THE PROFILE AND MOTIVATIONS OF BANK ANGEL INVESTORS (SUMMARY)

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SUMMARY

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Principal Topic

This study advances knowledge in the field of new venture funding, specifically on angel investing by examining the angel investors who found new banks. Angel investors are an important source of start-up capital; capital provided by angels worldwide is estimated to be many times the amount provided by venture capitalists. As a foundation, the study provides a composite profile of general angel investors drawing upon Benjamin, Freear, Gaston, Margulis, Robinson, Sohl, Van Osnabrugge, and Wetzel. It also draws upon Sullivan & Miller’s work on investment motivations and investor type clusters. In addition to advancing the discipline’s knowledge on angel investors, the study is also relevant to banking industry structure research. While there have been studies of economic factors leading to new bank formation, there has been no study of what motivates the angel investors that fund new banks.

Method

This descriptive study used a mixed methods approach: Quantitative analysis of 330 mailed-out survey responses from bank founders at 108 new banks in 33 states; qualitative data obtained through interviews with 21 bank experts and bank angel investors. Unlike most new ventures, starting a new bank requires significant public and regulatory disclosure which yields a robust and accessible database with good sample sizes (over 100 banks are founded each year).

Results and Implications

The study found that bank angels have a similar profile to general angel investors: mostly wealthy, middle aged, male entrepreneurs that are motivated by financial returns and also enjoy the non-financial aspects of angel investing. The combination of quantitative and qualitative methods was particularly powerful for examining the motivations of bank angel investors. The most noteworthy finding was that bank angels expected a lower return on their bank angel investment than they expected on non-bank angel investments (and lower than general angel investors). However, bank angels also perceived less risk in their bank investment consistent with the general risk-reward theory in finance. Also, given that over half of the 330 respondents were also angel investors in non-bank ventures, the data yielded additional insights on how angels look at investments in different industries.

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