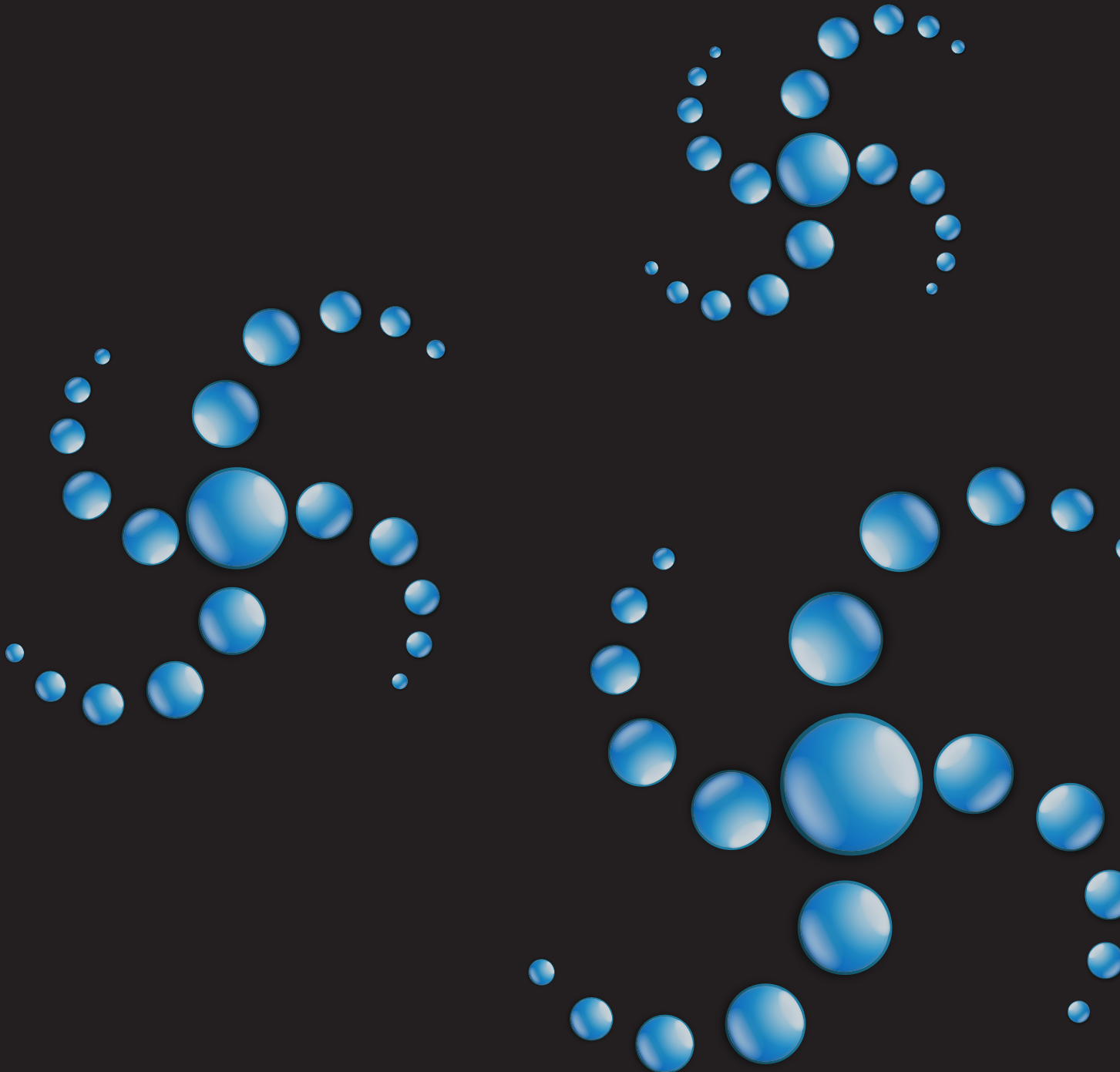


Business angel syndicates in Scotland: an exploratory study of gatekeepers

Stuart Paul and Geoff Whittam



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Foreward

In the past twenty years business angels have become established providers of finance to early stage ventures in many developed economies. Over this time the way in which business angels operate has changed. Business angels have been moving from being solo investors to working with other angels in investment syndicates. Operating in this way offers angels and the businesses in which they invest a number of advantages. For example, angels can spread risk by operating with other like-minded investors while, from the entrepreneurs perspective, a syndicate can offer greater added value to a business through the collective experience and knowledge of its members.

