who invest in high-risk projects have existed since the origin of economic activity in society. For example,

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entrepreneurs raising capital from private individuals can be found as early the First Babylonian Era in the seventeenth to eighteenth centuries BC as well as in early medieval Europe. One extraordinary example is the investment made by Queen Isabella of Spain to finance the voyage of Christopher Columbus – an investment that could be regarded as highly profitable for Spain. Investments by private individuals were also influential in the evolution of the industrial revolution during the nineteenth and early twentieth centuries. For example, in the USA, groups of private investors were responsible for financing the development of several new industries, such as railroads, steel, petroleum and glass. These kinds of investments are not unique to the USA; similar activities can be found in many other countries (Rind, 1981; Benjamin and Margulis, 2001; Gompers and Lerner, 2003).

Following the arguments by Avdeitchikova and Landström in Chapter 3 we will contend that the contributions made by BAs go beyond the amount of capital they provide to businesses. The fact that BAs provide small amounts of capital in the early stages of venture development gives them a critical role in the financial system. But, in addition, BAs are often associated with an active involvement in the venture in which they invest, providing the venture with access to key non-financial resources, such as skills, knowledge, experience and a network. An investment made by a BA may also leverage additional finance from other sources. BAs predominantly invest equity capital and therefore contribute to a strengthening of the balance sheet of their investee ventures that may enable them to go on to raise debt finance. Their investment may also give positive signals to other investors either to co-invest or provide follow-on financing. At a more aggregated level, it has been shown that BAs play an important role in the entrepreneurial eco-system of regions, thereby improving the conditions for venture growth.

1.3 THE EVOLUTION OF THE RESEARCH FIELD

Originally, the term ‘angel’ was used to describe individuals who helped to finance theater productions on Broadway (‘theater angels’). These ‘angels’ invested in such productions mainly for the pleasure of rubbing shoulders with their favorite actors. These were high-risk investments, the angels lost their money if the production was a flop but shared in the profits if it was successful (Benjamin and Marqulis, 2001; Mason, 2007). William Wetzel Jr (1981, 1983) from the University of New Hampshire in the USA was one of the first to coin the term ‘business angels’ for people providing the same kind of risk investments to young entrepreneurial ventures.

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William Wetzel can be regarded as the pioneer of research on BAs, publishing a seminal study of BAs in New England (Wetzel, 1981, 1983, 1986) in the early 1980s. But even before this, in the 1950s and 1960s, policy-makers and researchers had started to pay attention to the BA market. The financial problems experienced by many technology-based ventures at that point in time provided a starting point for studies on BAs. For example, in the late 1950s the Federal Reserve in the USA undertook a couple of studies that focused on the initial financing of new technology-based ventures (Rubenstein, 1958) that identified BAs as an important external source of finance. The first PhD thesis with an interest in BAs was presented by Hoffman in 1972 at the University of Texas at Austin (Hoffman, 1972).

However, it was the pioneering work by Professor William Wetzel that led to an increasing interest in BAs. Wetzel's study was based on the widely held perception that new technology-based ventures experienced problems when raising small amounts of early-stage financing. But this conflicted with anecdotal evidence that 'business angels' played a role in solving this problem. Little was known about the characteristics of BAs and the flow of BA capital. Wetzel's objective was therefore to 'put some boundaries on our ignorance' on BAs and their investments. His study made the BA market visible and revealed its importance. Specifically, it showed that BAs represented a substantial pool of funds for entrepreneurial ventures, and were motivated by both financial and non-financial incentives to make investments. However, the market was relatively inefficient in bringing entrepreneurs and investors together, the effect of which was to discourage entrepreneurs from searching for finance and angels in seeking investment opportunities, resulting in potential investments from not occurring.

Wetzel's New Hampshire research promoted efforts to replicate the study in California (Tymes and Krasner, 1983), and in US Small Business Administration (US SBA) studies of the Sunbelt region (Gaston and Bell, 1986), Great Lake region (Aram, 1987) and the East Coast (Haar et al., 1988). Gaston (1989a) provided a synthesis of these US SBA studies. In this so-called first generation of BA studies, researchers focused their attention on two main questions:

- How large is the BA market? (market scale)
- What characterizes the BAs? (attitudes, behavior and characteristics)

Estimating the size of the BA market is challenging. Indeed, Wetzel (1983, p. 26) argued that the size of the market is 'unknown and probably unknowable.' However, despite various conceptual and methodological

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problems several scholars have attempted to estimate the size of the market (for example, Wetzel, 1986, 1987; Gaston, 1989b; Mason and Harrison, 2000; Sohl, 2003; Avdeitchikova and Landström, 2005). The conclusion that can be drawn from these studies is that estimations of the BA market are problematic in various ways, and have to be considered to be very crude estimates of the markets in different regions. Nevertheless, they showed that across US regions and in various countries the BA markets were large, with investments by BAs in early-stage ventures exceeding those made by the institutional venture capital industry (Freear and Wetzel, 1990). Moreover, these results seem to be consistent over time.

