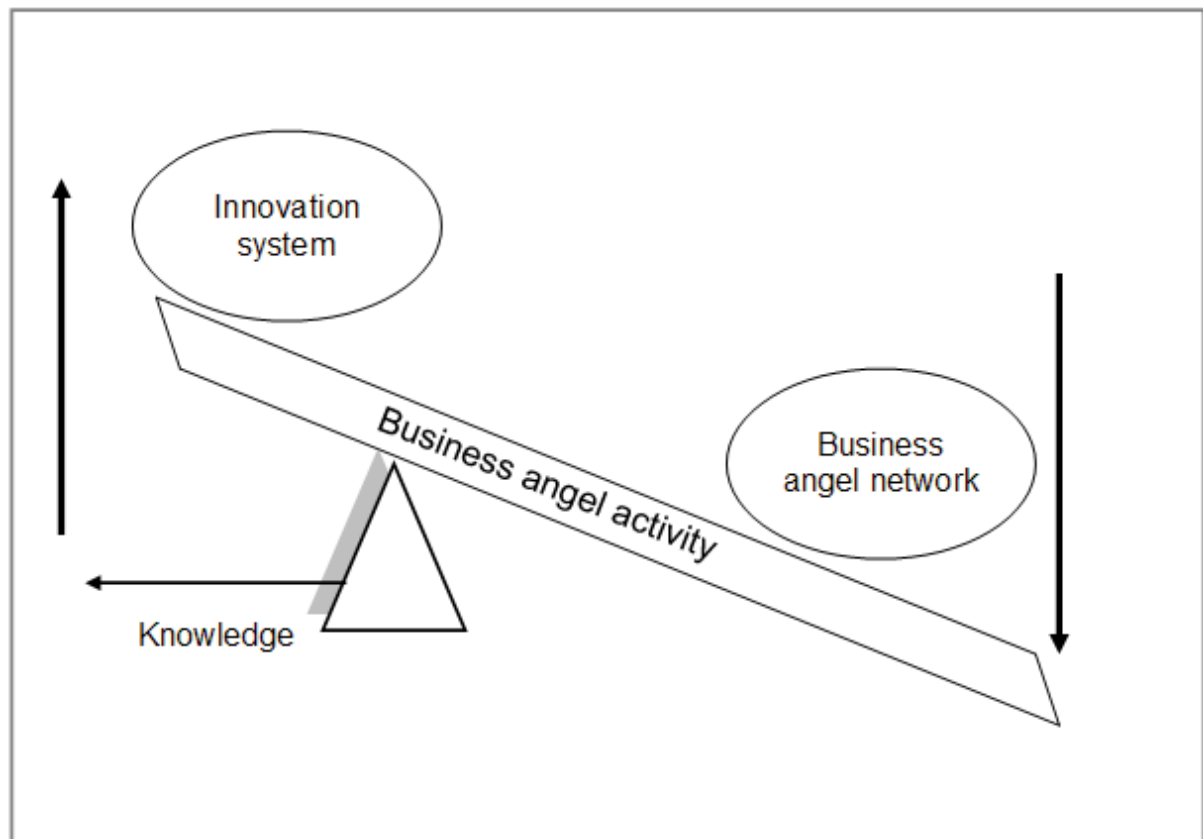


Handbook in business angel networks

- The Nordic case



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FOREWORD EDITION 1 (NOV. 2003).

This handbook is the result of a project undertaken in the later part of 2003 on the initiative by Stockholm School of Entrepreneurship with major financing support from Nordic Industrial Fund and supplementary financing and contributions in kind from Svenskt Näringsliv and Stockholm School of Entrepreneurship, both Sweden, and SND, Statens nærings- og distriktsutviklingsfond and NTNU, Norges teknisk-naturvetenskapliga universitet, both Norway and DBAN, Dansk Business Angel Netværk, Denmark. Other important support has been provided by Rasmus Falck, NHO, Næringslivets Hovedorganisasjon, Norway.

The handbook is made available free for downloading at or through the home sites of the supporting organisations.

We invite all readers to provide comments to the handbook by contacting us through the addresses below. Thus we will for some time devote time to successive updating and improvements, maybe including also information on the other Nordic countries, Iceland and Finland.

Project leader at Stockholm School of Entrepreneurship has been Professor Staffan Gullander. Glenda Napier, who earlier worked for DBAN, has been involved in this study as independent consultant. Glenda is presently working at the Milan office of International Organisation for Knowledge Economy and Enterprise Development (IKED)

We would like to express our sincere thanks for all the helpfulness provided by many people involved in the realisation of the handbook with regard to interviews, meetings and conferences.

Stockholm and Milan November 2003

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INTRODUCTION

Background

A growing interest for the informal part of the venture capital markets has developed throughout Europe in the past decades along with the need for promoting long-term and competitive strength through the development of innovation, entrepreneurship and small and medium enterprises (SMEs). An important category of informal investors, business angels, represent a pool of high-risk and growth equity, estimated up to 10 times the size of formal venture capital, a significant force in the financing of start-ups and therefore of critical importance to the economic development. Their importance is further magnified by the fact that their possibly large contribution to the innovation system also comprises contributions in kind of various managerial competences.

However the informal capital market is both inefficient and underdeveloped in many European countries as well as in many Nordic countries. Various actors on the informal capital market face problems due to lack of complete information about investment opportunities and potential investors, asymmetric information and high transaction costs. The invisibility that characterises many private investors, create tremendous difficulties for entrepreneurs in locating them, which discourage both investment seeking entrepreneurs as well as like-to-be entrepreneurs. On the other hand, lacking systematic information on investment opportunities, gives business angels as well as like-to-be business angels a hard time in operating as such. Consequently there exists an urgent need to reduce the information gap on the informal capital market. Rather than assuming that lack of capital in the informal capital market has resulted in an underdeveloped market, the starting point is subsequently that lacking information is causing a mismatch. Only through wider communication and awareness, the informal capital market can develop into serving the new companies better. The lack of information and coordination on the informal capital market, shortage of long-term investments in young innovative firms equity, as well as preferences among formal and institutional venture capital for larger investment in established firms result in a call for proposing greater awareness on business angels and the function of business angel networks (BAN). A business angel network mobilises substantial pools of informal venture capital, which formerly were fragmented and invisible on the market, by stimulating both the supply and demand for equity finance. Furthermore, the network facilitates investments by creating communication channels between business angels and entrepreneurs.

The geographical focus in this handbook is on the unique Nordic region and its business angel networks, and the way angel organisations have been implemented aiming at reducing the financial gap for innovative start-ups in the Nordic countries is examined. The handbook therefore serves as a guide to ease any future work with developing new and existing business angel networks for BAN managers, business angels, investment seeking firms and others who have an interest in or a need for understanding the mechanisms and benefits of the networks better. The handbook is

based on qualitative interviews with primarily business angels and business angel network experts representing both national and regional angel organisations in Denmark, Sweden and Norway. In addition we have made some interviews with actors in the close environment of the networks. The empirical data is combined with the authors' professional experiences with business angels and business angel organisations, resulting from years of work with both national and regional networks in Denmark and Sweden. Furthermore, the authors have written several academic articles in the field, and were appointed in 2002 to join the EU-Commission expert group on a European business angel benchmarking study, which provided a solid insight into the European situation as well as the business angel market in general.

Instructions to the reader

As a result of the character of the present report – a Handbook – it should be possible for the reader to “jump into” the text at interesting places, depending on reader's interest. However, this model may cause some repetitions of certain parts of the text, which we hope will be excused by those of reading the whole text.

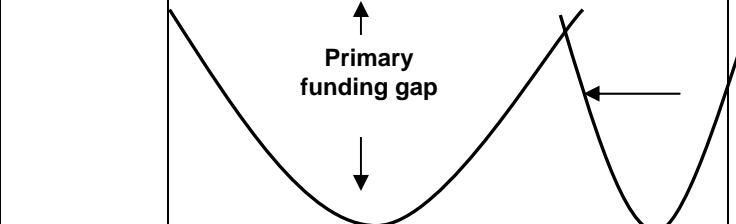
A GENERAL PERSPECTIVE ON INFORMAL VENTURE CAPITAL

Demand and supply of risk-capital

Access to external capital is difficult for investment seeking entrepreneurial ventures in many countries worldwide, and a shortage of risk capital is one of the greatest hurdles for entrepreneurs when starting up a new company, particularly in high-tech and high-growth business areas. Investing in ventures in expansion and growth stages, the formal and institutional venture capital market has grown in the past decades helping entrepreneurs developing their businesses normally leading to a trade sale or public offering in later stages. Venture capitalists invest large sums of capital in businesses once the ventures have accelerated beyond the more risky part of their lifecycles. Thus supporting entrepreneurs the venture capitalist only comes in after being convinced that the business model to some extent has proven successfully, often by showing positive sales and earning figures.

But before any venture is ready for being introduced to the formal and institutional venture capitalists, a period of massive uncertainty and hard work constructing a business plan, models and prototypes is prior any engagement of venture capitalists. In this period an important category of informal private investors, so-called business angels, play a crucial role as patient investors getting the entrepreneur on the right track by coaching the development and by providing risk capital. The term business angel historically refers to private investors on the Broadway theatre, who by investing in the end of the 18th century saved the theatre from bankruptcy. Today business angels are playing an increasingly important role in the funding of many start-ups, and compared to other funding sources the business angel invests rather small amounts of capital in the very early stages of development (see Table 1 below).

Table 1: Demand and Supply of risk-capital

Stage	Pre-seed	Seed/start-up	Initial growth	Expansion					
Supply	Founders	Business Angels		Venture capitalists					
Demand activities	Business planning	Proto typing, technological development, sales and marketing		Market strategy, focused geographical spread-out					
Capital need (SEK)	100.000	500.000	1 M	1,5M	2 M	5 M	10 M	15 M	20M ...
Supply-demand=gap									

Source: Adapted from Sohl, 2003.

Different sources of funding are important for the investment seeking company during the various stages of development depending on the demand for funding. At the pre-

seed stage, the venture is financed through owner/inventor, family and friends and a variety of creative methods of acquiring access to resources without raising capital from external sources. The demand for funding is relatively small, and the period of self-financing is limited with an increasing need of funding following the development of the project. As the entrepreneurial company grows, so does the urgent need for additional risk capital. This need is not fixed, but depends on the chosen business model, as well as alternative ways of accessing needed resources, for instance bootstrapping methods, including loan of equipment etc. At this point the informal private investors, i.e. the business angels are considered the main source of funding. At a later stage the formal venture capital market, based on funds originating from private people, pension funds and insurance companies whom do not make the investment decisions themselves but instead act through the professional intermediary, the venture capital firm, enters the development scene. Thus different actors complement each other successively as the development of the firm proceeds. This entry of new actors does not necessarily imply that the preceding actors disappear, but rather remain, sometimes with a lower profile becoming more or less silent partners.

As a result of the interplay between supply and demand for risk-capital, as shown in Table 1, the entrepreneur is faced with two funding gaps. The first funding gap arising when the investment-seeking firm has to identify investors after having supported the firm himself with founder's capital and to cover financial needs for prototyping and investigating different marketing strategies. In this period business angels play a crucial role as investors. The second funding gap arises once the business angel's financial sources are not sufficient and large investments are needed for the growth stage of the firm, often focusing on heavy marketing investments. At this stage the formal venture capitalist often enters the financing scene for the start-up firm.

The business angel market is a relatively invisible part of the total venture capital market, but it is the oldest kind of venture capital. It is made up of individuals, who are self-made, financially strong, often millionaires and often successful serial entrepreneurs themselves. During the seed and start-up phases the angel investment is considered "smart money", as the large majority of the investments are accompanied by many kinds of non-financial support. Business angels provide assistance in areas such as forming the business strategy, searching for additional funding, recruiting key staff, designing business plans and models and introducing the entrepreneur to professional networks of national and international origin (Mason & Harrison, 2002; VækstFonden, 2002; Sohl, 2003).

Financial theory is based on the assumption that venture capital markets work efficiently with fully informed investors and entrepreneurs. Under this assumption all relevant information about sources of financing and investment opportunities is available for all buyers and sellers of capital. The venture capital markets supply a variety of funding sources, and according to theory and for the investment seeking ventures, the job is to explore the optimal mix of financial structure based on the cost of the capital. This process is based on access to complete information. In reality the entrepreneurial firm is facing a market with only limited access to relevant information about investors and vice versa, referred to as market imperfections and especially prevalent in the informal capital market (see also table 2).

Table 2: Strengths and weaknesses in the informal capital market in Europe

<p>The advantages of the informal capital market segment includes:</p> <ul style="list-style-type: none">- Meeting genuine start-up equity needs- Affording start-ups an access to local/regional venture capital solutions- Complementing young entrepreneurs' managerial skills, thereby improving business survival rates- Contributing a network of relations (both the business angel's and the BAN's) to the start-up's management team- Stimulating entrepreneurship, thereby contributing to inward development- Mobilising inward (entrepreneurial and financial) resources- Offering potential investors higher deal flows while pre-selecting potential deals for them. <p>However, informal venture capital activities are facing the following hurdles:</p> <ul style="list-style-type: none">- A tax environment that is anything but favourable, and sometimes even discriminatory, especially when it comes to taxing capital gains and writing off losses- The inappropriateness of rules governing public issues when it comes to the activities of business angels networks- Local/regional, and sometimes national, authorities lack the willingness to provide financial support for business angels networks during their first few years of existence- The absence of potential regional exit routes for business angels. In some EU regions, the development of the formal venture capital market segment, which is the natural exit route for business angels, is still embryonic.- The absence of training schemes for potential business angels and entrepreneurs.

Source: EBAN (2000).

Various studies show how the informal capital market is characterised by an informational gap preventing investors in locating qualified investment seeking firms, and entrepreneurs in locating relevant investors (Mason & Harrison, 1995, Christensen, 1997, Sohl, 1999).

