Where are business angels from?

Business angels, those who invest in entrepreneurial ventures at a very early stage, play a key role for new business development, which can help improve a country's productivity. But where are business angels from? ***Fei Qin, Tomasz Mickiewicz,*** *and* ***Saul Estrin*** *write that people are more likely to become investors in entrepreneurial ventures when their peers have higher levels of entrepreneurial business experience.*

Business angels – in emerging economies often termed informal investors—are those who invest in entrepreneurial ventures at a very early stage – often those without a tested product or a proven business model – when there is little formal basis to assess risks. These business angels, or angel investors, play a key role in the formation of new ventures, perhaps second only to the entrepreneurs themselves. But who becomes a business angel? In a recent piece of research, we address these questions using information from the largest entrepreneurship dataset globally, the Global Entrepreneurship Monitor (GEM). Our analysis covers 1,287,997 individuals across 92 countries and 14 years. We examine what leads individuals to become angel investors, focusing on both individual characteristics and meso-level institutions, notably the role of social influences.

Business angels are providers of critical early finance to entrepreneurs at the start of new venture development, but they do not only invest money; often they also bring their knowledge, experience, and networks to the new venture. Their motivation as investors is usually different from that of more conventional providers of finance: they are more intrinsically motivated and are more engaged in the act of new venture creation.

Peer influence, experience, and networks

We find that people are more likely to become informal investors when individuals similar to themselves, their peers, within groups defined by age, gender, income, and neighbourhood, have higher levels of entrepreneurial business experience. Such social environments, with a greater density of entrepreneurs, provide more role models as well as greater networking opportunities. This enables potential business angels to form the relevant and appropriate ties critical for access to knowledge and for identifying and obtaining other resources including finance for investment. This works two ways between business angels and entrepreneurs, especially in a digitalised economy. A greater number of entrepreneurs in the peer group also implies that potential informal investors will be more likely to encounter suitable investment opportunities from which to choose.

Moreover, we find that the richness of entrepreneurship competence in one's peer groups can to some extent offset the disadvantages of the person's own lacking entrepreneurship experience.

Across our sample of developed and emerging economies, we found economic growth to be associated positively with the likelihood of someone becoming a business angel. Previous research suggests that higher level of development is associated with lower entrepreneurial propensity, which does not seem to apply to informal investment activities. The likelihood of being an angel investor is actually higher in developed economies.

Financial resources are abundant in developed countries; however, the problem is how to channel them towards the most productive uses. Tax incentives may be utilised to encourage private equity and angel investment, and Britain is an example of a country where some measures of this kind are utilised. Yet, given the importance of the social channels of influence we identified, this may need to be accompanied by active drive to promote role models and to facilitate contacts between those with entrepreneurial experience and those interested in private equity finance, including digitally. Moreover, this approach may help to widen participation in some specific social groups defined by location, ethnicity, age, and gender.

We conclude that an important way to make an economy more productive is to facilitate and widen the forms of investment that enable and create change and development; that is by supporting entrepreneurial finance.

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Notes:

- *This blog post is based on [Homophily and peer influence in early-stage new venture informal investment](), in Small Business Economics (2021).*
- *The post represents the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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