This changing pattern in angel investment has been fully reflected in Scotland. A key strategic priority for LINC has been to support the development of new angel syndicates and Scotland now has syndicates stretching from the Highlands in the north of the country to the borders in the south. The development of these syndicates has been an essential under-pinning in the success of the Scottish Government's Co-Investment Fund aimed at providing early stage risk capital to high potential smaller and medium sized enterprises.

More recently the harsh economic environment brought about by the worldwide recession has thrown the role of business angels into sharper relief. While some more traditional sources of funding have dried up, Scotland based angel syndicates have maintained their support for the market at the record levels first reached in 2007-08.

Clearly, the need to back high growth companies at the early stage of their development is now more crucial to our future prosperity than ever and business angel syndicates are playing a hugely important role in this market. Yet their operation has been the subject of little scrutiny. In particular, little is known about the role of the individuals who coordinate and manage much of the day-to-day activity of these syndicates, namely, the business angel gatekeepers. This report addresses this gap in our knowledge.

The research set out in this report was facilitated and supported by LINC and NESTA but was carried out independently and the findings and recommendations are those of the authors. It is an important contribution to our understanding of the role of business angel gatekeepers and will inform the on-going debate about how best to support early stage businesses in Scotland. As with all areas of research, your comments and views would be welcome.

David Grahame

Director, LINC Scotland
November 2009

LINC Scotland is the national association for business angels in Scotland, with a membership network of hundreds of investors including those operating individually, many of the best known groups and syndicates, and a number of significant private offices. It is a private non-profit trust and does not act as investment adviser to any party but rather plays an underlying 'soft infrastructure' role in supporting the development of the business angel marketplace in Scotland, as well as representing members' interests at Scottish, UK and European level. LINC is supported by membership and company fees, ERDF, Scottish Enterprise and its Corporate Partners. This diverse base helps maintain strict standards of independence, impartiality and confidentiality.

NESTA is the National Endowment for Science, Technology and the Arts. The aim of NESTA is to transform the UK's capacity for innovation. It invests in early stage companies, informs innovation policy and encourages a culture that helps innovation flourish.

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Executive summary

As informal investment markets in many countries have matured, syndicated angel investment has been taking a greater share of overall informal investment. Yet, in contrast to their increasing importance, business angel syndicates have been subjected to little examination. The objective of this report is to address this gap in knowledge and understanding by examining the role of the individuals who control access to and manage much of the day-to-day operation of these investment syndicates, namely business angel gatekeepers.

To gain an understanding of business angel gatekeeping, data was collected through in-depth interviews with gatekeepers from all Scotland's business angel syndicates. To ensure a rigorous approach to data analysis, a systematic six-step schema was developed to examine the data.

The findings of the research lead us to suggest a succinct definition of the term gatekeeper as follows: business angel gatekeepers are key individuals operating at the core of angel syndicates who link the internal resources of the syndicate to its external environment.

We find that gatekeepers do not lend themselves to easy categorisation. Well-educated with degree and/or professional qualifications, they come from a wide variety of industrial, commercial and professional backgrounds. There are two main types of business angel gatekeeper in Scotland, the 'member gatekeeper' and the 'manager gatekeeper'. Member gatekeepers are associated with smaller and newer syndicates and can be identified as an existing member of the syndicate who takes a lead role. As a syndicate develops, it may recruit a manager gatekeeper, sometimes to work on a part-time basis.

Gatekeepers are usually engaged across the entire informal investment process which can be broadly characterised in four broad, overlapping stages: sourcing, screening, negotiating and managing. Two inter-related factors impact upon the effectiveness of a gatekeeper; first, their ability to build relationships, both outside and inside the syndicate, and second, possessing and exercising the necessary knowledge and skills.

With respect to building relationships, the gatekeeper is the 'face' of a syndicate to the outside world and engages not only with entrepreneurs but also with a diverse range of individuals and corporate bodies; internally, unless there is a good working relationship with members of the syndicate, particularly core members, the gatekeeper's job is untenable.

In relation to knowledge and skills, gatekeepers require considerable absorptive capacity together with a thorough understanding of company law, accounts and due diligence procedures. A range of soft skills, for example negotiation and persuasion, is also needed. Moreover, we found that there is an additional dimension to successful gatekeeping, namely, the tacit knowledge component of personal expertise which provides a gatekeeper with an

instinct about which businesses and entrepreneurs to back.