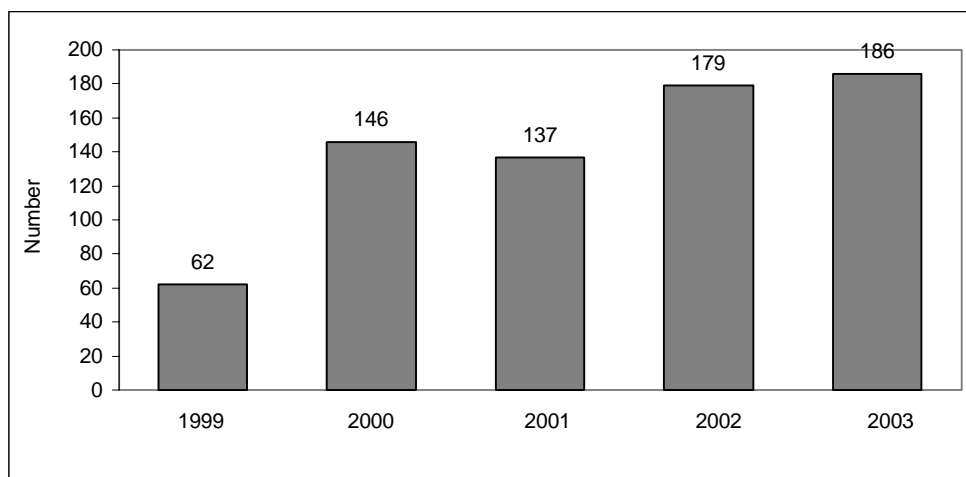
The role of business angel networks

In the informal venture capital market the supply of capital is offered through conditions of a certain degree of anonymity, and thus information flows very inefficiently. In attempts to reduce the market imperfections raging the informal markets, organisations and networks aiming at catalysing the information between investor and entrepreneur have taken place during the last decade spreading from the US to the UK and from there to the rest of Europe. The new types of organisations referred to as business angel networks mobilise substantial pools of informal venture capital, which formerly were fragmented and invisible on the market. By creating communication channels between business angels and entrepreneurs, the business angel network operates to facilitate investments by stimulating both the supply and demand for venture capital.

Business angels and business angel networks have until recently been very little recognised in Europe, although they are well established and form an important part in the innovation system in the US. The tradition of business angel organisations is

strongly integrated in the American innovation system, resulting in around 174 networks in 2001, primarily operating on a regional basis. Influenced by the US tradition, and from a growing research interest in the role and scale of informal investors, Europe has experienced an expansion in the number of business angel networks flourishing within both public and private sectors. The emergence of these visible sources of informal venture capital took its start in the UK in the beginning of the 1990s, and slowly entered national and regional agendas in other European countries by the end of the decade (see Figure 1). Today there exist roughly 200 European business angel organisations with close to two-thirds of the networks located within the larger EU countries as the UK, Germany and France. Although new networks are starting up successively, lately there are forces contributing to the merging of several networks, like in Belgium, thereby decreasing the numbers.

Figure 1: Number of business angel networks in Europe



Source: EBAN, 2003.

Although business angels have joined informal personal networks for years, formal angel organisations in the Nordic countries have developed only since the end of 1990s mainly as part of governmental support programmes for improving the access to finance for innovative start-ups.

In Sweden the business angel network SwedBan was founded in 2001 as a private initiative. Organised in the form of a non-profit association, SwedBan is based on private and some public support, with the nation as its territory for investment. From the start, SwedBAN was also considered to be the national umbrella organisation, but that role has ceased. The national initiative has for the past two years been in the hands of NUTEK, who has stimulated the creation of some 20 regional networks through grants of around 150 K SEK each. NUTEK is also offering a homepage for business angels and supporters and is presently through arrangement of conferences and workshops aiming at the establishment of a national organisation, which is planned to take over NUTEK's role.

In Denmark the Danish government introduced the business angel networks on the political agenda in 1999 resulting in the national investment fund VækstFonden initiating the Danish business angel network (DBAN) in 2000. Soon after several regional and sector-based networks were established. Most of the regional and sector-based networks are connected to regional incubators, universities, and

research institutions at hospitals, which serve as managing bodies and at the same time give access to investment opportunities. Besides matchmaking through regional or sector-based platforms, DBAN has established an electronic portal to match investors with entrepreneurs on a national scale. In a three years period the business angel networks have advanced to 8 angel organisations, and they have managed to create a critical mass of private investors in their organisations with a total amount of about 200 active business angels. By the end of 2003 the national organisation aims at becoming a non-profit business angel association serving the structure of regional and sector-based networks with coordination, back office services, conferences and matchmaking infrastructure.

In Norway, there are no national umbrella organisation as in Denmark, but there are around 5 regional networks, where some has been operating for several years. Different government and private organisations such as SND, NHO, SITA etc. have produced various reports on business angels and business angel networks.

The major contributions of the BAN

The major contributions of a business angel network can be summarised as:

- creating awareness of the business angel and his/her role in the innovation system. This will result in attracting the existing and new business angels to join the network, attract entrepreneurs, and also make the business angels accessible to others, primarily the entrepreneurs. In the long run this will increase both the demand and supply for informal risk capital
- enhancing the professional development. The increased understanding of the role of BAs and their assembling in the BAN group, will enhance the professional development of BAs
- providing legitimacy for the BA entering the BAN. This is achieved due to the internal rules of the BAN, including the normal ethical guidelines
- matching BAs and entrepreneurs
- arranging deal flow
- increasing the possibilities for syndication
- providing assistance to entrepreneurs and BAs
- providing training activities to both entrepreneurs and BAs

These contributions can be expressed in other role contributions as:

- BANs strengthen the role of the business angel as expert capital **allocator** of risk-capital in early venture development
- BANs perform a **brokerage** function, by attracting business angels and entrepreneurs and making the BAs accessible and thereby **mobilises/activates** available risk-capital

- BANs facilitate **agglomeration** of risk-capital due to syndication
- BANs provide **coordination** between business angels, between angels and entrepreneurs, and angels as a group towards authorities for lobbying etc.
- BANs provide **training**

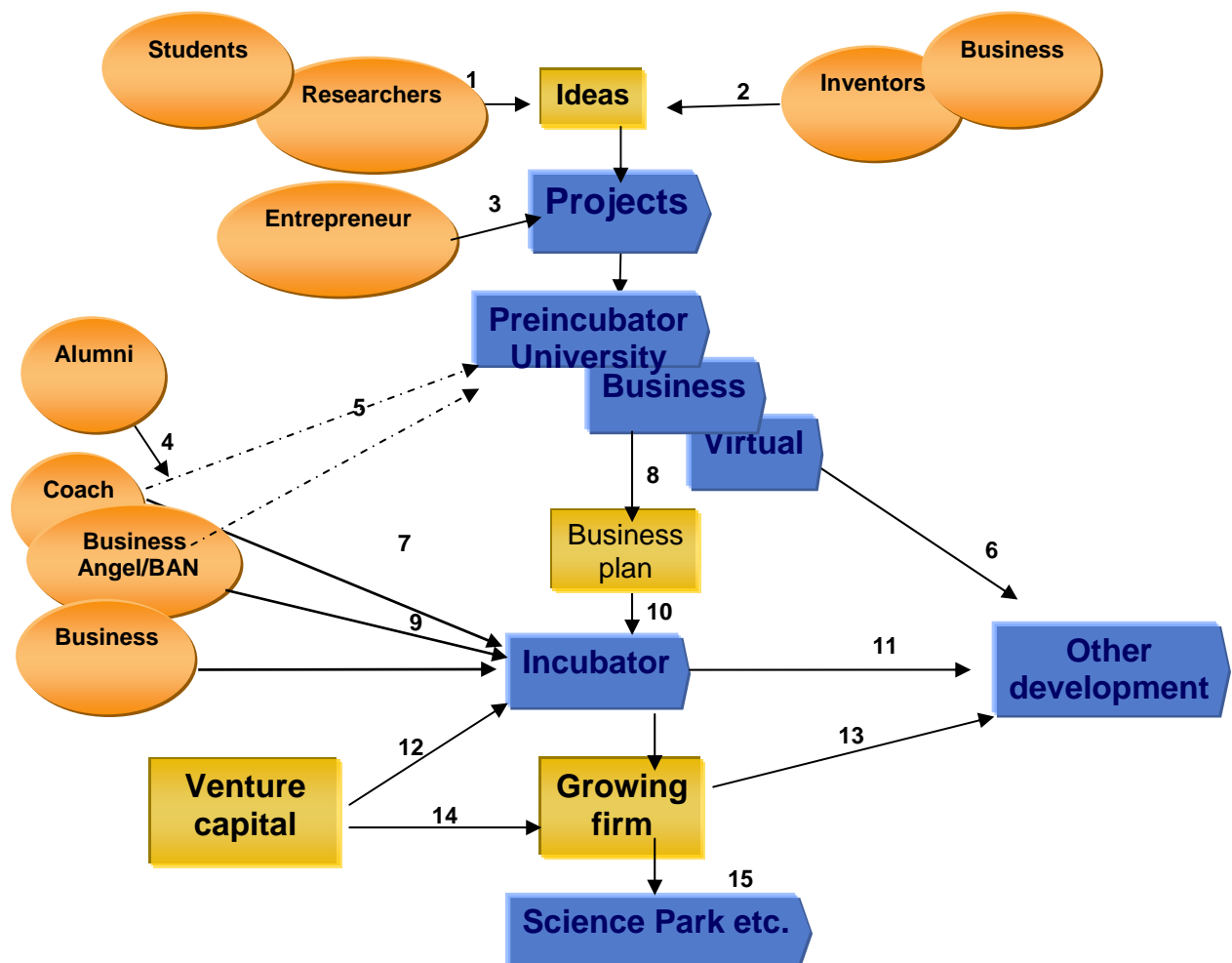
These roles of the BAN will be focused later in the handbook. As a result of such contributions by the BANs the efficiency of the innovation system increases.

STARTING UP THE BUSINESS ANGEL NETWORK

The business angel in the innovation system

When we study business angels it is important to understand somewhat the environment or context in which the angel operates. This is the innovation system, which has as the major objective to contribute to the formation of innovations, which will then along the chain of development result in growth and increased employment in the economy. Figure 2 below provides a broad overview of some important actors in the innovation system.

Figure 2. Innovation system



Source: Gullander & Napier

We see at the mid-top section of the figure ideas, or inventions, coming from two sources. The first source is the university system represented by students and researchers, and the second source is businesses and independent inventors. As for the case in Sweden, a rough estimate of the relative importance of the sources is that the university system is responsible for some 30-40 % of the idea generation, while the business sector is responsible for at least the same magnitude, with investors filling up the rest. The ideas are transferred into projects with the help of entrepreneurs, who in many cases are identical to the inventor, but could also be entrepreneurs who are prepared to take on other peoples ideas and develop those.

Often these projects are entered into preincubators, connected to universities, business preincubators or even in virtual incubators. The latter are in principle not housed in any place, but have temporary access to a meeting place – often in a normal incubator – where the members gather for regular meetings between themselves, or meet with clients etc. After a period of on average 5 months in the preincubator, the project is mature enough to enter an incubator, where it normally might stay 1-2 years. Thereafter the project moves forward in the innovation chain as a growing firm, locating itself maybe in a science park. At this stage we probably can claim the invention has resulted in an innovation.

This picture of the innovation system is not intended to provide “The (only) way” to illustrate the development of ideas. It is rather meant as a way to share with the readers a conception of the context of the innovation system that has developed during the handbook project as a useful starting point in interviews and discussions. As we see from the far right marked area “Other developments”, many – if not to say most, inventions are not taking their route according to the centred vertical route in the figure, but rather via this “Other development” option. Here we would find for instance the route to customers, other business firms etc.

The important conclusion from this figure is the position of Business Angels, and Business Angel Networks. We find them in the lower left hand part of the figure. The principle interference of business angels is into the incubator, where the business angel can identify interesting projects that require his/her competence and capital resources. Sometimes the individual angel has access to the incubator by his/her own initiative, but it becomes increasingly more common that the business angel network he/she belongs to provides the connection link.

The figure also shows that the business angel can get into contact with projects at an earlier stage, namely in the pre-incubator stage. In Sweden and other countries some experiments are currently taking place in line with this idea, with the purpose to benefit from the business angels competence resource at an early as possible stage in the innovation chain. The business angel cannot at this stage invest financially in a project, but will get an early “glimpse” at a potential future development. This is a non-traditional activity of the business angel that has proven to be very valuable.

In total the picture shows the points of interaction between business angels and other important actors in the innovation system. It demonstrates that the innovation system houses several important actors, which all provide their contribution to the developments of the projects, and interrelate in different ways. As a consequence of this interrelatedness of the actors, it is very difficult to isolate how much is contributed from each actor, and to say for instance that business angels contribute to X % of the projects, incubators to Y % etc. All actors in the system are keen on taking credit for the successful developments of projects coming out in the lower part of the figure. But an intellectual honest evaluation of this kind requires an understanding of the innovation system that does not exist yet today. A further methodological complication is to evaluate what would be the consequence of the project going another route, or in simpler words, what would be the base alternative with which to compare? In the meantime we have to measure the effect or impact of business angel activities in indirect ways, such as the number of projects looked into, number of projects invested in etc. More elaborated ways of evaluating the effects of business angel activities are in development, aiming at expressing the employment

effects, the employment effect per angel invested Euro, or the society's rate of return of investments in business angel networks etc. Such evaluations in the system will also in the longer run increase the demand for improved efficiency in the innovation system. This is an issue that only recently has appeared on the agenda, where so far the sole goal of reaching the innovation stage for a given project has been dominating. We believe that one important focus relating to efficiency, i.e. the lower part of figure 1, is the importance of each actors understanding its role in the system, and keeping to that consistently, without undue interference with others. We have noted in our discussions and interviews for this Handbook project, numerous stories of actors defending their territories, challenging others etc. It is a pity that so much energy is wasted on such internal wars between the actors. We believe a common and shared framework of understanding the innovation system can contribute to less internal fighting, and thus improve the efficiency.