Alongside the size of the market, another key issue was to identify the types of individuals making the investments and to describe their attitudes, behavior and characteristics (ABC of BAs). The early studies showed that the 'typical' angel investor was a middle-aged male with a reasonable net income and net worth, with previous start-up experiences, who makes about one investment a year, usually close to home. The primary method of finding new investment opportunities is through friends and business associates, and they prefer high-technology and manufacturing ventures. Their investment decision is motivated by the prospect of financial returns, coupled with strong personal (non-financial) driving forces. They are hands-on investors adding value to the ventures in which they invest.

The pioneering works conducted in the USA during the 1980s encouraged researchers in other countries to undertake their own studies of their BA markets and to make international comparisons of the BA markets. Studies were conducted in Canada (Riding and Short, 1987), the UK (Mason and Harrison, 1994), Sweden (Landström, 1993), Finland (Lumme et al., 1998), Australia (Hindle and Wenbam, 1999), Japan (Tashiro, 1999), Norway (Reitan and Sørheim, 2000) and Germany (Brettel, 2003; Stadler and Peters, 2003). Although the conditions for an active BA market differ from country to country, the conclusion from these international studies was that there were many similarities in the attitudes, behavior and characteristics of BAs irrespective of geographical context (Kelly, 2007) as well as over time (Månsson and Landström, 2005). However, despite many common characteristics, research has repeatedly indicated that the BA market is highly heterogeneous. Hence, there have been various attempts to describe the market in more nuanced ways, notably by developing various classifications of BAs (for example, Gaston, 1989a; Coveney and Moore, 1998; Sørheim and Landström, 2001; Lahti, 2011).

These early studies of the market scale and characteristics of BAs were important, not only because they made the BA market visible, which, in

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turn, stimulated interest amongst entrepreneurs, high net worth individuals and policy-makers, but also provided the basis for further research. On the back of these demographic studies researchers increasingly started to take the next step in increasing understanding of the BA market. Progress was also stimulated by the Babson Entrepreneurship Research Conference, initiated in 1981, which provided an opportunity to present research on BAs (and subsequently published in *Frontiers of Entrepreneurship Research*) and the growing number of publication opportunities, not least the establishment of a new academic journal dedicated to venture capital and other forms entrepreneurial finance: *Venture Capital: An International Journal of Entrepreneurial Finance*, in 1999. These second generation studies focused on three main issues:

- the investment decision-making process of BA
- policy issues to improve the BA market
- theoretical understandings of BA.

A major focus of research during the 1990s (and subsequently) has been on understanding the way in which BAs made their investments and specifically their investment decision-making process and criteria for selecting investments (for example, Riding et al., 1994; Landström, 1995, 1998; Mason and Rogers, 1997). This research showed that the investment decision is a multi-stage process, and that BAs are highly selective, rejecting some 90 percent of the opportunities that they see in the initial screening stage. The trustworthiness of the entrepreneur is critical in their appraisal.

For several decades the institutional venture capital marked had a focus on governmental interventions (Lerner, 2009) – on the grounds that high technology-based ventures needed substantial amounts of capital. However, in the 1990s it became obvious that new and technology-based ventures also needed small amounts of money to get off the ground. The high overhead costs of venture capital funds meant that it was uneconomic for them to make small investments. However, BAs were able to make small investments because they did not cost their time in the same way. As a consequence, the BA market became a major focus for policy intervention – starting in the UK in the early 1990s and around ten years later in the rest of Western Europe (Mason, 2009; OECD, 2011). Several studies from this era addressed the two major problems associated with the BA market: (a) how to increase the number of BAs and (b) how to address the market inefficiencies arising from the invisible character of the market that made it difficult for investors and entrepreneurs to find each other. Several studies examined the case for, and effectiveness of, Business Angel Networks (BANs) – analogous to 'dating sites' – as a mechanism through

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which BA and entrepreneurs could connect with each other (Harrison and Mason, 1996a, 1996b; Collewaert et al., 2010).