Based on the findings of this report five recommendations are made. First, given that gatekeepers view business plans as a possible basis for further dialogue, entrepreneurs and business support agencies should focus on preparing summary business plans which specifically address the investment criteria of angel syndicates. Second, we find the role of the gatekeeper to be substantially broader, more demanding and significant than would appear from a cursory examination. Therefore, we recommend that those who wish to become gatekeepers should assess their existing skills and experience against those identified in this report to identify areas in need of further development.

Third, gatekeepers often provide informal consulting advice to early stage ventures, including to businesses which are not considered to be an investable proposition for their syndicate. Guidance from an experienced gatekeeper can be hugely valuable to an entrepreneur in helping make a business 'investment ready'. We recommend that mechanisms which encourage and resource gatekeepers and their syndicates to develop this informal advisory and consulting role could usefully be considered by policymakers.

Fourth, the complex mix of experience and skills required of a gatekeeper may make recruitment difficult; in turn, this may inhibit the development of syndicates with consequent implications for the financing of early stage businesses. We recommend that ways of capacity building by transferring experience from existing to prospective gatekeepers should be explored with mentoring, job shadowing and placements being feasible options.

Finally, we recommend that LINC should consider holding regular meetings of gatekeepers. This would not only assist in building the reservoir of tacit knowledge but also would enable gatekeepers to share experience, monitor investment trends and identify ways in which their role could be developed.

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1. Introduction

As the informal investment markets in developed economies have matured, business angels have been moving from being solo investors to working with other angels in investment syndicates. These syndicates (sometimes termed 'structured angel groups') offer angels a number of advantages which range from sourcing opportunities more successfully and reducing transaction costs, to spreading risk and managing investments more effectively. As a result of the changing pattern in the way in which business angels invest, syndicated informal investment has been taking a greater share of overall informal investment; indeed, in a number of countries, angel syndicates have become partners in state sponsored co-investment funds that have been established to invest in early stage, high growth businesses. Examples include the New Zealand Co-investment Fund, the Scottish Co-investment Fund, the London Seed Capital Fund and the German Government technology venture capital company Technologie-Beteiligungs-Gesellschaft mbH. Controlling access to and managing much of the day-to-day operation of informal investment syndicates are influential individuals who have come to be known as 'gatekeepers'. Yet, little is known about what a business angel gatekeeper does or about the individuals who undertake the function. The objective of this paper is to address this gap in our knowledge. Specifically, a number of key questions are addressed. What types of gatekeepers exist? What roles do gatekeepers undertake? What skills does successful gatekeeping require and what factors impact upon and determine the effectiveness of a gatekeeper?

The empirical findings set out in this paper result from a series of in-depth interviews with a representative sample of Scotland-based gatekeepers. Evidence is presented primarily about the background experience required of a gatekeeper, the similarities of and differences between the main types of gatekeeper, the roles undertaken and the key skills needed. From these findings a definition of the term 'business angel gatekeeper' is advanced and main factors which determine the effectiveness of a gatekeeper are identified. Given the lack of empirically based models and frameworks about business angel gatekeepers, the research draws upon findings about gatekeepers in other areas. In particular, an analytical focus for the study was derived from empirical evidence about gatekeepers in research and development environments.

This research about business angel gatekeepers offers a number of advantages to stakeholders in the informal investment process. On a pragmatic level, it helps entrepreneurs better understand and appreciate the role of the gatekeeper and the processes used by syndicates in the selection of investment opportunities. Existing and potential angels can also gain insight into the operation of syndicates and the demands placed on gatekeepers. Moreover, a clearer understanding of the role of gatekeepers in the informal investment process

will enable policy-makers and support agencies to better direct initiatives aimed at encouraging the development of new ventures rather than adopting 'blanket' solutions to market imperfections. While we do not claim a generality of application, we believe the findings in this paper to be robust and of relevance to stakeholders in other informal investment markets.

This report is organised in the following way. The reasons under-pinning the development of business angel syndicates are reviewed. The methodology applied in this study is then explained followed by the results of the research which focus on the types of gatekeepers, their roles and the skills and experience required. These findings are then discussed by examining the factors that determine the effectiveness of gatekeepers. Finally, the paper concludes with recommendations for the main stakeholders in the informal investment market and identifies areas where further study is required.