Before we leave this figure, we will also like to stress that the financing of projects with risk-capital in fact is a rather uncommon financing situation. From statistics in Sweden and Norway, only some 1-4 % of all new start-up firms receive risk-capital. One important explanation for this to many unexpectedly low representation, is that most firms do not need risk capital, and finance their development from internally generated resources, loans, various bootstrapping methods, customers etc. Nevertheless, NTBFs and knowledge based start-up firms operating in highly competitive environments need risk-capital, and it is this segment of firms that we focus on in this handbook.

Private and public initiatives in network formation

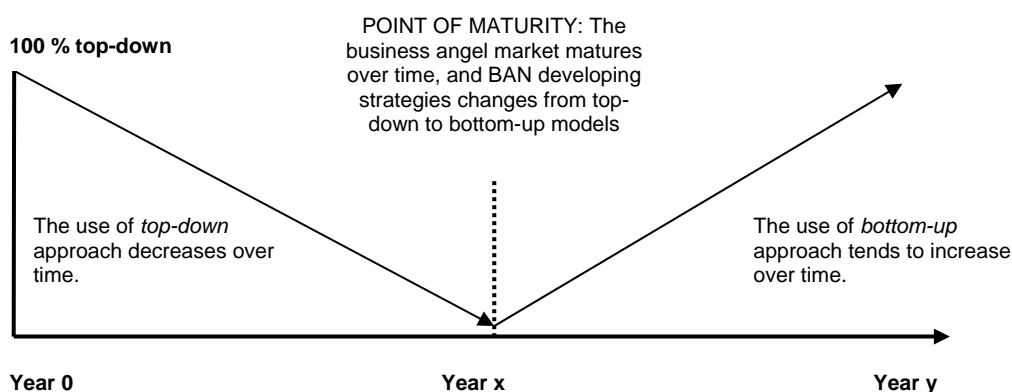
In establishing a structure for business angel networks in a given country, alternative strategies can be performed depending on who promotes the genesis of the network structure. The business angel network initiatives tend to be dominated by either public or private actors, depending on how mature the business angel market is. The rationale for public intervention in developing the informal venture capital markets is to create, from the ground-up, markets that private investors are not able to generate themselves. Public networks are often operating as forums on a non-profit basis aiming at covering costs, whereas fully private networks to a larger extent offer activities on a for-profit basis, and therefore operate as commercial organisations. The profit orientation can change over time. A network can be public and non-profit in its early years, but develop into a private for-profit network in its later stages depending on the chosen financial model after breakeven. Whereas investment made by public or non-profit business angel networks are generally smaller and involve earlier stage companies, the private sector networks are primarily involved in larger and later stage deals. (Mason & Harrison, 1997). It is therefore evident, that public and non-profit networks are filling a different market niche compared to that of private and for-profit networks. Therefore leaving the business angel market operating on its own (i.e. totally private without public involvement), implies the risk that the networks will not succeed in eliminating the financial gaps for technology based start-ups in the very early stages.

We found that the networks in the Nordic countries are formed on both private and public initiatives. Furthermore, most of the business angel networks operate on a non-profit basis, and were initiated with some kind of public intervention through a top-down model. In Sweden, the Connect organisation, which according to its

business model requires a network of business angels, plays a very specific role, where its integrated networks comprise maybe around 60-40% of the angels organised in networks in Sweden. In other Nordic countries Connect has not yet reached such high penetration, although some Nordic initiatives are in the progress.

The top-down approach is likely applied, when public authorities drive the creation of the network structure. For example, in Denmark the government initiated the national network (DBAN), after which DBAN helped building up several of the regional networks. On the contrary, when market dynamics and private operators drive the genesis of a business angel network, it is referred to as bottom-up approach. For example, as in the case with the Danish sector-based biotech network, business angels from the existing regional networks identified a lack of investment opportunities within biotech, and thus organically developed a new network with its management and activities. In Sweden, NUTEK as the government representative has prioritised the establishment of regional networks, before initiating the creation of a national umbrella organisation.

Figure 3: Strategy for implementing business angel networks



Source: Gullander & Napier

Figure 3 illustrates how the business angel market develops over time. Initially most markets are developed by national or regional authorities, which build up business angel networks, until the market has matured and the market start to take over the development. The use of either top-down or bottom-up approaches seems to depend on how mature the business angel market is, in terms of numbers of existing networks and the general awareness in the market about the benefits of business angels. Immature informal venture capital markets with no or very few networks and a low degree of awareness about business angels tend to implement a top-down model with public authorities or national networks, which kick-start the development as in the case of Denmark.

The top-down approach is thus useful in triggering the development of the informal venture capital market, when the market is immature and not strong and coordinated enough to develop on its own. It offers similar structures as in franchising, with obvious advantages of economies of scale and ease in coordination and cross-network co-operation. For the business angels and entrepreneurs this type of cooperation will result in them meeting similarities in behaviour between the networks. The respondents fully agreed that there was a need for the public invention

initiating a national network, and also for the national network to develop some of the regional organisations. Without the top-down model many of the regional networks would never have been started, or at least not at that given time, simply because the market was not ready to suggest such initiatives.

Once the business angel network market has matured new actors enter the scene, demanding and creating similar derived initiatives based on their outsider (or even insider) experience from the existing networks. This process refers to the development as a bottom-up model. The bottom up model generates a strong sense of involvement and commitment by the networks, which might not initially be found in the top-down model. On the other hand, we found that the risk with the bottom-up model and its often loose and free-governing model is that each network will have to make their own mistakes, developing their own model contracts, and generally “reinvent the wheel”. A particularly bad scenario would be a costly homemade computerised matching site in several networks, that after some time are marketed in fierce competition against the other networks’ sites, in order to achieve desperately needed economics.

The optimal solution seems to be the one, which initially recognises the necessity of the top-down model and the value of the bottom-up model initiated more or less simultaneously. First to create networks and success stories, which help to understand the role and the added value of such networks, and then leave the market to develop synergies and commitment itself based on the experience from the first networks. The government’s role is sometimes necessary, particularly as a catalyst, and by supporting with initial seed money and as organiser of decision-oriented conferences.

Actors influencing the start-up

Although, the business angel organisations typically fill out a hole in the market and thus have their own niche markets, they cannot be studied independent from the environment in which they operate. The networks operate within the innovation system, with the purpose of increasing the efficiency of the early stage venture capital market and bringing quality dealflow to the population of private investors. The environment houses different actors, which contribute to this process either in terms of dealflow, investor flow or by co-investing with the business angels. A network seldom starts up isolated from the already existing organisations in the market. It is not a Greenfield operation. Many of the existing organisations within the region have a potential impact on the business angel work (see table 3), for instance in Sweden Connect, ALMI, Venture Cup and Aktietorget and the incubators (innovation environments in Denmark). Such and other organisations make out the environment of business angel networks, as they need business angels to support and develop their own “products”.

Table 3: The stage-wise development of the BAN and its environment

Stage of BAN development:	<u>Starting-up phase:</u>	<u>Development phase:</u>	<u>Expansion phase:</u>
BAN environment:	<ul style="list-style-type: none"> - Public development agencies - National networks 	<ul style="list-style-type: none"> - Universities - Research institutes - Incubators - Network organisations incl. Connect - Investor clubs incl. Rotary, Lion's Club, Business clubs, Freemasons - Banks - Lawyers 	<ul style="list-style-type: none"> - Independent investors - Semi public venture organisations - Venture capitalists - Co-investment Funds - Seed capital Funds
Impact of environment:	<ul style="list-style-type: none"> - Supporting and financing the BAN 	<ul style="list-style-type: none"> - Supplying dealflow - Supplying investor flow 	<ul style="list-style-type: none"> - Co-investing(syndication)

Source: Gullander & Napier

We found that the development of BANs happens in three stages involving various actors and organisations in the environment, and that any successfully BAN evolution depends heavily on support from the environment.

In the starting-up phase of the BAN feasibility studies are in some cases used to evaluate the pros and cons of the establishments of new business angel networks, especially when public bodies are involved in the structuring and financing of a new network. Based on a feasibility study the objectives and added values affiliated with the networks are identified, and specific sectors or project development stages are selected as being the main target groups for the network. For instance, in Denmark feasibility studies identified a critical financial gap for innovative start-ups in the early development stages. As indicated in table 4, the networks initially depend heavily on either development agencies or national organizations to help building the necessary infrastructure. From our interviews, it was obvious that very few networks at that given time would have started by their own force to set up a business angel network without either the support from governmental institutions (especially the national networks) or the help and financial support from national networks (especially the regional networks). Although, some networks might have developed spontaneously at a later stage, many of them claimed that they would not have been able to manage the start-up of the network without some support.

In the development phase, the networks concentrate on arranging a sufficient dealflow and investor flow. The main actors on the supply side involved in this process are the universities, research institutions and incubators, providing the networks with more or less screened investment opportunities. On the demand side we identify organisations like Connect, Investors Clubs, Rotary, Lion's Clubs, Free Masons and various local and/or regional Business Clubs. Banks, accounting firms and lawyers are involved in this process depending on the specific development stage focus for projects in each of the networks. These institutions can provide both demand and supply of risk capital and also sponsorship for a network, in addition to sometimes allowing the network to use their infrastructure of rooms, or hosting events that address both business angels and entrepreneurs. In the expansion phase the networks seek external investors, who are ready to co-invest in projects in follow-up funding of projects, which have already been invested in by one or more of the angels in the network. At this stage the BAN can develop competencies suited for the exit stage of the projects, the importance of which has become very apparent in

today's constipated market, and identified in recent studies of risk-capital markets (VækstFonden, 2003). Syndication opportunities, awareness creation and understanding the respective role of business angels and the formal venture capitalists are all fundamental elements for developing both the informal and formal capital markets.

Fostering a win-win situation

In many cases the business angel networks meet the requirements of a niche in the market by matchmaking between investment seeking companies and active private investors investing relatively limited capital. To create a win-win situation it is first important to distinguish the network from the other players in the field by defining the exact role of the network. This implies that a network must focus on the core activities in the network, which primarily is matchmaking either through hands-on activities or by providing a sufficient infrastructure in the market. Secondly, it is necessary to seek close cooperation with the existing players such as partners and service providers on the input side and venture capitalists on the output side, and to involve both public and private players in the field. Fostering a win-win situation takes a large amount of knowledge and information about business angels and their investment behaviour. As described above knowledge is elementary for service providers in the developing stage to understand the investors' investment criteria, and for co-investors in the expansion stage to understand the added value of business angels.

Thus a challenging task is to creating knowledge and awareness of both business angels in general terms and in more specific terms about the investors' preferences for choosing investments, and their reasons for turning down an investment etc. This will help the service providers to provide the entrepreneurs with the right information, thereby heightening the level of investment readiness among the investment-seeking entrepreneurs. In the long term this will reduce the information gap in the informal capital market, and lead to larger amounts of investment committed by business angels in the appropriate projects.

THE NATURE OF THE NETWORKS

Performing a role in the market, the business angel networks can take various forms depending on their geographical focus as some networks operate in a local area while others operate on a national scale. Industry focus and a focus on companies in certain development stages may also make some networks unique and specialised. From studying the networks in the Nordic countries, we found that the networks are built up mainly serving a national and regional market, and some have limited industry focus, while others only facilitate investment in companies within certain development stages. Furthermore, we found that most of the networks have public support because the business angel markets are not mature enough to develop themselves.

The individual business angel is often member of different networks simultaneously. By combining membership in for instance a regional, industry and succession network, the business angel can satisfy his immediate needs for different interests and risk distribution within his portfolio of often some 5-10 investments.

Regional business angel network

The networks operating on regional scales, so-called regional business angel networks (RBAN), make out the largest category in numbers. Whereas there is normally only one national angel organisation in a country, several regional networks will normally be operating in one country. Sometimes the network operates on a national scale by presenting investment proposals from the whole area of a country, yet without being a national umbrella network. This is the case with the regional NOVI network in the North of Jutland in Denmark. The regional networks focus on hands-on activities by directly matchmaking investment seeking entrepreneurs with business angels. The networks operate within limited geographical areas, and mostly attract various types of business angels with preferences for investing in different sectors and development stages. Examples of regional networks include ALMI Stockholm Business Angels in Sweden, DTU-RBAN and TEKINNO RBAN in Denmark, Business Angel Airport Rhur (BAAR) and BAN Lombardia in Italy.

Sector based business angel network

Sector based networks (SBAN) have recently emerged, and the importance of these networks is expected to increase significantly in the future. As indicated from the name, the sector specific network is dedicated to support start-ups in specific industries normally in the very early development stages, where the involvement of regional networks is restrictively small or non-existing. One could say that the SBAN achieves critical mass by assembling all related activities in the country. Due to the specific focus in a SBAN, these kinds of networks tend to work closely with specialised partners (service providers) within the educational and research areas such as technical universities, research departments, institutions and incubators. The primary role of these organisations is to supply the business angels with a sufficient flow of investment opportunities. Sector based networks tend to operate on a national scale with investor members, that might be members of a regional network at the same time. Examples from the UK include the Software Business Network and Tridos and in Denmark the Biotech BAN. Due to the specific technical area which a

SBAN covers, these types of networks may very well also take a virtual character, as there might be a geographical distance between the business angels in them.

Succession business angel network

Many of the Nordic countries are facing increasing amounts of retirement of managers and owners in SMEs. Thus in the next decade a large number of small and medium sized enterprises will have to pass their business on to the next generation. Accordingly there is an urgent need to identify buyers for such companies. With this perspective, in Denmark a business angel network serving primarily this niche (Regionalt Ejerskifte Netværk, REBAN) has been created. The corresponding businesses, which have already proved the value of their business model, are accordingly less risky than normal projects. This may explain why in relation to other networks, business angels in succession networks tend to make larger amounts of investments in businesses, often described as relating to stages of expansion, management buy-in and management buy-out. In succession networks, the typically service providers are banks, lawyers and accountants supplying the business angels with a flow of companies. In Germany a similar form of network has recently been started.

