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THE CORE OF INFORMAL INVESTORS: EFFECTUATION AND ENTREPRENEURIAL BRICOLAGE EXPLAINING THE VALUE-ADD OF BUSINESS ANGELS

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Principal Topic
Informal equity capital investments by Business Angels take an important role in the new venture creation process and in contrast to most other financial investors Business Angels often have a distinct entrepreneurial background of their own. Aside from monetary funds Angel investors also add non-financial value to their investee businesses through active involvement and hence not only have an entrepreneurial background, but also act entrepreneurially in the post-investment phase of venture financing. This suggests the applicability of entrepreneurial theories to understand and explain underlying mechanisms and outcomes of Angel investments. Although Effectuation and Entrepreneurial Bricolage are two emerging and broadly discussed theory streams in the entrepreneurship literature, only one dimension of the effectuation body has found its way in the informal venture financing context, while a comprehensive analysis of both theories is missing so far. Building on these theories, this paper sets out to empirically investigate unexplored antecedents of Business Angels’ non-financial value adding potential. The paper proposes that applying the principles of Entrepreneurial Bricolage and Effectuation in their decision-making positively influences the informal investor’s potential added value in the post investment phase.

Method
The empirical analysis of this study comprises data from 84 active Business Angels, obtained through an online survey. All Angels have made at least one early stage investment in the past 10 years. Established constructs from the Effectuation, Entrepreneurial Bricolage and investor involvement literature have been slightly adapted to fit the informal equity-financing context. Hypotheses were tested using OLS regression analysis.

Results and Implications
The paper’s empirical analysis confirms that a focus on Effectuation and Entrepreneurial Bricolage principles in their decision-making process does benefit the informal investor’s value-adding potential. Precisely, the application of the effectual sub-dimension of leveraging unexpected contingencies, as well as general bricolage behavior have a strong positive and highly significant effect on the non-financial value add of Business Angels.

This study is among the first to provide a comprehensive empirical test of two of today’s most prominent entrepreneurial theories. By linking entrepreneurial theory to the informal investment context, it sheds light on antecedents of Business Angels’ value-adding potential and provides practical guidance towards improving early stage investment outcomes.

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