2. The development of business angel syndicates

One of the key characteristics of individual business angels has been their preference for anonymity. However, from the mid 1990s onwards USA based angels began to move out of the shadows, not individually but collectively, through the creation of angel syndicates or groups. These coordinated associations of angels did not eschew publicity, rather the reverse, and sought to increase the flow of deals by making themselves known to entrepreneurs seeking equity capital. Syndicates took off quickly in the USA in the late 1990s. The earliest visible syndicate is commonly held to be Silicon Valley's 'Band of Angels' founded in 1994 with twelve members. By the millennium it had grown to over 100 members and in the same period many other syndicates were established. The trade association representing North America based angel syndicates, the Angel Capital Association, estimates that in mid-2009, 330 such groups were active in the USA and Canada.

Other countries in which business angels have become established providers of finance to early stage ventures such as the United Kingdom, Australia and Germany followed a similar pattern of syndicate development¹. The informal investment market in Scotland has also seen great strides in the development of its angel syndicates. The first in-depth study of this market² found that 50 per cent of angels had invested through a syndicate; five years later, Scotland's main economic development agency reported that 'angel activity is now almost completely represented by angel syndicates'³. Coordinated associations of angels can take many forms and it is a moot point as to what constitutes an angel syndicate as opposed to a loose network of individual investors. For the purposes of this research the term 'syndicate' is used to indicate a grouping of business angels that uses its combined resources to source, screen, negotiate, finance and manage investments in early stage companies; membership of the syndicate is by invitation and each member decides whether or not to invest on a deal-by-deal basis.

Reasons why the emergence of angel syndicates has been a key characteristic of maturing informal investment markets can be found in the advantages such a collective approach offers stakeholders at every stage of the investment process. During the pre-investment stage, syndicates, through their high public profile, make the market more efficient by reducing search costs to both angels and entrepreneurs⁴.

Individual angel investors have little or no support staff and have limited time and resources. Better screening of investment opportunities is therefore possible through a syndicate's combined marketing, finance and technology expertise. Moreover, transaction costs can be reduced as syndicates build-up knowledge that enables the development of efficient due diligence routines and procedures.

Well-run syndicates can leverage their membership's expertise and judgement to the negotiation of a deal and angels value highly the input of other syndicate members about whether to invest. Post-investment, through its pool of members, a syndicate can offer greater added value to a venture thereby assisting with its successful development. Moreover, on-going monitoring can be undertaken by syndicate nominees who have relevant specialist knowledge to help companies achieve the milestones required for additional finance from the syndicate⁵. Those entrepreneurs whose businesses have received backing from a syndicate may also have enhanced credibility with venture capitalists and other external providers of finance and, thus, find follow-on funding and access to other types of finance more readily accessed. Similarly, syndicates are likely to have more knowledge and understanding of the benefits and problems of alternative exit strategies.

Four more general factors also drive the development of syndicates: first, there are the social advantages that networking with others can offer individual angels⁶; second, syndicates can facilitate learning with novice angels being able to 'learn the ropes' of informal investment from their more experienced fellow members; third, by sharing risk with other syndicate members, individuals are able to spread their investment funds across a greater range of investments; and, finally, with evidence suggesting that informal investors prefer to invest locally the establishment of angel syndicates has been encouraged by policymakers as a way of addressing the equity gap in remote regions.

¹ Sohl, J. E. 2007. *The organisation of the informal investment market*, in H. Landström (ed.), *Handbook of research on venture capital*, Cheltenham: Edward Elgar Publishing, 347 - 368.

² Paul, S., Whittam, G. and Johnston, J.B. 2003. *The operation of the informal venture capital market in Scotland*. *Venture Capital, An International Journal of Entrepreneurial Finance*, 5, 313-335.

³ Scottish Enterprise, 2008, *The Risk Capital Market in Scotland 2005-2007*. (Glasgow: Scottish Enterprise).

⁴ Mason, C.M. 2007. *Informal sources of venture finance*, in S. Parker (ed.), *The Life Cycle of Entrepreneurial Ventures: International Handbook on Entrepreneurship*, Amsterdam; Kluwer, 259-299.

⁵ Shane, S.A., *Fool's Gold? 2009. The Truth Behind Angel Investing in America*. New York: Oxford University Press.

⁶ Preston, S., 2004 *Angel Investment Groups, Networks and Funds: A Guidebook to Developing the Right Angel Organization for Your Community*

⁷ Riding, A. L. 2008. *Business angels and love money investors: segments of the informal market for risk capital*. *Venture Capital, An International Journal of Entrepreneurial Finance*, 10, 355-369.