National business angel network

The by far largest category in size is the network operating on a national scale. National business angel networks (NBAN) often perform as an umbrella organisation, or as some call them “network of networks”, for regional, sector based and succession networks by offering them the possibility to become members of the national organisation. In many cases national organisations initiate the creation of the regional networks. Normally national networks have no ‘hands-on’ involvement in operational activities such as arranging meetings between business angels and entrepreneurs or by following up on investments. Instead they focus on how to establish and provide sufficient infrastructure in the market initiating e.g. the establishment of regional networks, promoting regional interests towards the home-country officials in taxation and regulatory issues, and developing contacts with EU-bodies and sister organisations such as the European Business Angel Network (EBAN). Many national networks offer an internet based matchmaking site as a part of their services. In addition these networks often provide ethical guidelines and standard contracts for various situations. Examples of such umbrella BANs on the national level are BAND (Business Angel Netzwerk Deutschland) and DBAN (Dansk Business Angel Netværk).

Supranational networks

On a supranational level we could mention the ongoing discussions of creating an umbrella BAN for the Nordic countries, NordBAN, and the European BAN, EBAN, that have been existing for many years.

Affinity and foreign enclave networks

The final emerging category is affinity networks, which have been established to service particular categories of entrepreneur and/or investor. This type of network is exemplified by the emergence of university-based networks, which are only open to

investors and entrepreneurs who are alumni of the university. One example is the UK's MBAngels service, which is confined to members of the MBA Association. A related type of network is the foreign enclave type of network, which is under development in Denmark for Danish business angels present in the London area interested in financing Danish start-ups and help them to enter the British markets.

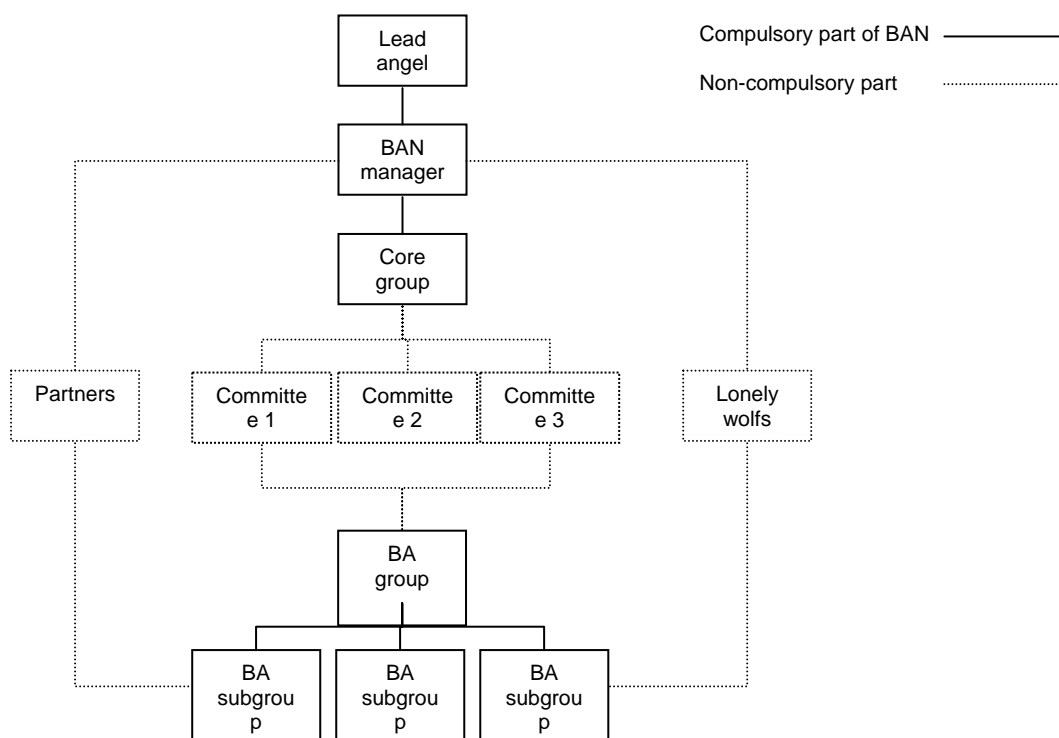
We thus conclude that there are a variety of principles by which to categorize business angel networks in terms of geography, sectorised interest, affinity and enclave, and in addition hierarchical structure.

Organisational structure of the networks

A shared vision for the various networks is that they work to match the business angels with investment seeking entrepreneurs. Although the networks were initiated by different types of actors across countries, we also found, that most networks have similar ways of organising and structuring themselves. A business angel network (see figure 4) consists of several actors, each with their own crucial role to play.

The network is driven by two main forces a) the cooperation between the BAN manager and the leading angel, and b) the angel group, which often and quite naturally divides into subgroups. When building and effectively running a network it is important to understand the roles and dynamics of each player. Below follows a description of each actor and its role in the network, a description which to some extent is based on normative views e.g. a description, that stresses the best practice of the most well-functioning networks.

Figure 4: The structure of a business angel network



The Lead Angel

The role of the Lead Angel is literally being a “leading angel” and the engine in the group of business angels. This person is often an experienced business angel, who is committed to develop a business angel network and strongly believes in the benefits of the network, and should not be mixed up with a lead angel in an investment (see more about this in syndications). The Lead Angel puts a great effort into making the network function, and often works in close cooperation with the BAN manager, a major constellation in the network. Though some of the Lead Angel's tasks may be taken over by the BAN manager (especially the more administrative ones), many BAN managers express their deep concern in case their leading angel might leave the network. One BAN manager expresses his concern this way:

“The business angel network would not be able to function without a Lead Angel. Being a business angel himself, a Lead Angel knows the language of the other business angels. A language, which I am just starting to understand now. He is a great representative for the BAN, when we present the BAN for new angels, and he is able to create a group in our network”.

Together with the BAN manager, the Lead angel starts up and develops the network. The Lead Angel usually possesses a strong charisma and jointly with the BAN manager he takes part in the recruitment of new business angels. His role is also to represent the business angel network in the media and towards other networks (for instance in Denmark all the Lead Angels are members of DBAN's advisory board).

The BAN manager (promoter)

The BAN manager is normally recruited to create and manage the network. The BAN manager could come from various organisations such as incubators, banks and lawyers. The tasks of the manager comprise secretarial functions and administration of various tasks in connection to the network, such as arranging meetings, sending out invitations, keeping track on the members etc. The manager is thus an administrative player keeping the network on track, organised and coordinated. Such activities requires an ongoing management of the network ensuring continuity in sending out invitations for meetings, planning meetings and project presentations, keeping track of the members whereabouts etc. On average the BAN manager spends 10-15 hours/month in his work. Many of the respondents stressed that even more hours could be spend on working with the network, particularly in the start-up phase. In Denmark for instance, many of the managers are full time employees in incubators, with duties as BAN manager incorporated. This position in relation to the incubator can be partly explained by the critical importance to the incubator to get access to risk capital, where the business angel network could be the only channel available. In another Nordic country, the BAN manager is a junior highly qualified person who is paid for by the business angel network, with the costs distributed to the BAN-members yearly on an equal basis.

The core group

The core group is made up of the Lead Angel, the BAN manager and some of the most active business angels in the network, who also often are close friends. The function of the core group is to guide, ensure and organise the overall running of the

network, including the development of its own culture. They facilitate recruitments and arrange activities within the organisation. In a national network the formal core group represents the advisory board or the Board of Directors.

The committees

Some business angel networks have formed small working groups or committees in which specific topics are on the agenda, for instance i) how to ensure a sufficient and qualified flow of investment opportunities in the network, ii) how to arrange teambuilding activities for the business angels and iii) how to promote the network and create awareness in public. The business angels themselves drive most of the committees, and they refer to the business angel group at the monthly meetings or whenever needed. By performing this work themselves, on an idealistic basis, costs are kept low and engagement and knowledge high.

The business angel group

The business angel group is the group of investors, that meet on a regular basis and who are offered investment proposals in which they invest. Apart from the national networks, most networks consist in average of 20 active business angels. At the moment the Danish regional networks are discussing the possibility to merge the existing regional networks creating 3-4 networks instead of 5-6 with a larger number of business angels in each aiming at approx. 30 investors in each network. By merging the networks, possibilities for syndications, more investment activity and a broader supply of relevant skills and competences are improved.

The size of the business angel group, and the business angel network, varies enormously. We have come across networks that have left their development phase, where it has been stressed that there should be 15 members – no more and no less – in order to get it right. Others claim, supported by other research, that a business angel network should have at least 100 members. Critical variables influencing optimal size seems to be critical mass and economies of scale in the economics and group dynamics, but also keeping the negative effect of too large groups under control. These divergent size levels could be interpreted to imply that a core group of some 15 people is ideal, but that a total membership of a 100 or so is good for the total performance of the network.

The business angel group also arranges teambuilding events, in which normally all business angels join. As the teambuilding activities create a sense of good fellowship and solidarity, the business angel group gains from such activities in terms of trust and friendship among the angels. We also found that regional business angels groups that have been undergoing one or more teambuilding activities, or have been in existence since long, become closed and unwilling to open up for newcomers. In contrast, it can be easier for a new investor to enter a business angel group in a sector based network, as this kind of network operates more openly with a constant flow of new business angels, and without any teambuilding events. The need for openness seems more widespread in such sector networks, which probably is due to the limited supply of investors within specific industries such as biotech. In these networks the business angels are not even obliged to join any meetings as in the case with the regional meetings. In many networks, it is quite common to possess angels that are members in two or more different network.

Some business angels choose to arrange meetings outside meetings in the business angel group forming so-called subgroups. Subgroup formations will typically be relevant for the business angels that are active in syndications with other business angels. A syndicate is normally composed by 3-4 business angels investing together either within specific industries, regions on an ad-hoc, one-off group basis, that is formed for one investment only. Alternatively angels invest together in the same group, or more or less semi permanently (VækstFonden, 2002). Specific preferences for local companies, sector specific interest or simply a habit of investing together explain these different behaviours. Furthermore, some business angels may be member of different subgroups at the same time.

The partners (service providers)

Some networks operate in close cooperation with supporting partners or service providers such as banks, lawyers, auditors or similar kinds of specialists. In some cases the partners are part of the network in such a way that they join or even arrange the regular meetings in the business angel group.¹ The meetings can take place at the partner's location, and some partners will choose to provide the business angel group with a flow of investment opportunities originating from own professional network of investment seeking firms. In other cases the partners' role is more passive, as their primary role is sponsoring the network, and to get in touch with new customers.

The private investor, "lone wolfs" and others

The business angel networks are often affiliated with other types of investors such as informal private investors who are not members of networks (some so-called lone wolfs) but might invest as passive investors in a syndication with some business angels from the group. They might also appear as partners to later stage investors such as formal venture capitalists, who invest in companies that the business angels have invested in, and choose to exit. Lone wolfs make up a large pool of risk willing capital, but for various reasons they choose not to become a member of a network. Instead they prefer to be loosely affiliated with one. Lone wolfs often operate on a single basis in the sense that they prefer investing alone, or at the maximum, they will function as passive investors in a syndication. There is nothing suspicious or strange in this behaviour – some people prefer doing things by themselves and do it well, others find advantages in working in a more socially structured set-up with others.

This also brings up the issue of which BAs that do not join the BAN, apart from the lone wolfs. Experiences from the interviews performed in connection with this handbook preparation indicate that most often BAs join the networks. But admittedly we have not really investigated who joins and who does not. There is clearly a risk of adverse selection in the sense that very experienced and successful BAs do not join the BANs because the BANs have less to offer to this qualified group compared to virgin BAs for instance. Although the costs implied in joining the BAN are minor, and it does not really hurt to participate, it still takes time to participate, and time is

¹ When the partners (service providers) fulfil practical functions such as arranging meetings, there is a overlap between the role as a partner and the role as BAN manager, and they often share the role as BAN manager with another organisation (for instance Incubator).

money, etc. Thus, we have here a very open and unresolved issue. Nevertheless, this does not constitute an obstacle for establishing and nourishing BANs from the viewpoint that those BAs who join a BAN are offered the benefits thereof, and at the same time contribute in establishing an infrastructure by their sheer affiliation. From the viewpoint of establishing an effective innovation system, all actors are needed, “why not let all flowers blossom!”. If there are BAs that do not join the BANs, they are still welcome as partners in the system, and to join in whatever way they prefer. Evidently we need more research on this aspect.

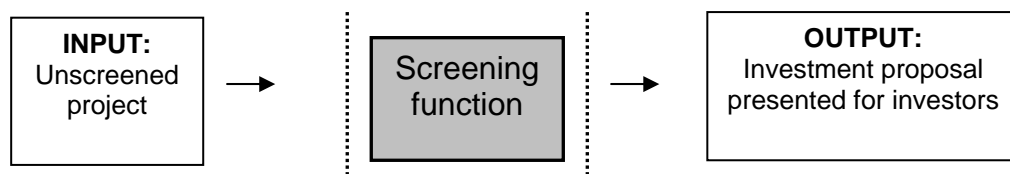
THE MATCHMAKING PROCESS

A business angel network requires a continuous flow of qualified investment proposals to present for the business angels. The investment proposals derive from different sources including a) the entrepreneurs' direct supply of ideas and projects by contacting either business angels or business angel organisations, b) partners in the network such as banks, lawyers, network organisations as Connect, incubators and c) the business angels themselves. Common for the investment opportunities is that they normally all undergo a screening process before being presented for the business angels in the networks.