Another stream of research that was undertaken during the 1990s explored the extent to which different theoretical frameworks could explain the activities of BAs and the BA market. Several theoretical frameworks were applied in the BA context, notably, decision theory (Landström, 1995; Feeney et al., 1999), agency theory (Landström, 1992; Fiet, 1995; van Osnabrugge, 2000), social capital theory (Sætre, 2003; Sørheim, 2003) and signaling theory (Prasad et al., 2000). The conclusion that can be drawn from these studies is that the theoretical approaches that have mainly been borrowed from other disciplines only partly seem to explain the behavior of BA and the characteristics of the BA market.

A third generation of BA studies has emerged over the past 10–15 years. These studies are rather eclectic. First, a considerable amount of research has continued to investigate the investment decision-making by BAs but with a much narrower focus. For example, Parhankangas and Ehrlich (2014) have looked at how entrepreneurs could use impression management tools to seduce investors. Mitteness et al. (2012) have looked at the impact of the entrepreneur's passion on the angels' interest in investing. Related studies by Mason and Harrison (2003) and Clark (2008) have examined the reactions of angels to the entrepreneur's pitch. Other studies have looked at investment decision-making beyond the initial screening stage (Maxwell et al., 2011, 2014). Other stages of the investment process remain neglected, notably the negotiation and contracting stage where the study by Kelly and Hay (2000, 2003) remains the only significant contribution, and the exit stage that is only now attracting some attention (Mason and Botelho, 2016; Mason et al., 2016). A second theme has been a focus on specific types of angel – notably founder angels (Festel and De Cleyn, 2013), super angels and women angels (Harrison and Mason, 2007; Sohl and Hill, 2007). Third, some studies have sought to introduce a time dimension, examining angel investment trends over time, and specifically following the global financial crisis (Månsson and Landström, 2005; Sohl, 2006; Mason and Harrison, 2015).

1.4 THE CURRENT STATE OF KNOWLEDGE OF BUSINESS ANGELS

This *Handbook of Research on Business Angels* seeks to capture and document our current knowledge of BAs. It is divided into five parts: the characteristics of business angel markets; the business angel investment process; international dimensions; policy issues; and new developments.

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1.4.1 The Characteristics of Business Angel Markets

The first part of the book elaborates on some characteristics of the BA markets. Identifying BAs and accessing data have been challenges of undertaking research on BAs ever since Wetzel's pioneering research. More recently, as research has gathered momentum, a further challenge has emerged concerning the definition of BAs. The Global Entrepreneurship Monitor has been a key source of this definitional confusion by introducing the concept of 'informal investment,' which combines both investment in the businesses of family members – so-called love money – and BA investment. The challenges are reviewed by Colin Mason in Chapter 2. He reviews the definitional issues, stressing that love money and angel investing are conceptually different and emphasizing the key features of BAs: they are investing their own money, investing in private unquoted companies, investing directly and are motivated by commercial returns. However, the emergence of managed angel groups has challenged the continued validity of some aspects of this definition. He then goes on to review the various ways in which researchers have sought to identify BAs, either for sampling purposes or to estimate the size of the market. Each of the sources reviewed significant deficiencies. Mason is therefore of the same view as Wetzel, that the population of BAs 'is unknown and probably unknowable' (Wetzel, 1983, p. 26). However, he does see the emergence of angel groups as an important development, comprising a significant investment category in their own right and which is visible, in contrast to solo angels who operate informally and so remain largely invisible. He therefore advocates that efforts should be made to collect investment information from such groups on a regular basis. This is already being done by some national angel associations, such as Canada's National Angel Capital Organisation.[2]

In Chapter 3 Sofia Avdeitchikova and Hans Landström revisit one of the original topics in BA research: to measure the scope of the BA market and evaluate its impact on the economy, especially the financial contributions of BA at the macro (market) level. This is an issue that has considerable policy relevance. Most policy initiatives to support the BA activities have been introduced without any strong empirical justification nor evidence to inform on the appropriateness of different types of policy measures. In this chapter, the authors summarize our knowledge about the size of the BA market in different countries. The authors then turn their attention from the size of the market to its 'significance'; in other words, shifting from a concern with measuring the size of the market to a concern with the relative importance of BAs for funding new and growing ventures in the economy. Avdeitchikova and Landström propose two sets of indicators to evaluate the significance of the BA market – one that

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focuses on the supply perspective, that is, the relative importance of BA finance compared to other sources, and the other focuses on the demand perspective, that is, the extent to which BA finance is available in relation to the demand for capital in the small and medium-sized enterprises (SME) sector.