⁸ van Osnabrugge, M. and Robinson, R.J., 2000. *Angel Investing: Matching Startup Funds with Startup Companies - The Guide for Entrepreneurs, Individual Investors and Venture Capitalists*. San Francisco: Jossey-Bass.

⁹ Harrison, R.T., C.M. Mason, and Robson, P.J.A., 2003. *Determinants of long distance investing by business angels*. In *Frontiers of entrepreneurship research*, ed. W.D. Bygrave, C.G. Brush, P. Davidsson, J. Feit, P.G. Greene, R.T. Harrison, M. Lerner, G.D. Meyer, J. Sohl, and A. Zacharakis, 116-30. Wellesley, MA: Babson College.

¹⁰ Avdeitchikova, S. 2009. *False expectations: Reconsidering the role of informal venture capital in closing the regional equity gap*, *Entrepreneurship and Regional Development*, 21, 99-130.

3. Research approach and methodology

The concept of the gatekeeper has been the subject of considerable study in four main areas – communication, information science, political science and management. Much of the resulting literature portrays the gatekeeper negatively, characterising it as a role whose prime purpose is to create barriers and prevent access to resources. However, in the field of management, particularly the management of R&D, gatekeepers have been identified as playing a positive as well as a negative role, acting as individuals who break down walls or cross barriers in order to connect and facilitate. In this context the gatekeeper plays an innovative role within research and development teams being the primary reservoir of ideas for new and improved products and services. R&D and angel gatekeepers therefore have marked similarities; both are key actors in innovative processes and it is extremely difficult to forecast which ideas and plans will become successful new products and services.

To gain an understanding of angel gatekeeping, it was judged necessary to allow those involved to talk about their perceptions and the processes that have emerged. Therefore, a qualitative approach in which data was collected through in-depth interviews with business angel gatekeepers was adopted in order to discover the subtleties of their role, the constraints that apply and to highlight key characteristics. Such an approach facilitates a subsequent analysis in which patterns in the data can be examined as well as providing rich contextual evidence and meanings in an area that has not previously been subjected to in-depth analysis.

We wrote to the gatekeepers at each of the thirteen Scotland-based business angel syndicates with an invitation to take part in the research. One did not wish to take part while, with another syndicate, we interviewed two of the three individuals who shared the gatekeeping role. We also interviewed three former Scotland-based gatekeepers who were still active in informal investment as we judged that their experience would enrich our data. In total sixteen face-to-face interviews were conducted with the resulting sample, fourteen of whom were male. After inviting interviewees to provide a brief overview of their careers to date, an open-ended questioning technique was utilised as each gatekeeper was asked to 'talk through' the investment process operated by their syndicate, highlighting their own role at each stage. As an interviewee made observations, questions were asked to elicit rich detail and descriptions or to learn why observations were important. The interviews were conducted at a place of the gatekeeper's choosing, often an office at either the gatekeeper's home or business premises, and lasted from 45 to 70 minutes. Assurances were given that the identity of individual gatekeepers and the syndicates would not be disclosed and the interview data were transcribed to enable subsequent analysis.

Qualitative data are challenging to analyse: despite a focus on events and procedures interviews inevitably result in data that draws in relationships, thoughts and feelings¹¹. To ensure a rigorous analytical approach to data analysis, a systematic six-step schema for analysing the data was developed. In the presentation of the results, the practice of illustrating key points by using quotes from interviewees is adopted.

¹¹ Langley, A. 1999. *Strategies for theorizing from process data*, *Academy of Management Review*, 24, 691–710.

4. Results

The analysis described above suggests that the results can be presented under four main headings. These are:

Who are the Gatekeepers?

Types of Gatekeepers

Roles of Gatekeepers

The Skills of Gatekeeping

Each is now dealt with in turn.

4.1 Who are the Gatekeepers?

Gatekeepers do not lend themselves to easy categorisation. Well-educated with degree and/or professional qualifications, they come from a wide variety of industrial, commercial and professional backgrounds. Two key observations can be made; first, the gatekeepers themselves believe that it is necessary to have an easy familiarity with and competence in small company finance. A comment which typified this view was: *"You don't need to be a qualified accountant – you need to understand accounts"*. Second, a background in venture capital and corporate finance was not a requirement; rather, a broad business background was perceived to be essential to do the job well. A comment which encapsulated this view was: *"... it really helps if you have had a wide experience, particularly with smaller businesses"*.