No matchmaking without “gate keeping”

Business angels are very careful in spending their time. By nature many business angels are busy people, with a range of obligations and little or no time left to waste. Although most of the informal investors are capable of carrying out a screening or due-diligence of an investment proposal before deciding to carry the process any further, they prefer somebody else to perform this work, for instance the BAN manager. In general, networks attract investment proposals of varying quality. Although entrepreneurs have access to good free-of-charge downloadable instructions or models for how to prepare a business plan, like the excellent Connect home-page documents, a large number of the proposals are not investor ready. Therefore a mechanism for pre-screening and filtering these projects is necessary (see Figure 5)

Figure 5. The standard matchmaking process



Depending on which matchmaking methods are applied in the network, the BAN manager or other BAN staff perform the role as gatekeepers by screening incoming projects. Otherwise, the role is taken on by the service provider, to whom the entrepreneur must present his business plan before meeting the network angels, e.g. by presenting the project in a prearranged and well prepared meeting. The screening function is very important to guarantee the quality level of the business plans and thus to keep business angels interested in the output of the network. Estimates from various networks show that an average of approximately 20% of the total amount of unscreened projects is selected for presentation to business angels after a screening process. Furthermore, only some 15-20% (e.g. acceptance rate) are typically invested in. However, the rate of acceptance naturally decreases as a function of poor screening.

Criteria for evaluating investment proposals

The numbers of investments in a business angel's portfolio is limited up to 5-6 investments, and because of uncertainty and risk spreading reasons the portfolio needs to be diversified. Various studies show that business angels are very selective

when accepting or rejecting new investment proposals making choices based on the existing portfolio, location of the investment, the size of the investment, industry preferences etc (Landstrøm, 1995; Mason & Harrison, 2002; VækstFonden, 2002). When matching an entrepreneur with a business angel, it is therefore very important for the BAN manager to be updated on the business angels existing portfolio, and to present projects that are well aligned with this portfolio, and at the same time satisfy other specific investment criteria as seen in Table 4 below.

Table 4. Critical criteria for evaluating new investment proposals

<p>Why do business angels accept an investment proposal:</p> <ul style="list-style-type: none"> • Interesting and innovative technology, and prospects of filling a need in the market • Good personal chemistry between entrepreneur and business angel, and a certain amount of trust among them • Excellent possibilities for an exit in later stages • The possibility for capital gain <p>Why do business angels reject an investment proposal:</p> <ul style="list-style-type: none"> • Low level of investment readiness among investment proposals (and impossible to make a due diligence) • No personal chemistry between entrepreneur and business angel • Lack of proper risk willing capital among the business angels

Based on our interviews with BAN managers (which also include business angels) the criteria for the informal investors when evaluating new investment proposals depend on a) the technology, b) the person(s) behind the idea and c) the proposal's investment readiness. In spite of the pre-screening of the proposals and aligning them with investor's preferences, proposals are still often rejected by BAs. Business angels explain this behaviour on the ground that the investment proposals lack quality and investment readiness. In order to improve the match between entrepreneurs and informal investors, the above finding stresses the need for greater awareness and adequate education of both entrepreneurs and BAN managers and other gatekeepers, while at the same time encouraging business angels to make their investment preferences more explicit.

Internet based matchmaking

The most recent entry to the field of matchmaking services is the internet based matchmaking service. Some networks offer entrepreneurs the possibility to be matched with an investor through internet and vice versa. The internet based matchmaking service is performed on the basis of information provided by investors on their investment preferences, and by the entrepreneurs on the main features of their investment opportunity. The investors, who are matched electronically with investment opportunity, are automatically alerted (e.g. by e-mail), and receive a short version of the executive summary.

By subscribing with an executive summary covering the most needed data from the business plan, the entrepreneur becomes active in a database. Most matchmaking

sites do not allow entrepreneurs direct access to the site, but only through a service provider, who screens the executive summary, according to the procedure followed by the Danish DBAN. Excluding unscreened investment opportunities is a widely recognised advantage by the users of the portal. In fact, for the wide majority of investors, the exclusion is a condition for using the service at all. The risk connected to internet based services, which allow the distribution of unscreened projects, is that they end up as “garbage can” for projects that can not be financed elsewhere or projects that are not developed enough and do not match an investor’s preferences. Therefore a strict and extremely qualified selection mechanism is required to obtain a successful matchmaking site.

The major advantage of internet based matchmaking services is its ability to reach entrepreneurs across geographical and industrial boundaries, thus reducing the information gap in the informal capital market. Furthermore some services enable investors to locate other investors for syndication, or simply getting in contact with other investors, also in other regional networks as in the case with the Danish site, i.e. cross-networks. It is important to stress that electronic matchmaking is seldom sufficient to achieve a successful development. For those network that electronically match-make entrepreneurs with business angels, Internet is therefore only one of a few different methods in which they manage the matchmaking. It is difficult (almost impossible) to imagine any investment done without some preceding physical meetings between entrepreneur and business angel.

When applying the Internet based matchmaking method it is therefore important to ensure certain incentives for the business angels to actually use the electronic matchmaking. Therefore creating pull-factors to increase the attraction to BAs are fundamental when developing the matchmaking site, which could for instance include possibilities for syndicating with other angels, venture capitalists or access to a (semi-public) co-investment fund. Another pull-factor is the guarantee that all projects have been screened well, before being presented at the matchmaking site.

Investment forums

Another and often used way of creating contact between entrepreneur and investor is through investment forums or meetings arranged periodically, often monthly, by the networks. Forums or meetings normally involve some entrepreneurs (typically 4 to 6) making short presentations (10-15 min. each) for an audience of potential investors, which include the opportunity for questions and answers and informal succeeding one-to-one discussion about the proposals. The meetings often also involves agenda points on investor relevant topics such as taxation, due diligence, investment models etc. Invitations to these forums are offered normally to all BAN members, but there are exceptions. In one BAN composed of several hundred members, that were not all known to each other, the manager personally selected the invited BAs, on the basis of his knowledge of their investment preferences. As with the internet based matchmaking, the entrepreneurs are screened by either the BAN manager or business angels themselves before presenting themselves at the forum. For many entrepreneurs, the investment forum is not only a way of meeting potential investors; it is also an opportunity to receive feedback and advice from a committed audience. Either the BAN manager collects the responses from the investors, while the entrepreneurs is waiting elsewhere or the angels give their response directly to the entrepreneur. This latter alternative gives the entrepreneur a more direct role in the

feedback process, which is preferred by many entrepreneurs. A variant of these presentations is an investor fair where several entrepreneurs set up a display stand in a room allowing potential investors to circulate between entrepreneurs and engage with entrepreneurs when interest arise.

Distribution of summaries

A variant of the internet based method is matchmaking by either letter or electronic distribution of investment proposals in summary forms (ranging from 500 words to five A4 pages) to investors, either on a proposal-by-proposal basis, as in the case of ALMI Stockholm, or via regular investment opportunity magazine. The advantage of the distribution in physically form is the fact that many investors prefer reading executive summaries in paper form rather than in electronic form. This method is suitable to combine with almost all other forms of matchmaking methods.

One-to-one matchmaking

A fourth method in creating contact is through the one-to-one method, where network staff brings an entrepreneur to the attention of an individual investor, whom they know has a specific interest in the given industry. This way of matchmaking gives, compared to the three last mentioned methods, a more selective and individual treatment of both the entrepreneur and the business angel, and thus often results in higher success rates of matching. The business angel simply prefers investment proposals, which have been recommended to him by a trusted associate, and the entrepreneur enjoys the fact that the network selectively chooses an investor with relevant competencies and experience for his/her project. On the other hand, this tailored method is very expensive and time consuming and requires at least a part time network employee in handling only this type of matchmaking. Again, the need for combining different and complementary methods often results in business angel networks using one-to-one method as well as other methods at the same time.

Syndication

If not before, the role of syndication comes into the matchmaking process in many projects. By syndication we mean the joint investment by several business angels in the same project. Only a few years ago, syndication was not as common as it appears to be today. In a recent research report from VækstFonden (2002), it was found that 66 % of all investments by business angels are undertaken in syndication. From other reports, including Sohl (2002) reporting on the US situation, it has been found that syndication is even more prevalent, and that often the syndicate comprises 5-6 actors, of which at least one investor is from the formal venture capital sector. The latter actor's early entrance into a project is usually done as a rather inactive partner. At this stage the formal venture capitalist obtains an early acquaintance with the project facilitating a later strong and active "take over" from the business angels in the syndicate at a more mature stage of the project. The syndicate among angels is normally lead by a "lead angel" that undertakes the initial screening of the project and improvements in the business plan before deciding to invest. After a positive decision, the lead angel is then in charge of the coaching and monitoring of the project, calling the other syndication members for necessary meetings, and using the pool of business angels on a "call" basis for assisting in the project, whenever their individual expertise is important to capitalise. The syndicate is

normally governed by a separate shareholders agreement, regulating the relationships between the partners. A related legal document can regulate the relationship between the syndicate and the other shareholders, including the entrepreneur.

Partners in a syndicate are normally recruited from the BAN to which the lead angel belongs. This can be explained by the fact that partners in a syndicate benefit from having a strong initial trust among each other, when facing the likely future difficulties in the project development. Due to teambuilding events, training and social events in a network, the chances of identifying appropriate syndication partners within the lead angel's own network are higher than outside the network. We thus see one important role of the BAN. There is also evidence that business angels involved in such syndicates are different in competence, for instance in experience and industry familiarity. These differences will result in positive learning in the syndicate between the members.

Moreover, business angels often explain, that in situations where they have an interest in investing in an industry in which they are not familiar, they prefer to invest through syndicates with other business angels. In such situations the lead angel normally possesses strong industry understanding. Thereby the syndicates leverage both learning effects and risk-distribution effects. Partners in a syndicate can contribute with largely varying amounts of capital to the venture. In the interviews we have come across a situation, where the syndicate comprised a large number of comparatively small partners, who individually took a very inactive stand towards the venture.

An important effect of the syndication is that a mechanism is created for agglomeration of larger amounts of risk-capital, which could otherwise not be disposable. Thus larger projects can be accessed by business angels, projects which they could not access individually. Moreover, they offer risk-distribution.

Additional financing for projects

Apart from business angel financing, we have identified an additional effect from the networks through providing access to other kind of financial sources, both in the form of equity and loan. With increased understanding of the role of business angels and the networks in the innovation system, different providers of capital developed various supporting financing schemes. Although we have not penetrated the pertaining regulations, we have the impression that the ability of the BAN to legitimize the business angel, increases the access for a given angel to gain access to such support programs. Thus in Sweden, there exists advanced plans to set up a Matching Fund for business angels from public funds, that will provide automatically equity on a pro rata basis to a project that has received business angel financing. No due diligence or other approval should be needed – the core idea is that the business angel with his own investment assures the investment is justified. Similar Matching Fund schemes exist in other countries including the UK and Finland. In Denmark a similar idea was discussed for some time, but not found realistic at the time.

Another sort of matching fund applies to automatic access to loans on favourable conditions. Thus, if the business angel invests, a loan can automatically be

ascertained. Such schemes exist in countries like Germany, Austria and Italy. We have not discovered any similar scheme in the three investigated Nordic countries.

In conclusion, we thus finds that not only does the business angel network facilitate access for the entrepreneur to the business angel's own funds, the network in cooperation with the business angel also function as a magnet attracting other sources of financing.

OTHER SERVICES OFFERED BY THE NETWORKS

Starting from traditional and simple matchmaking the business angel networks have gradually developed a range of services and activities aimed at entrepreneurs, business angels, partners, service providers and the networks' environment. Today the main network services depend on the nature of the network, as services offered by a national network in general differ from services in a regional, sector based or succession business angel organisation (see Table 5).

Table 5: Services in business angel networks

<p><u>Same services in national, regional and other networks:</u></p> <ul style="list-style-type: none">• Recruiting business angels <p><u>Services in national networks:</u></p> <ul style="list-style-type: none">• Providing infrastructure (incl. matchmaking site)• Forming an association aiming at business angels• Developing model or standardised contracts• Establishing ethical guidelines• Lobbying interface with governmental agencies <p><u>Services in regional, sector and succession networks:</u></p> <ul style="list-style-type: none">• Developing sufficient dealflow• Providing hands-on matchmaking• Teambuilding and training

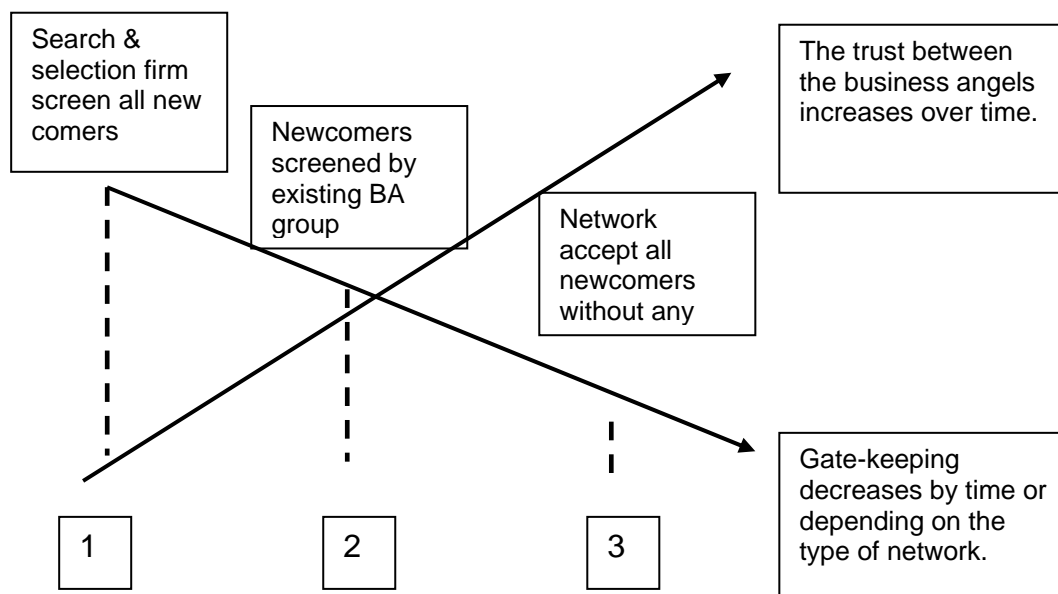
Source: Gullander & Napier

Recruiting business angels

Recruitment is of course an indispensable activity in the start-up of the network, but has to be given continuous attention to, so as to allow for needed growth and replacement of departing business angels over time. Recruiting business angels to a business angel network can take many forms. A natural starting point is to identify potential – if not already well-known business angels – in existing organisations such as in Sweden ALMI and in Denmark the NOVI RBAN. From this core group, one could use the snowball-effect principle by asking its participants to identify others, to them known, business angels, and invite these to become members. This method has the additional advantage of automatically ascertaining trust between BAs in the BAN. Another approach tried with great success in Denmark is to run on a national level for all sectorial networks together an advertisement campaign in a business or sectorial newspaper or magazine, combined with selection according to stated criteria with the involvement of a neutral intermediary such as a professional search and selection recruitment firm. In this way the regional networks got a head start towards becoming self-supporting in members. This procedure ensures high quality business angels, with a standardised selection process, which are characteristics of high importance both to entrepreneurs and the investor body itself. Another BAN has used public information on yearly tax declarations as a way to identify potential BAs.