Previous studies of BAs have shown that the population is very heterogeneous, with various studies developing typologies to describe different categories of investor. In Chapter 4 Roger Sørheim and Tiago Botelho provide critical review of previous research on BA categorizations to highlight the key contributions. The authors note that previous studies have categorized BAs using a wide range of variables, mostly grouping investors according to investors' characteristics and often derived from data rather than theory. The main contribution of these studies has been to develop a more sophisticated and nuanced view of the definition and behavior of BAs – which breaks free from an oversimplified stereotypical view of BAs. However, in many cases the categorizations are fragmented, lacking a theoretical anchor, supply-side driven and rather static. The authors conclude that these studies have not significantly influenced policy-makers and policies to target different categories of BA.

BA investing has traditionally been a male-dominated activity. However, over time, there has been an increase in the total number of women BAs worldwide. In Chapter 5 Frances M. Amatucci provides a gender-based review of the changes occurring in the BA market. Recent reports from the USA show a significant growth of the number of women BAs who are now estimated to represent 15–20 percent of the BA market in the USA, but comprise a significantly lower proportion in other countries. Amatucci argues that there are several barriers that can prevent women from becoming BA investors. For example, women are more conservative and less experienced investors, less likely to be 'cashed out' entrepreneurs, with different social networks than men, and have different types of family responsibilities. When women become BAs they invest sectors that have often been overlooked by male BAs, and they tend to invest in women-led ventures. Amatucci identified a number of favorable trends that will continue to drive the growth in the number and proportion of women BAs. These include an increase in the number of high net worth women, an increase in the number of women-led angel investment funds and the proliferation of programs to train women BAs.

1.4.2 The Business Angel Investment Process

The BA investment process is the focus of the second part of the book. The investment process includes the BA investment decision, their

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contributions to the ventures after the investment has been made and also the 'dark side' of the relationship between the entrepreneur and investor.

From the entrepreneur's perspective, attracting investment from a BA is not an easy task. Of course, there are many reasons for this. In Chapter 6 Andrew Maxwell argues that entrepreneurs need to understand what drives BAs and how they make investment decisions. Such understanding will improve their prospects of raising finance. Thus, the aim of this chapter is to summarize and synthesize the research on the BA's investment decisions. In particular, Maxwell focuses attention on recent research that has explored the critical stage of the investment decision process when the entrepreneur and BA first meet.

BAs are regarded as 'smart' investors who make value added contributions to their investee businesses that go beyond their financial investments. Most studies of the value added process provide empirical descriptions of the hands-on support provided by BAs. However, a more comprehensive and theoretical overview of the process is lacking and theoretical progress remains slow. In Chapter 7 Diamanto Politis provides a review and synthesis of the available research evidence on the hands-on involvement of BAs after they have made their investment. Her analysis is based on a framework that comprises four interrelated dimensions of the value added process: behavior, context, reception and impact. This results in three main themes that provide insights into the process of adding value. The first theme addresses the involvement of BAs in the ventures in which they invest and how this involvement translates into a set of potential value adding benefits. The second theme addresses how and to what extent the set of potential benefits that the portfolio ventures receive may translate into benefits for the venture development process. The third theme addresses how situational contingencies may influence the value added of BAs.

As recognized in Chapter 7, BAs are active investors who create long-term relationships with the entrepreneurs in the ventures in which they invest. However, in-depth knowledge on how BAs and entrepreneurs work together to create an effective investment relationship is lacking. Nevertheless, we know that the BA–entrepreneur relationship is not always 'rosy' – there is also a dark side of the relationship in which various kinds of conflicts can arise. In Chapter 8 Veroniek Collewaert elaborates on this issue by providing a review on our knowledge about the conditions, triggers, contingencies and outcomes of conflicts in the BA–entrepreneur relationship. Collewaert shows that both extremes – the absence of conflict and extremely high levels of conflict – are rare in the BA–entrepreneur relationship. When conflicts do occur the causes have many roots, from scarce resources, personal differences, to goal incompatibilities. The

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impact of a conflict could have performance-related outcomes as well as individual affect- and attitude-related outcomes. Collewaert recognizes that not all conflicts are equally good or bad – rather, it depends on the type of conflicts that occur and various moderating influences such as team and task characteristics.

