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Business angels and value added: what do we know and where do we go?

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Abstract

Business angels have been highlighted as important stakeholders for potential high-growth ventures. Extant empirical research provides evidence that they not only contribute with money but also bring added value to the ventures in which they have invested. However, despite the reported benefits of the value added provided by these investors there are very few studies that try to conceptualize this important issue. The present study seeks to meet this shortcoming by presenting a review of literature and research on business angels and value added. The overall objective is to recognize the range of value added activities that business angels have been reported to perform, aggregate the findings into a set of distinct but complementary value adding roles, and then link these roles to theoretical perspectives that explain why they have the potential to contribute to added value. Four different value added roles performed by informal investors are presented together with an explanation of how they can be seen

as complementary to each other. The following discussion is then used to guide future studies of business angels and value added towards areas where our knowledge is still limited.

Keywords:

business angels value added informal venture capital

Notes

1. The definition of business angels varies significantly in the literature (Kelly 2007). In this study I have used this broad definition in order to be able to capture the phenomenon of value added as widely as possible. Although this may compromise the rigidity of the findings this choice was considered satisfactory, given the exploratory aim and purpose of the study.

2. Even if it is generally acknowledged that business angels are value adding investors who play a vital role for the development of new ventures it is important to point out that not all research agrees with the generality of this statement. Hence, although it can be assumed the larger majority of business angels have the potential to add value to their portfolio firms through their hands-on involvement scholars should equally be aware that this ability could differ depending on their prior management and entrepreneurial experience and the type of involvement that usually is performed (e.g. S⊘rheim and Landström 2001).

3. Growth in sales generally requires capital investments, which can have a negative impact on firm efficiency/liquidity (Murphy, Trailer, and Hill 1996).

Editors’ Introduction: Habitual Entrepreneurs and Angel Investors
Source: Entrepreneurship Theory and Practice
The survival of venture capital backed companies
Source: Venture Capital
Informal risk capital in Sweden and some international comparisons
Source: Journal of Business Venturing
After the cash arrives: A comparative study of venture capital and private investor involvement in entrepreneurial firms
Source: Journal of Business Venturing
Angels: personal investors in the venture capital market
Source: Entrepreneurship and Regional Development