Once a group of business angels have been collected in a network, they themselves can function as a pre-screening filter for new comers. As shown in figure 6 below search and selection is used initially in many networks, but the degree of gate-keeping varies from the type of network and over time from a high level of gate-keeping to a low or non existing level. Over time and along with an increasing trust relationship between the business angels in the network, the angels function as gatekeepers themselves. At a certain time, the business angel will have developed sufficient trust among each other to accept newcomers merely because they have been recommended by an existing angel in the network.

Figure 6. Screening business angels



Source: Gullander & Napier

An important and early-on activity in the creation of a network is to get acceptance for common ethical guidelines and rules on an individual level among the angels. After the group of business angels have been selected, they are normally asked to sign already agreed upon guidelines for their behaviour as investor in the network. It is certainly an advantage to have access to such a structure in starting the network, and exceedingly important to discuss how it should be interpreted by the different business angels. In this process access to other networks' guidelines, including the national network's, could be helpful. In order to get acceptance to all members it might be worthwhile to consider formulating the guidelines on a high level of description, and using words allowing for divergent views in lower level implementation.

When constituting the network the composition of the member group in terms of investors' preferences, financial resources and track records is given high priority. For instance it is important to try to compose a business angel group with a sufficient number of experienced angels versus inexperienced angels.

Providing infrastructure

An important activity for the national network is to provide the business angel market with sufficient infrastructure in terms of regional networks and matchmaking sites. By providing infrastructure, the national network matures the market.

Forming a business angel association

Compared to regional networks, networks operating on a national scale area are more likely to be concerned with building an association for business angels. The national networks act as a gathering body for the regional networks and the role of associations is highly placed on the agenda in most national umbrella networks. The importance of formalising the national network is being recognised by BAN managers on both national and regional levels. As an umbrella organisation the national network must explicitly express its position compared to the other networks, and choosing to become an association enables the national network to act as a strong representative on behalf of business angels and networks in and outside the political environment. Another important reason for establishing an association is the financial aspects of the networks. National networks often have larger budgets, and being an association legitimates to a larger extent the introduction of user's payments, and thus helps to ensure the future financing of the national BAN.

Shifting to regional networks, we initially assumed that choosing a legal status for a business angel network would increase the sustainability of the organisation, and would be of importance for all BAN managers. The formalities and procedures in founding the association, often detects differing views between members, which are important to identify at an early stage. Thus the process of discussing the legal status has a value in itself apart from the intended end-results. The legal body provides guidance in setting up a good structure with management and board constituencies, as well as processes like yearly meetings. A legal structure is of course accompanied by certain costs for accounting, auditing, tax declaration etc, and also injection of some funds to cover minimum capital requirements that can be difficult to access, and that should be considered too.

Quite on the contrary of our expectations, we found from some interviews (especially among the Danish and Norwegian regional networks), that becoming a member of a legally instituted association is not an attractive alternative for many of the business angels on a regional level, and may even become a disadvantage. One expert and Lead Angel explains the negative effect of creating an association and introducing formal procedures in this way:

“Many business angels prefer things are informal and without too many rules and formal procedures. Choosing to become an association might actually scare some of them away rather than gathering them” (expert and Lead Angel, 2003).

We ascribe the explanations for such attitudes among business angels to the well-known interest of this group of individuals not to appear in any membership listings, and thus “risking” public appearance. Moreover, a legalized body might erroneously give the impression to some business angels that the network invests some of their money collectively into ventures, something that the individualistic angel does not normally appreciate. According to many BAN managers the association status does not guarantee success to the network by itself. In case there is for instance a need for the BAN to make a formal applications or similar undertakings where a legal

identity is required, they can often solve this problem through different means, via BAs in the network etc. The few regional networks that did consider becoming a formal association, explained the choice with the fact that an association gives the business angels the possibilities to receive warrants without making an actual financial investment. Thus an association can play a more practical role for some networks.

Developing model or standardised contracts

Model contracts for business angels and entrepreneurs are often available from organisations like Connect, auditing- and law firms or the national business angel network, normally offered at a no-cost basis. There is therefore no reason for a business angel or entrepreneur to develop contracts themselves from scratch, but instead use these model contracts as a starting point in negotiations. It is important to ensure that they are in conformity with the ethical guidelines applied in the network, and probably there is a need to consult a lawyer for adaptation of the text to the individual case. Syndication of investors is becoming more common among business angels, but also with formal venture capitalists and/or corporate venture capital partner. The legal relationship between these partners, is somewhat similar to that of partners in a shareholders agreement, and is very important to regulate, and also here model contracts can be helpful in the process. To take an example, experiences from Denmark show that the business angels not always are valued properly by later type of investors (often the venture capital firms) for their active involvement in terms of the work they have provided the companies along with their capital in the early stages. A way of solving this issue is to regulate it in a contract before the partners enter their collaboration.

Developing sufficient dealflow

Investment proposals are the fuel of the regional business angel networks – without deal-flow the network can not exist. Moreover, incoming proposals, after quality checking and selection, have to be balanced with the risk-capital provided by the business angels. This is easy to assert as a principle, but difficult to achieve in reality. Disturbances of many sorts occur: bubble bursts in the economy, new taxation systems, business cycles etc.

Providing hands-on matchmaking

Most regional and sectorial networks are focused on the “hand-on” process being involved in actually matchmaking between business angels and entrepreneurs through matchmaking events and meetings. At the same time it is of great concern to build a proper group, where teambuilding is an important tool to practice. Since the regional BAN takes an active role in the preparation of the meeting between the business angel and entrepreneur, the educational part in terms of preparing the entrepreneur to meet the investors is a high priority in such BANs. Minimum activities after finishing the start-up with recruiting members concern attracting deal flow, screening and matching. Added to this can be more voluntary activities such as administering a computerized matching site, training both investors and entrepreneurs, holding conferences, arranging meetings with other actors in the innovation system, attracting matching funds to the funds invested by the business

angels, develop connections with other networks nationally as well as internationally etc.

Teambuilding and training

To strengthen the team spirit and cooperation among the angels, the regional network in Denmark have all completed team building events. Among some of the activities in the networks, we can mention a group of business angels that went on an ice scooter trip to Greenland and another group went to New York for meeting a group of American business angels. Such activities benefit the group of investors as the business angels all reported afterwards having benefited from a better team spirit and thus a stronger motivation for syndicating together. These activities are very useful in the formation stage of a Business Angel Network.

Training of business angels to become more professional investors is very justified in view of the large number of virgin and less active business angels constituting the angel market. Training courses could consist of formalised programs with academic touch including readings and case-discussion as normally used in standard executive education programs. Although this does not seem to exist widespread yet as known to the authors (apart from the courses held by some networks in France and Germany for instance), it is likely to develop as a result of an increased professional focus in the area. Actually, the existence of this Handbook has created the possibility of using it as core course material, together with complementary educational material. Cooperation with educators in other European countries has also started up by the authors, and we can envisage the development of courses on national and cross-national level, maybe also with academic credits supplied. Apart from the training effect thus realised, such training improves through the creation of common mental frameworks, and thus the possibilities for successful collaboration in investments in projects.

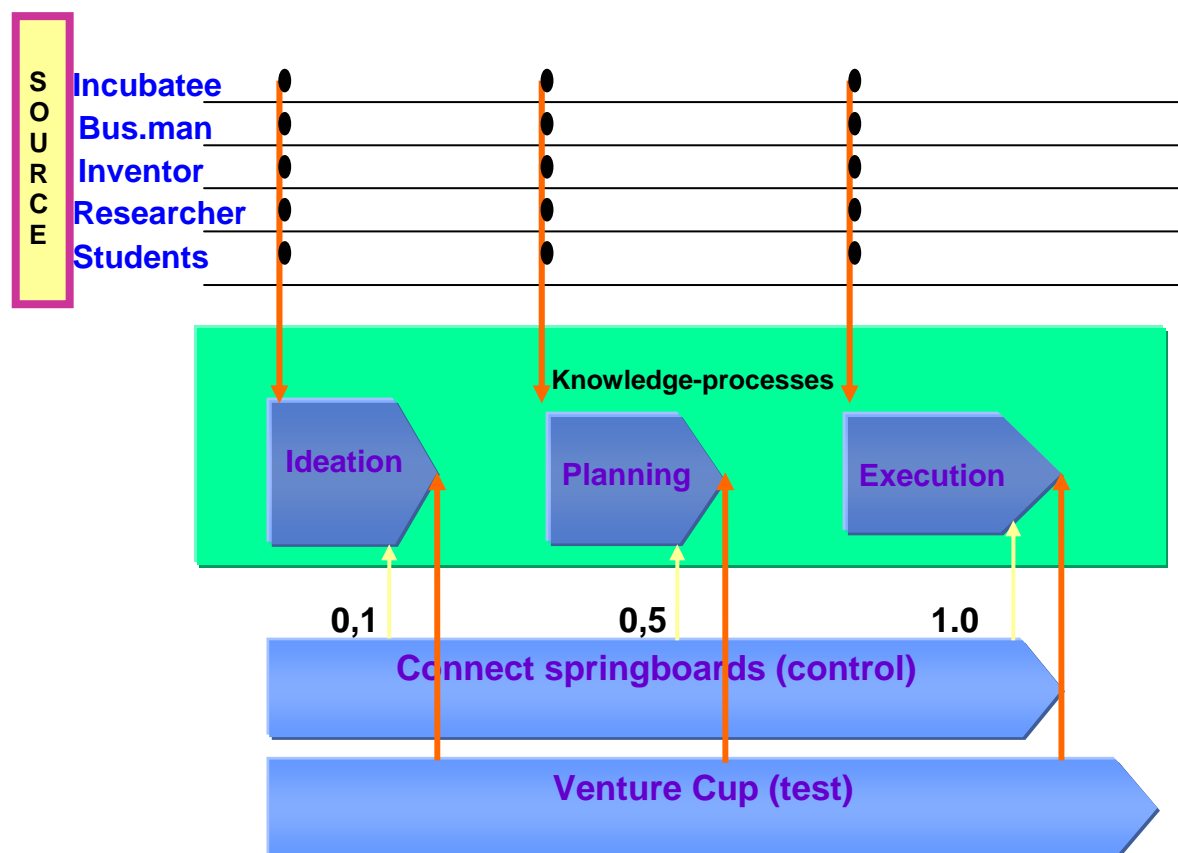
We also found that syndication is considered a very important tool for training less experienced business angels by real life experiences in investing together with more experienced angels. Such training is very hands on, and an illustration of the “learning by doing” pedagogy, that fits very well to many people.

The chemistry between the entrepreneur and the business angel is of fundamental importance when deciding to invest or not. The authors have come across an investor that goes as far as requiring a Myers-Briggs personality test on the entrepreneur, in order to evaluate the matching to his own test profile. Even if principally interesting and correct, this procedure might be very provocative to many entrepreneurs. Another less drastic, but potentially helpful approach might be to let the two parties attend a “marriage program”, as developed by one of the authors. This program lasts a few days, and equips inexperienced business angels and entrepreneurs with an improved understanding of the problems that could occur in the management of the project through discussion of cases, specific issues etc. together with experienced business angels and entrepreneurs in a joint program. It emphasises the importance to really try to get an emphatic view of the other partner, and really understand how he/she thinks. There are business angels who have been very fortunate in their business endeavours, realised a fortune which is now disposable for investing, that in their limited experience in interpersonal relationships could be very difficult to deal with for an entrepreneur, focusing on protection of his

invention, but still requiring risk-financing. For these two opposing actors, attending a joint “marriage program”, could increase the chances of success substantially.

Not the least, the university education system will improve the understanding of the business angel and the business angel networks for people working in the innovation system. In many of the Universities and Technical high schools offering Entrepreneurial courses for students in the Nordic countries, the identification, descriptions, behaviour etc. of different actors contribute to dissipation of basic knowledge of the innovation system to large groups of people. To take an example, in an approach by Stockholm School of Entrepreneurship, the new curriculum will also integrate different actors in the innovation system with the basic entrepreneur courses, as seen in figure 7 below.