1.4.3 International Dimensions

This third part takes an international perspective on BA activity, looking primarily at the BA markets in China, Southeast Asia, sub-Saharan Africa and Latin America. In the first of these chapters, Jiani Wang, Yi Tan and Manhong Liu (Chapter 9) elaborate on the BA market in China, which has developed significantly since its emergence at the end of the 1990s. The increasing numbers of successful cashed-out entrepreneurs emerging from the internet and high-tech has resulted in the emergence of angel investment. Currently, there are numerous angel groups and matchmaking services that have served to enhance the market. The authors show that the investment behavior of Chinese BAs is very similar to that in western countries, but Chinese BAs are younger, invest more infrequently and lack an understanding of BA investing. The authors also emphasize the need to understand the role of the government in the BA market in improving the regulation and environment of BA investments.

Southeast Asia, which includes the emerging economies of Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand and Vietnam as well as the developed economy of Singapore, represents one of the most rapidly growing regions globally. Entrepreneurship has played a major role in this impressive growth. According to the Global Entrepreneurship Monitoring research the population of these countries shows an above-average intention to become entrepreneurs. But in spite of impressive economic growth and entrepreneurial activity, there have been very few studies on the impact of BA financing. This lack of research arises because many BAs operate in the informal economy and hence prefer a low profile, making them even more invisible compared to their western counterparts. In Chapter 10 William Scheela reviews the studies that have been conducted on the BA markets in Southeast Asia. He argues that BAs in Southeast Asia exhibit differences as well as similarities to their counterparts in western economies. There are apparent similarities as most BAs are experienced and hands-on investors, actively use their networks and co-invest with other BAs. However, there are obvious differences, notably in terms of the absence of a fully developed institutional framework to support BA investing. Singapore is the exception in this respect with a business environment supported by well-developed institutions.

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The response of many BAs is to focus more strongly on family relationships, and be more socially focused in their investment strategy. An additional issue raised by Scheela is the definition of BAs. The traditional way of defining BA seems to fit, except in Thailand and for the Chinese Philippines that make what are more family-like investments. This raises concerns about the definition of a BA in studies that are conduced outside western countries.

Definitional concerns are also an issue when researching BAs in sub-Saharan Africa. In Chapter 11 David Lingelbach focuses attention on this subject in his review of our knowledge of BA in sub-Saharan Africa. He emphasizes the need to consider the institutional context and the heterogeneity between countries as well as the differences from western countries. In this chapter, Lingelbach argues that the recent increase in gross domestic product (GDP) growth in several African economies, combined with a slow reduction in the level of violence, has contributed to an increase in entrepreneurial activity and, as a consequence, we can expect an increase in BA investments. However, these activities will not mimic the behavior of BAs in developed economies, but will evolve a practice that is suited to local conditions. National levels of BA investing activity are likely to continue to vary, influenced by formal and informal institutions.

In Chapter 12 Gianni Romaní and Miguel Atienza discuss the emergent BA markets in Latin America – comprising a heterogeneous group of countries, the largest of which are Argentina, Brazil, Chile, Colombia and Mexico. These countries are increasingly aware of the importance of entrepreneurship as engines of economic development. Most Latin American governments are fostering a series of policies to encourage entrepreneurship and innovation, including the creation of Business Angel Networks. At the same time, wealthy individuals are starting to invest in entrepreneurial ventures. However, Romaní and Atienza show that the BA market in Latin America is still incipient, and its development is influenced by the experience of successful companies in the USA such as Amazon and Google, which were initially funded by BA investors. In some Latin American countries, the progress of the BA market has had significant support from public policies and ultilateral organizations. Changes in the institutional frameworks during the last decade have contributed to greater political and economic stability. Nevertheless, the region has not yet a critical mass of BAs. There are several remaining obstacles for the progress of the BA markets. For example, cultural issues such as a lack of trust, makes the relationship between entrepreneurs and BAs insecure. A lack of long-term vision and a risk aversion among Latin American investors and institutional obstacles, such as a lack of clarity in defining the rules of the game, represent further barriers.

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1.4.4 Policy Issues

Worldwide, governments have implemented numerous initiatives to promote BA investment activity. However, assessment of these initiatives produce mixed results, hence discussion about their effectiveness continues to be debated. A popular approach to increase BA investment activity involves changing their risk–return ratio through the introduction of various kinds of tax incentives. The most common form of tax incentive is a front-end tax relief that has the effect of reducing the real cost of the investment. In the fourth section of the book, Cécile Carpentier and Jean-Marc Suret (Chapter 13) review and compare the evidence on the effectiveness of different tax programs around the world. This reveals that there is very limited evidence that tax incentives for BAs are effective, with tax expenditures generally being higher than the tax revenues that are generated by the investments. Carpentier and Suret attribute the failure of the programs to their poor design. However, it needs to be acknowledged that there are inconsistencies in the results of the assessments of the programs. These may be attributable to the choice of hypotheses and method in the assessments. Hence, there is the need for further research on the effectiveness of tax initiatives for BAs.

