6-9-2007

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Recommended Citation
Cowling, Marc; Harding, Rebecca; Harrison, Richard; and Murray, Gordon (2007) "A VIRTUOUS CIRCLE? LONGITUDINAL EVIDENCE ON INFORMAL INVESTMENT ACTIVITY IN THE UK (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 27: Iss. 2, Article 2.
Available at: http://digitalknowledge.babson.edu/fer/vol27/iss2/2

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SUMMARY

A VIRTUOUS CIRCLE?
LONGITUDINAL EVIDENCE ON INFORMAL INVESTMENT ACTIVITY IN THE UK

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Principal Topic

The importance of Informal Investors/Business Angels as a source of risk capital to early-growth enterprises continues to gain increased policy recognition. Governments now widely support this informal sector with public funded initiatives aimed at both increasing the supply of early stage investors (e.g. via income and capital tax incentives), and reducing information asymmetries in the operation of this informal capital market (e.g. via Business Angel networks). Further, we seek to ascertain whether or not persons with direct entrepreneurial experience also represent a group with a high probability of subsequently investing in other young firms. Evidence of owner-managers being particularly likely to become informal investors would support a ‘virtuous circle’ argument.

Method

As has been repeatedly noted by researchers in the field, reliable identification of the population of informal investors remains problematic. The Global Entrepreneurship Monitor with its growing time series data across some 40+ nations gives us one opportunity to track informal investment activity. The present study uses UK data from five annual surveys covering the period 2001 to 2005. We seek to ascertain trends in informal investor activity. We are also interested in the dichotomy of activities between informal, but informed and professional, investors and the separate community of (‘kinship’) investors that restrict their financing horizons to family and friends – so called ‘love money’. The changing balance between these two groups over time allows us to track on the professionalisation of the business angel community.

Results and Implications

Initial analysis shows that the median scale of informal investment in the UK has declined since 2001 from £30,000 ($45,000) to £10,000 ($15,000) in 2005. Yet the proportion of informal investors directing finance to family/friends/relatives has remained fairly constant at 80% of total activity. This implies that around 20% of total UK informal investors are business angels in the accepted sense. The figure has changed little over time. The ‘typical’ informal investor in the UK is male, likely to be an entrepreneur already, and has a graduate level education. The validity and possible consequences of this information is further explored in the paper. Finally, we comment on government policy expectations in the light of our analysis.

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