Figure 7. Entrepreneurial education



Source: Gullander & Napier

The core entrepreneurial course is built up from three modules, Ideation, Planning and Execution in the mid horizontal section of the figure. Participants in these courses are recruited from mainly the student bodies in the four participating Universities in Stockholm. In addition researchers from the same Universities, independent inventors, people from business firms and incubatees are allowed to enter the programs. Each module is finished with an exam that is provided by an independent actor, the Venture Cup, as part of their nation-wide competition program. Before the exam, each project is checked off by the intervention of the Connect organisation, which has broadened its Spring board standard product (1),

with two lighter versions 0.5 and 0.1. Thus by an elaborate synchronization of work processes of leading actors in the innovation system, the University sector, the Incubators, Venture Cup and Connect, we achieve not only a strong educational effect, but mutual understanding of the role of the participating actors, and thus also an increased efficiency in the innovation system.

BUDGETING A BAN

Introduction

One of the most discussed issues at many business angel conferences and seminars is how to finance the business angel network and even more when and how to reach break-even. EBAN studies show that a business angel network on average manages to break even after five years of existence (EBAN, 1998). Throughout its lifetime the angel organisation is often heavily dependent on sponsoring from either public or private initiatives, and according to the EU-Commission's benchmarking study on business angel networks (2003), it is proven that angel organisations only seldom manage without support of some kind, public or private.

In this section of the handbook we will penetrate the main features of this issue, and see the importance of the time-perspective, services offered by the network, its hierarchical level, some major cost-drivers, and the possibilities to have other parties in the innovation system to share or bear the costs. We will be concerned with both the cost side as well as the income side of the budget.

Start-up and steady state

When starting up a BAN, whether regional or national, the budget becomes very much influenced by many cost and income elements that are affected by time, so that they change in later stages of the BAN. It is thus appropriate to make a distinction between the early phase, and the later phases, some would say steady-state, although this can be misinterpreted to mean that this implies no real action or change.

In the start-up phase of the BAN, major cost elements refer to awareness creation through meetings, interviews with newspapers, contacts with other actors in the innovation system, getting offices, making a home-page, recruiting the initial BA-members etc. At the same time the incomes are difficult to obtain from potentially the main generation sources, the BAs, since the networks have very little to offer off-hand, and BAs are normally very cost conscious. The combination of these two negative effects is that usually a BAN has the largest difficulties to obtain self-sufficiency in the start-up phase, and therefore financing or an investment from another party is called for. An obvious source would be public money. Usually this can be argued for quite strongly on different grounds. The more basic is that the Innovations system provides new firms that generate economic growth and employment. Business Angels perform an important role in the early phases in this system, and the BAN leverages these effects substantially. In line with such arguments, EBAN, the European Business Angel Organisation, has for instance calculated that supporting a BAN is the most cost-efficient way of creating new jobs, since the cost per new job created is much lower than other measures such as regional development initiatives, education etc. Such arguments are used also by other parties in the innovation system, for instance the Incubators. Another calculation used by this actor is to calculate the income generated to the community in terms of taxes and social costs paid put in relation to investment in infrastructure and running costs of the incubator. In one case known to one author, an interest rate of return for an investment in an incubator would turn out not only to be positive, but in fact as high as 10-15 %. A corresponding type of calculation for a BAN could

be even more favourable, considering the lower investments needed in physical infrastructure in buildings etc. With such a background, there would even be possibilities to get private investors in BANs. But this is not the case so far, probably due for instance to pure lack of knowledge on what a BA and a BAN is, what roles they perform in the Innovation systems and the risks and uncertainties inherent in such investments. This situation has resulted in the need for public support of different sorts, mainly financing in the early stages of BAN developments.

In the later stages of a BAN development, some cost elements gradually diminish, and the income prospects improve with the growing competence and resource base of the BAN. In this phase the networks have gained recognition in the market and the users become more willing to contributing to the network services. Thus there are reasons to expect that the importance of public funding and support should diminish with time. Some people think it should disappear completely, but at the present stage of the development of BA and BAN knowledge, we have seen few instances of such a situation to be universally correct. However, we have in this handbook found exceptionally BANs that are financially independent from public sourcing. This then is the effect of experience in running a BAN efficiently, both at the cost and income side.

As a consequence of considerations such as the above, we could indicate a budget structure as in Table 6 below, showing the changing income structure with time.

Table 6. Budget income elements over time

	BAN start-up	After 5 years
Entrepreneurs	0%	20%
Business angels	0%	20%
Service providers	20%	40%
Public support	80%	20%
Total BAN budget	100%	100%

Source: adapted from EBAN (2003)

The table identifies how the Public financing decrease from 80% to 20 %, with private actors such as the direct users BAs and entrepreneurs paying their contributions, and with the more indirect actors in the system, the service providers covering the rest.

Cost elements

The major running cost element in BAN operations is the cost for screening and quality assurance of incoming business proposals and their improvements. According to the experiences from the NorBan network in Sweden estimates of these costs run into an average of 3-4000 EURO per investment project. Thus, it is critical how the absorption of these costs is decided upon. Where the business angel network is the single customer to an incubator, the costs may be born by that latter organisation. We also realize that the more versed in writing business plans the entrepreneurs become, the less effort is needed to be devoted to such quality assurance activities. With the emergence of for instance entrepreneurship courses at universities and higher schools, competitions including Venture Cup, pre-incubator and incubator developments, the knowledge level among entrepreneurs is gradually

increasing over time, and some observers in this sector have noticed a significant improvement in business plan formulation skills during the last 3 years. Such skills are furthermore more efficiently developed within a program run by skilled teachers, using efficient pedagogical learning techniques. We thus believe that the school and university system in principle should be charged with the responsibility to train interested entrepreneurs in business plan formulation and entrepreneurship. If this skill training comes later on in the innovation supply chain, it will be less efficient, and more costly. Thus a carefully designed and functioning innovation system, with clear roles assigned to different actors, is an important asset in the system and can on longer terms reduce the expenses in the business angel networks.

Another potential major cost element is an elaborated system for matching BAs and entrepreneurs. Such systems exist with varying degrees of sophistication. In Denmark a computerised system has been designed, with investment costs of maybe some 100-200 K EUROS. To amortise such investments and cover the running costs of such a system, an appropriate system of income sources has to be arranged.

Other cost elements concern the recruitment of business angels, teambuilding events, the monthly meetings and the BAN manager's time consumption.

An example of a cost budget

As an illustration to the size of the cost budget in absolute amount for a regional and national network under more steady state conditions, we will look into some cost structures partly based on the case of Denmark. In table 7 we show the example of a regional network cost structure:

Table 7: Example of costs for regional network

Expenditures annually (EURO)	
Recruitment of business angels	2700
Teambuilding events	6500
Meetings	1000
1 part time BAN manager (15 h/month)	15000
Total	25200

Source: Various regional networks

For many regional networks the budget is limited to cover the recruitment of business angels, teambuilding events, the monthly meetings and the BAN managers time consumption. In Denmark the recruitment of business angels and teambuilding event was financed 50% of the national BAN, and was thus not born by the regional network. Besides, most incubators (i.e. Innovationsmiljøer in Denmark) cover the costs in connection with having one person employed part time as BAN manager. Most meetings are paid by the incubators or in some cases business angels as well, and for any teambuilding events besides the first one held in the group. Therefore many regional business angel networks do not have an annual budget, but rather a more ad hoc approach to the financial matters within the group.

For the national network the cost structure is different from the regional. Since the national network is not involved in the direct entrepreneur/business angel operations, they should not normally bear the major screening and quality assurance costs. However handling the relationships with government, and regional and local authorities, and in addition preparing and implementing yearly seminars and conferences involve cost.

Income elements

There are a number of income elements possible to attract for BANs. These together with an expected size of the income-streams possible, are shown below:

Yearly fees from service providers such as banks, accounting firms, law firms etc:
1.5-3.5 K€ per year.

Business Angels: Initial membership: 0-11K€. Yearly fees: 1-2 K€ per year and/or per matchmaking event, maybe some 1 K€/event.

Entrepreneurs: Per investment project: 1-3 K€

Success fees: A few % on the financing amount obtained

The yearly fees possible to obtain from service providers are due to the attraction of prospective future clients, where relationships can be fostered from early on by participating in the network activities. The magnitude of such incomes depends of course from a number of factors such as the historical situation, the profitability of the provider, the negotiation strength of the BAN management etc. But since it can amount to quite considerable income, efforts to get this income should be pursued.

Business angels and Entrepreneurs are in spite of their direct use of the BAN to inexperienced people surprisingly low-income generators, which can be explained by their difficult financial situation as such. The income from the BA can be structured in many different ways. On average in Denmark some 270-400 EURO are paid by the BA yearly. Most of the regional networks do not charge the entrepreneur for introducing him/her to investors. For instance in Denmark, most of the regional networks, e.g. the incubators, introduce entrepreneurs from their own portfolio without charging them extra. On the contrary, networks with a matchmaking site charge or plan to charge also the entrepreneur with a fee of 100-400 EURO. In most cases this fee includes services like developing business plans with support from a service provider affiliated with the matchmaking site.

Success fees based on consummated deals between business angels and entrepreneurs, normally amounting to 2 - 5%, appear on the surface to be obvious strong income generators, but are often disclaimed due to the heavy efforts needed to collect the fees. One problem is caused by the definitional issues as to when a match between business angel and entrepreneur can actually be claimed to have occurred due to the actions of a specific network. The combination of such complexities and the risk that both the entrepreneur and investor will try to avoid paying the fee, means networks must monitor and keep close contacts with both the investor and the entrepreneur once the initial contact has been arranged within the network. As negotiations can drag on for months the close contact is viewed as a

costly affair for most networks. On the other hand, a business angel and the BAN manager can be closely related and even friends, resulting in the BAN manager always knowing the exact size of the investor's portfolio. In such situations the BAN manager's need for monitoring is reduced. Thus we find that in some cases success fees might work out, in others not very easily.

The income generating ability for a national versus a regional association is very different. The national BAN cannot directly access any income from the activities of the entrepreneur/business angel's activities, since the national BAN operates at a higher hierarchical level, distant from these activities. They might have success in negotiating with the regional BAN a share of the yearly fees from service providers such as banks, accounting firms, law firms. For instance we have come across that service providers are charged annually fees amounting to 4000 EURO for accessing a computerised matchmaking site, and thus a channel of both deal and investor flow.

The major income source is probably collecting yearly fees from the regional BANs, which of course requires performing obvious and important work for them, for instance in providing the yearly meetings, conferences, training, lobbying and delivering good infrastructure from a home-page with standard contracts and ethical guidelines. There appears to be a critical mass in this income generation ability, since the fixed cost element is so pronounced – with more regional BANs affiliated, the higher the income at only marginal, if any, additional costs. This demonstrates the particular importance of public support in the early phases of development of a BA/BAN structure in a country with initially few paying BA members.

Concluding remarks

We find that budgeting for BANs is very difficult, with obvious repercussions on major investments in matching sites with heavy computer-infrastructure, both giving traces in amortizations and running costs. BANs abstaining from such investments can run at a much lower budget level. Another important cost-element is the running costs for screening and quality assurance of investments. By having a strong relationship with incubators, these costs can be kept minimal for the BAN. In the long run we can also expect that the general knowledge of entrepreneurship and business plan preparation will result in an increase in quality level of these documents, thus decreasing the costs.

Recruiting costs can also be kept low by exploiting existing networks, as has been found in some cases. Thus we can conclude that we are still learning how to do things better and better in this field of the Innovation systems. By benchmarking one another, and exchanging experiences, good practise is contributing towards reaching more efficiently run BANs. Hopefully this Handbook provides some help in this direction.

CROSS BORDER ACTIVITIES

After having studied the national scenes and set-ups for business angel networks, we found a growing interest among the more mature angel organisation to involve in cross border activities across the Nordic countries. In the following we will dwell on the possibilities appearing on a Nordic level resulting from a more and more global formal venture capital market spreading also to “global” business angel activities. This is also in line with Commissioner E. Liikanen’s recent speech at the yearly EBAN conference in Milan where he mentioned “Through cross-border risk capital investments, the recipient firms can achieve a real European dimension. Such a European approach should be achievable by closer co-operation between business angels and venture capital firms, in particular seed capital funds. I urge you to continue to explore co-investment schemes and public-private partnerships to this end”.

Although most business angel networks are busy with local, regional or at the most national activities, some business angel organisations start to see the benefits from working together cross-border with other networks in the Nordic countries. From our interviews we identified no concern of legal or cultural nature that might preclude such cross-border activities. Such a development occurs for instance when one business angel network possessing an interesting project lacks the ability to supply sufficient capital or knowledge on the national arena. Let us assume for instance that a BAN-manager in Denmark has an interesting and promising semiconductor project, which needs supply of capital and specific sector related competences or network. Moreover, one business angel in this network has shown an interest in investing in the project, provided another 1-2 business angels are found. In this situation the BAN manager contacts other regional networks in the area and they might be able to support each other. But it is not always so easy to locate specific competences and knowledge. In some cases the regional counterparts are not able to respond to requests neither in capital nor in competences, which are desired. Now, let us assume in our illustrative case that the project the BAN manager must look further away. The BAN manager might know angel organisations, regional or national, in other countries. He might know the manager of a business angel network, in for instance Norway. This Norwegian manager might then inquire in his network for interest in the Danish project. If a match is obtained, the Danish and Norwegian business angels might meet, discuss the project and might decide to syndicate in the project together. In this case the Danish investor will probably have the function as lead investor in the syndication. This is an example of cross border activities that will help developing the global business angel market.

Seeing that many angel organisations are occupied with very local matters related to financial constraints, point of breakeven and local matchmaking, only very little attention is focused outwards towards making international events a second or third priority. Nevertheless, if value added activities that are beneficial for either the BAN manager or the business angel are found, such activities are to be seen as the driving forces in any cross border cooperation. The physical border limit is not a border for business. Syndication within narrow and specific industries is one of such added-value driving forces, and is considered another mechanism in any future Nordic cross border activity. We have noticed that in the southern part of Sweden, Scania, there are already several cross-border BA activities with Danish

organisations, for instance the Biotech sector BAN. However, before any syndication is possible, it is necessary to have a sufficient infrastructure that will enable BAN managers or even business angels in locating relevant partners abroad. Because of geographical distances, such an infrastructure must supply virtual rooms for the involved to meet and exchange ideas, or at least for them to contact each other electronically. An Internet based matchmaking site with a Nordic platform is useful in this perspective. From the interviews we found that one BAN from outside Denmark, is planning to use the Danish matching site.