In Chapter 14 Tom Lahti and Henrik Keinonen focus on another initiative that has become popular among policy-makers around the world in order to foster BA activities, namely, Business Angel Networks (BANs). BANs have been established to increase the transparency and improve the efficiency of the BA market by providing a channel of communication that enables entrepreneurs seeking finance to come into contact with BAs, and at the same time enable BAs to receive information on investment opportunities without the need to compromise their anonymity if so desired. In this chapter the authors describe the development of BAN activities in different countries and evaluate their benefits and drawbacks. The chapter identifies different kinds of BANs and the different ways that BANs can provide their deal-brokering service and deliver supplementary functions such as training of entrepreneurs and BAs, advisory service, contract templates and the development of good practice. Evaluations of BANs have shown both positive impacts on investment activity as well as negative effects, hence there is no conclusive answer to whether there is a need for public sector interventions to support the establishment and operation of BANs.

1.4.5 New Developments

In the fifth section, in the final chapter (Chapter 15), Lars Hornuf and Armin Schwienbacher review our knowledge of crowdinvesting (or equity crowdfunding). Crowdfunding has emerged over the past decade as a new

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and promising means of financing new ventures. Crowdfunding includes a broad range of activities, including donations, pre-purchase and other reward-based forms of funding by the crowd as well as debt and equity financing. In this chapter Hornuf and Schwienbacher focus on a subcategory of crowdfunding that can be defined as 'crowdinvesting' – internet-based investment in new ventures by the crowd with the intention to obtain some residual claim on future cash flow of a venture. As a new development in the market it raises questions regarding the boundaries between crowdinvestors and BAs. The aims of this chapter are to describe the function of crowdinvesting, and to analyze the similarities and differences between crowdinvesting and angel investing. The authors argue that in many cases, crowdinvestors are likely to complement rather than substitute BAs and venture capital funds. They all tend to fill funding gaps at the lower end of the market and co-invest with professional investors in the same round.

1.5 BUSINESS ANGEL RESEARCH: SOME FUTURE DIRECTIONS

Although considerable progress has been made in BA research since the first generation studies of the early 1980s, many unanswered questions remain. Meanwhile, the way in which the angel market has evolved and the different features that have emerged as it has spread internationally have also generated new questions and challenged the ongoing relevance of existing knowledge. This final section therefore summarizes the suggestions that each of the contributors have made for future research in their research areas.

The first part of the book elaborates on the characteristics of the BA market. In Chapter 2 Mason is optimistic that the growth of the so-called visible market of angel investing, comprising Business Angel Networks and managed angel groups, will go some way toward overcoming the data deficiencies that characterize angel investing. He advocates that efforts are made by researchers, national angel associations and governments to collect information on a regular basis on the investments that angels make through these networks. On the other hand, he is pessimistic that the inherent problems arising from the invisibility and anonymity of angels can be overcome to accurately document investment activity in the invisible market unless government instigates changes in the way that shareholding information is reported and makes accessible information on the users of tax schemes. He does see a role for the Global Entrepreneurship Monitor to adjust its methodology for collecting investment data so that angel investments can be separately identified from other types of informal investing.

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The chapter by Avdeitchikova and Landström (Chapter 3) discusses how we can measure the scope of the BA market and evaluate its impact on the economy. In this respect there are some key issues for future research, for example:

- How to measure the scope and significance of BA, not only on the national level, but also at the regional level.
- Methodology needs to be improved, for example, using register-based data such as tax data to capture the BA (informal investors) market in a country.

In Chapter 4 Sørheim and Botelho argue that the BA market is very heterogeneous and in order to understand the market we need more effective ways of identifying different categories of investors:

- Future categorizations need to incorporate different kinds of 'proximity' into studies of BA categorizations, for example, social, technology, cognitive and cultural proximities.
- We also need categorization studies from a demand-side perspective, addressing the manner in which entrepreneurial ventures experience the process and contributions of different categories of BA.
- There is a need for research on BA categories in different geographic regions to counter the current dominance of studies from the USA and Europe.

In Chapter 5 Amatucci takes a closer look at our knowledge of one significant category of BA – women. This is a fairly new research topic, hence there are several interesting issues for future research:

- There is an increasing number of high net worth women worldwide, but we know little about whether the source of net wealth (inherited or self-generated) influences angel investment behavior.
- There are many barriers for women making BA investments. What are these barriers, what consequences do they have and how could these barriers be removed?
- There are an increasing number of women angel investor groups, which raise questions regarding women angel group dynamics, the effects that these groups have on the investment process and the financial performance of the investments.

