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DO BUSINESS ANGELS LEARN OR ARE THEY BORN THAT WAY? (SUMMARY)

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SUMMARY

DO BUSINESS ANGELS LEARN OR ARE THEY BORN THAT WAY?

Ellen Farrell, Saint Mary's University

Principal Topic

Interest in habitual behaviour is typically underwritten by the expectation that experience gained from previous ventures leads to reduced risk and improved future performance. Success is implied by habitual angels' re-investment behaviour because learning is thought to take place. But do previous experiences actually result in learning?

This paper explores whether angels learn or whether they possess good investment information ex ante. In this study, two major perspectives contrast the knowledge that angels bring to their informal investments compared with the knowledge that they acquire as they conduct repeated investments. The theory of prior information explores the information that different parties bring to a decision which causes them to make different risk-oriented decisions. The theory of learning-by-doing investigates the ability of habitual angels' to learn by having multiple investment experiences.

Method

A random sample of directors of 1059 newly incorporated Canadian firms were surveyed by telephone to identify the presence of informal venture capital in their capital structure. Detailed postal surveys were sent to 432 directors of the qualified firms. A response rate of 28.7 percent was achieved and 34.6 percent of respondents were angels. The novel dataset permits the review of habitual angels' first and fourth investments (testing learning-by-doing), and permits the review of novices' first investments and habituals' first investments (testing the theory of prior information). Variables that define formal venture capital were the measures.

Results and Implications

Angels in the sample demonstrate some practices that imply some learning has taken place, however, none of them are significantly better in generating deal flow, adding value and pricing deals. On the other hand, some angels come to investments with information that is significantly more informed than others. This lends some credit to the prior information theory and refutes the theory of learning-by-doing.

Implications indicate that interventions may be necessary to improve angels' abilities to learn to ultimately improve performance. More fully informed angels can have profound impacts on the size of the angel/entrepreneur marketplace and efforts to improve their learning can accelerate that impact. The findings can also help business angel networks plan professional development activities for their members, and may help angels understand the areas where learning may be most apt to take place.

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