However, coming back to the limited resources and local focus in most networks, any Nordic cooperation is not considered as high priority and thus realistic within the first few years of the individual BAN's lifecycle. Cross border activities are considered valuable only when the BAN is matured enough to see benefits coming from such activities. Maturing the BAN is a matter of time and resources. Some BANs studied have already reached that stage.

To promote cross-border operations, all the networks could be linked together through a common electronic platform, personal relationships could be developed through annual training seminars, matchmaking events, business angel conferences etc. Such arrangements will contribute to the internationalisation of informal venture capital, so that maybe it can reach parity with the seemingly high internationalisation of formal venture capital, which according to latest statistics in Sweden is in the order of 80 % of total formal venture capital volume. This might also have an impact on the location of the projects in the future. Already today, some actors like Industrifonden in Sweden express some concern for highly interesting projects leaving Sweden, for the US for instance, attracted by favourable financing and working environments. But free trade has its plus and minuses, and it is easy to focus on only the leaving firms and the resulting losses, and ignore the attracted firms.

To summarize, the Business Angel world is also becoming more and more global. Through different mechanisms, such as cross-border syndication, and cross-border utilisation of national matching sites, we can already see spontaneous examples of international undertakings. For mature BANs this is just a natural organic development. This process can be enabled by creating some infrastructures like virtual meeting places, joint use of national matching sites, maybe transforming one to be able to handle all Nordic countries as has been suggested before. Apart from infrastructures, creating personal contacts between BAN managers, offering Nordic conferences etc. will also trigger interest and understanding among the people affected. By a cautious process, so that BAs and BANs themselves realise the advantages with this development, we can benefit from higher efficiency in the innovations system, and increase the attraction for the Nordic market, both important to retain Nordic projects and to attract ex-Nordic projects.

LESSONS TO BE LEARNED

1. Facilitating business angel networks by approaching the market top-down or bottom-up

Assuming that business angel markets are immature, a top-down approach can with great advantage be implemented as an effective way of kick-starting enhanced markets for informal investments. For many underdeveloped business angel markets, public and governmental policies are useful initiating the development by supporting the build up of angel infrastructure, creating awareness and knowledge around business angels and the networks, which is done mainly from direct financial support to the networks. In the top-down approach it is important that the involved actors are not only representing the public sector, as actors from the private sector are necessary to reach an integrated result. The advantage of a bottom-up approach is due to the supportive nature of relevant actors in the market, an element likely to be lacking in the top-down approach. Thus we would recommend to consider a close combination, or synchronization, of both approaches.

2. Build a team around the network – and involve a Lead Angel

Once the business angel network is under creation, it is very important to ensure a committed and qualified team actively supporting the development of the network. In this process a Lead Angel must be involved. It is important and strongly recommended that BAN managers involve a Lead Angel with strong motivation and personal interest in representing the network. The Lead Angel's role is to encourage and attract other business angels, and thus the Lead Angel is often a person with a background as active and successful business angel. The role of the leading angel is essential and must not be underestimated. Most investments in a network are made as syndications between business angels typically having 4 - 5 business angels co-investing. Prior to any investments are made, the group of angels must know and trust each other. To create the right spirit teambuilding activities - ranging from ice scooter trips to visiting a business angel network abroad - are essential for shaping a sense of belonging and co-operation. Basically it concerns putting the right people together, and it is important to create business angel network with a degree of prestige.

3. Make expectations explicit

To have a business angel network to run successfully it is vital to make expectations explicit from the very beginning. Such expectations include the BAN manager's hopes for how many investments a single business angel will make within the coming year, and business angels' expectations regarding the project proposals' level of investment readiness. It is recommended that both the BAN manager and business angels clarify their own expectations at the first meetings. In order for the BAN manager to fulfil the business angels' expectations, it is necessary to identify the right entrepreneurs and project proposals in order to make a fast success. The BAN manager must also be open to deal-flow being introduced by the business angels themselves. Oppositely, the business angel must be prepared for the risk in investing in seed projects and must be sure to have the time for attending the meetings (if not, a business angel will not have time to be an active investor either). In case, contrary

to all expectations, the business angels do not invest or the project proposals are of too poor quality, business angels and BAN managers should be open to discuss how to move on or simply adapt their expectation level. In the worst case, business angels can be asked to leave the network or BAN managers must accept that the business angel group meet elsewhere.

4. Business angel must invest own money

Business angels must invest their own money (and not the family's fortune) and may not depend on financial resources that are tied up in paper assets. The business angel should be ready to invest minimum annually about 100 K EURO.

5. Entrepreneur must be business angel ready

In order to have business angel investing their capital, the entrepreneurs and the investment opportunities must be prepared to meet an active investor. The business plans should be of high quality, and if needed and possible, the entrepreneur should in addition attend some of the many courses for developing the necessary skills. If the quality of the business plans is high, the burden on the BAN to screen and improve the plans is decreased, and accordingly a potentially high cost element in operating budget.

6. Ensure the financial circumstances

It is fundamental for especially national networks to have financial support in the starting-up phase and at least to have funding during the first few years. One important factor in ascertaining sustainability of the BAN is to have many sources of finance. One should also consider the influence of time-perspective and the different undertakings or offers of the BAN, and the possibilities of other parties to bear some costs. One of the critical cost elements is the cost for screening and business improvement work of the business plans.

7. Seeking cooperation with other relevant players

For most business angel networks it is important to interact with the surrounding organisations in the environment. As for the starting-up phase the business angel networks could be connected to the established infrastructure of development agencies (ALMI etc). In the development phase the networks could start to interact with bodies that function as sources of deal-flow like universities, educational institutions and research institutes. For the expansion phase, the network must relate itself to independent investors, the financing world including venture capitalists in order to have exit possibilities for the business angels. Some business angel networks face, especially in immature markets, resistance and lack of understanding from the environment resulting in unsuccessful cooperation. Thus awareness campaigns and the educational role of the national networks are very important.

8. Be patient, give it time

Be prepared that it will take time before a business angel start to invest. Be sure to spend sufficient amounts of hours on setting up the network. Be creative when thinking how to arrange a proper deal flow.

9. Training of BAN staff

There is no doubt that a business angel network can be an effective tool in generating investments locally. But it is important not to have too many regional networks operating in small geographical areas. It is also important to provide professional training of BAN managers and other business angel network staff. Such training is desirable according to our findings and to the EC Benchmarking study, but do not exist at present in special BAN-focused programs. Some courses are in preparation at Stockholm School of Entrepreneurship – see www.sses.se.

10. Maintenance and development of the BAN

Once the BAN is working appropriately, many BAN managers relax and assume everything is OK. However, the experiences show that many disturbances can easily wreck a BAN. It is important to have certain preparedness to this in different ways. One threat to the network is changed intention of the principal of the BAN, for instance leading to the desire to close down the operations. In such situations we think it should be reasonable to allow the BAs to take over the BAN at reasonable conditions. Departure of the manager of the BAN can also be devastating, and it could be advisable to have a second manager, a vice manager, ready to enter into the manager position, if the existing leaves. It is also imperative for the manager to drive the BAN forward, by setting up new challenges of performances. We believe that with the increased professional focus of BAs, the possibilities for certification of BANs etc., such continuous improvements are always possible to get acceptance for in the BAN membership group.

SELECTED LIST OF NETWORKS AND CONTACT PERSONS

DENMARK

Danish Business Angel Network (DBAN)

National business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk or tel.: 0045 3529 8639.

NOVI business angel network:

Regional business angel network. For more information please contact BAN manager Per Sondrup, NOVI Innovation.

CAT business angel network:

Regional business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk

DTU business angel network:

Regional business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk

Ostjysk business angel network:

Regional business angel network. For more information please contact BAN manager Lars Stigel, Ostjysk Innovation.

Tekinno business angel network

Regional business angel network. For more information please contact BAN manager Michael Frank, teknologisk Innovation at www.tekinno.dk

The Biotechnology network (BIOBAN):

Sector business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk

Succession business angel network North

Regional succession business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk

Succession business angel network South

Regional succession business angel network. For more information please contact BAN manager Peter M. Kofoed at www.dban.dk

SWEDEN

Connect:

Skåne Affärsängelnätverk. For more information please contact BAN manager BG Svensson, bjersund@spray.se, tel. 046-2221275, 070-6982021

Sydost. Business Angel Network. For more information please contact BAN manager Peter Stenfell, peter.stenfell@connectsydotst.com, tel. 070-7475080

Halland. Halland Ideell Förening.. For more information please contact BAN manager Lars Engerfalk, lars.engerfalk@connecthalland.info, tel. 035-182249.

Jönköping.AddVenture Investerarkollegiet ideell förening. For more information please contact BAN manager Bertil I Andersson, bertil@vitalisera.se, tel. 036-351440, 0708-197600

Väst. Västs Affärsängelnätverk. Sydost. For more information please contact BAN manager Björn Sjöholm, bs@connectvast.se, tel. 031-7728351

Östra. East Coast Angels. For more information please contact BAN manager Johannes Dyring, Johannes.dyring@connectost.se, tel. 0733-320388

Business Angel Network Uppsala (BAN Uppsala). For more information please contact BAN manager Fredrik Blomquist, connect@uppsala.chamber.se, tel. 0708-886986

Affärsängelnätverk I Norrbotten. For more information please contact BAN manager Ove Hedkvist, ove.h@connectnorr.org, tel. 0920-73077, 070-3177555

Others:

SwedBAN. For more information please contact BAN manager Anders Bröms, anders@arostechology.com, tel. 021-4707190, 0705-867801

Kista Business Angels Network (KBAN). For more information please contact BAN manager Pär Hedberg, per.hedberg@kista.com, tel. 0708-550318

Result Network. For more information please contact BAN manager Felicio de Costa, felicio@result.com, tel. 0702-360316

ALMI Företagspartner Stockholm. For more information please contact BAN manager Eva Forsén Ingers, eva-forseningers@almi.se, tel. 08-4581440, 070-5120059

“Norrtälje”. For more information please contact BAN manager Lennart Ohlsson, lennart.ohlsson@rintec.se, tel. 070-5651567

“W Venture Network”. For more information please contact BAN manager Carin Andersson, carin.andersson@wventure.se, tel. 070-3188622

DalaBAN. For more information please contact BAN manager Christer Nasvjord, navjord@bergslagsakademin.se, tel. 070-5826219

X.Invest. For more information please contact BAN manager Mikael Kedbäck, micke@seesaw.se, tel. 070-7694334.

YBAN. For more information please contact BAN manager Joakim Byström, joakim.bystroem@home.se, tel. 0611-26888

Enterprise Jamtland. For more information please contact BAN manager Torbjörn Rinzen, torbjorn.rinzen@enterprisejamtland.com, tel. 063-575060

Änglanätverk Norr. For more information please contact BAN manager Nils.Eric Öquist, nilseric.oquist@aktietorget.se, tel. 070-5781979

30up.com Ideella föreningen för Affärsänglar. For more information please contact BAN manager Margarethe Höglund, trettioup@everyday.com, tel. 070-8552051

Projektpresentation SPIN. Focus on Women Business Angels. For more information please contact BAN manager Anna-Carin Månsson, anna-carin@spiltan.se, tel. 0709-816210

NORWAY

NorBAN (My venture lab). For more information please contact BAN manager Thorvald Steen, thsteen@myventurelab.com, tel. 93421940

Campus Kjeller & Grunderparken, Steinkjer. For more information please contact BAN manager Steinar Korsmo, steinar@futureint.no, tel. 92011415.

Investorforum Trøndelag, Trondheim. For more information please contact BAN manager Trond B Brekke, trond.brekke@bbrekke.no, tel. 73802150

Network Kristiansand. Partus. For more information please contact email: teh@partus.no, tel. 38129503.

Network Stavanger. SND in Rogaland. For more information please contact BAN manager dir. Karl Bøe Skogen, email: kbs@snd.no, tel. 51 54 51 10.

GLOSSARY

BUSINESS ANGEL (BA): A private individual who invests (part of his personal assets) in a start-up and also shares his personal (business management) experience with the entrepreneur. Investment often takes place in the early days of the investee business's existence. Genuine business angels are therefore experienced entrepreneurs themselves, who invest venture capital in exchange for stock and are personally involved in managing investee businesses.

BUSINESS ANGELS NETWORK (BAN): An organisation whose aim is to facilitate the matching of entrepreneurs (looking for venture capital) with business angels. Some BANs tend to remain neutral and generally refrain from formally evaluating business plans or angels. A BAN arranges a market place for matching services.

MATCHING PROCESS: Any action aimed at facilitating encounters between business angels and entrepreneurs.

DEAL / MATCHING: The conclusion of an agreement whereby a business angel invests in a company's stock.

INVESTMENT FORUM: A meeting in which entrepreneurs each have 15–20 minutes to present their business project to a range of business angels who have been pre-selected or have expressed an interest in one or more of the projects.

BUSINESS ANGELS SYNDICATION:

The gathering of several business angels into an informal consortium for the purpose of creating a critical mass of funds above what each business angel could—or would be prepared to—invest. This term also applies to the pooling of competencies in order to offer more managerial skills than any individual business angel could display.

SERIAL ANGEL: A business angel who closes two or more investment deals per year.

INVESTMENT READINESS:

A privileged moment in time when entrepreneurs are ready to meet and negotiate with business angels.

EXIT ROUTE: The ways in which business angels sell their stake in an investee business. Possible exit routes include management buyouts, sale of stock to another business angel or a formal venture capital firm and—in few cases—listing on the stock market.

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