The second part of the book takes a close look at the BA investment process. In Chapter 6 Maxwell examines the BA's investment decision. Even though

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there has been considerable research on this topic, there is still a lot more to know. Maxwell suggests the following topics for future research:

- There is a need to understand the various stages of the investment decision process, and to find alternative ways to describe the process.
- More and more investments are made in syndicates and groups; it is therefore essential to investigate the impact of group decision-making on the investment decision.
- In the growth of the venture, the entrepreneur might have many financial options, of which BA funding is only one. Understanding these alternative options and the reasons why entrepreneurs choose one source rather than another is important.

In Chapter 7 Politis synthesizes our knowledge with regards the way BAs add value beyond their financial investment in the ventures in which they have invested. She suggests the following topics for future research:

- The involvement of BAs and how this involvement translates into value adding benefits: how important are the frequency of contacts, different forms of involvement and active involvement? How do the various forms of involvement serve as complements or substitutes to each other, and how do various forms of involvement cluster together? To what extent do various forms of involvement produce different kinds of value added benefits?
- The translation of potential benefits into valuable and helpful effects on the venture development process: how do the frequency and forms of contacts by BAs impact business performance? Do different roles have different impacts on different performance indicators?
- The influence of situational contingencies on the value added by BAs: for example, what is the relative influence of macro (country and regional) versus micro (individual or firm) level contingencies on the hands-on involvement of BAs?

In Chapter 8 Collewaert elaborates on the 'dark side' of the relationship between the entrepreneur and BA when different kinds of conflicts arise in the relationship. The areas for future research that she suggests include the following:

- Questions related to: How does conflict arise? What are the consequences of BA–entrepreneurs conflicts? How do BAs and entrepreneurs deal with their conflicts?

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- To measure conflicts is difficult, often using some form of subjective 'conflict scale,' so it is important to develop alternative measures.
- Going beyond conflicts to study the role of trust in the BA–entrepreneur post-investment interaction.

The third part of the book takes an international perspective on BA investing. One general issue that is discussed by all authors in this part is related to the lack of good quality data and the need to improve the databases on BAs. But there are also more specific questions. In Chapter 9 Wang, Tan and Liu emphasize the importance of tracking the development and characteristics of the BA market in China in terms of market size, factors impacting BA investment decision-making, factors impacting BA performance, legal barriers to the BA market, the relationship between BAs and entrepreneurs and assessing public policy interventions.

In Chapter 10 Scheela argues for more research on BAs in Southeast Asia, extending research to more countries in the region and developing larger databases within each country. He identifies the need for both macro studies – similar to the Global Entrepreneurship Monitor data – to collect data on BAs in order to identify characteristics and trends in BA investing and micro studies to better understand the BA investment process in terms of similarities and differences between the countries and to develop policy recommendations.

Lingelbach argues in Chapter 11 that Africa provides a unique research setting that is characterized by dominant elite coalitions who often block innovations that can erode the rents on which their position in the social order depends, extreme economic shocks in the form of commodity booms and busts, famines and migrations and institutional diversity, all of which lends itself to comparative research. In this context, Lingelbach suggests the following research questions:

- How important is BA investing in the African context? What are the similarities and differences in BA investing between sub-Saharan African and other emerging economies?
- How do BAs structure their investments? How do BAs connect to venture capitalists?
- In what way do Africa's distinctive institutional environments shape angel investing activity? How are BAs investing markets organized in Africa?

In Chapter 12 Romaní and Atienza discuss the research on the BA markets in Latin America. This continent has not attracted much attention, which opens up a broad range of research possibilities, for example:

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- Business Angel Network (BAN) activities, for example, case studies of BANs and best practices as well as successful BA investments, studies of the discontinuity of BANs, the causes and potential viable alternatives.
- Cultural aspects of BA investments, for example, the analysis of trust, and incentives that can increase the number of BAs in Latin America.
- Comparative studies between countries in Latin America and also with more developed countries.
- The geography of BA investment is of particular interest in Latin America as there is a high degree of spatial concentration of the population, and there exists differences in the level of fiscal, administrative and political decentralization in each country.

The fourth part of the book reviews our knowledge of policy interventions that have been undertaken in order to promote BA activities. In Chapter 13 Carpentier and Suret review the evidence of the effectiveness of different tax programs. They conclude by identifying three important questions that are not addressed in earlier research and that could be fruitful avenues for future research:

- Even if tax incentive programs attempt to improve investors' rate of return, we do not know whether this objective has been reached.
- The tax incentives programs are generally open to all taxpayers or qualified investors, but we do not know what kind of investors are attracted by these tax incentives.
- The assumption that back-end incentives provide the most positive outcomes and are less costly than front-end incentives needs to be tested.

In Chapter 14 Lahti and Keinonen take a closer look at another policy initiative that has become popular among policy-makers to foster BA activities – Business Angel Networks (BANs). The authors suggest the following topics for future research:

- We need to know more about the management of the BANs, and particularly the impact of the human and social capital of the BAN management on the quality of the services provided by the BAN.
- From various studies we know that BANs operate differently in different spatial contexts. Research is needed that examines the effects of the maturity of the market on the way that BANs operate and on their performance.

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- From the perspective of the cost-effectiveness of public support, BANs should be compared with providing tax initiatives to BAs.

The focus of the final part of the book is on crowdfunding, a new phenomenon in the BA market. Crowdfunding is an emerging instrument for financing of new ventures that offers considerable potential. In Chapter 15 Hornuf and Schwienbacher review our knowledge on crowdinvesting. They conclude that very little is known about crowdinvesting, mainly due to lack of data, hence there are considerable avenues for future research:

- Risk and expected return of crowdinvesting for the crowd, the types of firms that are created by crowdinvestors and realistic exit routes for crowdinvestors.
- Issues related to the crowd more directly, for example, what motivates the crowd to invest in new ventures, and are their motivations different from BAs?
- Questions related to the structure of the platforms and contracts: Do some contract forms attract more investors and potentially larger funds? Do investor restrictions imposed by platforms affect crowd participation?

In summary, the important role that BAs play throughout the world in financing entrepreneurial businesses means that they should be a major focus for entrepreneurship researchers. Our contributors have indicated that while considerable progress has been made in understanding the BA market, there remains a large number of topics where further research is needed. For example, the changing organization of the market, specifically the importance of managed angel groups and the emergence of crowdinvesting, challenges the ongoing relevance of the existing body of research and raises new questions. In addition, the internationalization of angel investing challenges our existing definitions and research and also raises new questions. Governments have recognized the importance of BAs and introduced a variety of initiatives to stimulate their investment activity. This also raises a variety of research questions. Finally, the challenge in BA research – especially in comparison to venture capital and other parts of the entrepreneurial finance market – is the lack of databases that enable sophisticated statistical analysis. However, it would be an extremely retrograde step for the research agenda to be dictated by data availability. We therefore encourage scholars to use their ingenuity and creativity to overcome data problems to engage in the research agenda that is outlined here.

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NOTES

1. The first volume in the series, Landström (2007), *Handbook of Research on Venture Capital*, focused on the knowledge accumulation within the field of institutional venture capital, corporate venture capital and informal venture capital. In the second volume, Landström and Mason (2012), *Handbook of Research on Venture Capital: Volume 2*, we paid particular attention to the global development of venture capital.
2. http://www.nacocanada.com/naco-academy/research/angel-activity-reports/.

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This book synthesizes 30 years of research on business angels by charting the significant role they play in the financing of entrepreneurial businesses in both developed and emerging economies. The expert group of contributors examine business angels themselves, the evolution of the market and the role of public policy in influencing angel investment. Finally, the editors provide an agenda for future research on business angels. 1. Business Angels as a research field Hans LandstrÃ¶m and Colin Mason. 2. Researching Business Angels: Definitional and data challenges Colin Mason. 3. The economic significance of Business Angels: Towards comparable indicators Sofia Avdeitchikova and Hans LandstrÃ¶m. 4. Categorisations of Business Angels: An Overview Roger SÃ¸rheim and Tiago Botelho. 5. Women Business Angels: Theory and Practice Frances M. Amatucci. 6. Investment decision making by Business Angels Andrew Maxwell. 7. Business Angels as smart investors: A systematic review of the evidence Diamanto Politis. 8. Angel-entrepreneur r Business angels expect their investment to give them a good return. Some will take an active role in the startup business. While some business angels are active board members, others act as advisers and keep out of day-to-day control. Many become sleeping partners. In other words, they provide the capital and but have nothing to do with the running of the company.Â Business angels use their personal money. Venture capital firms, on the other hand, use either other peopleâ€™s money, the companyâ€™s money, or both. Seed capital refers venture money that business angels invest very early in a productâ€™s or projectâ€™s life. In the advanced economies, more start-up investments come from business angels than from venture capital firms. Business Angels â€“ a huge investment source.