4.2 Types of Gatekeepers

There are two main types of business angel gatekeeper; the 'member gatekeeper' and the 'manager gatekeeper'. Member gatekeepers are associated with smaller and newer syndicates and can be identified as an existing member of the syndicate who takes a lead role and exercises the main gatekeeping functions. Depending upon the workload involved, the job may occasionally be shared with others; for example, in one syndicate three members shared the gatekeeping role. The member gatekeeper model is a comparatively inexpensive way of exercising the gatekeeping function though it depends upon a member of the syndicate taking a strong personal interest and having the time to undertake the job. We found that the commitment required varied but *"could be up to three days a week"*. Personal expenses may be covered by the syndicate and we found an example where the work of a member gatekeeper was acknowledged through the award of a small percentage of additional shareholding when investments were made.

In its development a successful syndicate may reach a point where the gatekeeping function becomes too onerous for a member gatekeeper. In such circumstances, a manager gatekeeper may be recruited, sometimes to work on a part-time basis. As one manager gatekeeper explained *"They (the syndicate) got to a point where they needed someone two days a week. They approached me and that's what I do"*. Where the post of manager gatekeeper is full-time, we found it was associated with larger, more established syndicates. While the age and size of the syndicate are important in determining the

type of gatekeeper, it should not be assumed that there is an inevitability about the progression from the member to manager gatekeeper model. The preferences of the members are an important determinant. A member gatekeeper said to us that his syndicate is likely *"to stay below the level where we need to employ a gatekeeper"*. Rather, the syndicate might employ an *"administrator"* to handle *"the day-to-day, routine work"* with the important gatekeeping functions retained by a member. Another interviewee commented that there is *"...no right or wrong type of gatekeeper. It's a function of what the members want, can afford, and the stage that the syndicate's at"*.

We also asked each gatekeeper whether they acted as angels, investing alongside other members of the syndicate. As one would expect, all member gatekeepers were angels. Indeed, when asked about the issue, one was categorical *"...if I wasn't allowed to invest, I wouldn't be the gatekeeper"*. However, a clear view did not emerge from the manager gatekeepers about investing alongside syndicate members. Comments ranged from *"No – it would be a conflict of interest"*.... to *"you have to invest in all or none otherwise you send out mixed signals"*. One further factor affecting the likelihood of a gatekeeper making an investment is high net worth: whilst angels are by definition individuals of means, there is no such corollary in manager gatekeeper wealth.

4.3 Roles of gatekeepers

Both member and manager gatekeepers perform three broad roles: an external role as the point of contact for the syndicate; an internal liaison and coordination role with syndicate members and a linking role, bringing together the syndicate with its environment. Each of these roles is now discussed in turn.

External Role

Gatekeepers act as the first point of contact for those seeking funding. In this respect, it should be noted that we found the majority of approaches to gatekeepers come not directly from entrepreneurs but through intermediaries acting on their behalf such as accountants, lawyers and economic development agencies. To maintain a flow of investment opportunities, gatekeepers identify a key focus of their job to be networking. Representative comments included:

"You need to put yourself about".

"Being known is what generates deal flow and that is absolutely key (to the success of the syndicate)".

"Networking is crucial... we keep close to people who can introduce us to investments in sectors we are interested in".

The other key aspect of networking is building a reliable expert resource that the syndicate can utilise as and when the necessity arises, for example, lawyers, accountants and industry experts. In this context one gatekeeper said that he was very much the external 'face' of the syndicate and that: *"...speaking to people (outside the syndicate) is a big, big part of the job"*.

Internal role

Member gatekeepers are *primus inter pares* and can only fulfil their role with the support of fellow members of the syndicate. Manager gatekeepers are retained by the syndicate and are usually working with larger numbers of members. A common challenge to both types of gatekeepers is handling syndicate members. One manager gatekeeper put it this way: *"Dealing with self-confident, strong personalities – which most high net worth individuals are – is a real challenge"*. Other comments from gatekeepers on this point included: *".....you need to stand up to them (syndicate members)"*. *"Business angels can be loose cannons....."*

Identifying and working closely with the key syndicate members was seen to be a key aspect of the gatekeeper's internal role. One manager gatekeeper said: *"You can't report to 50 members – there needs to be a small core group that you deal with....otherwise the job would be impossible"*. A member gatekeeper made a similar point: *"You can't involve all syndicate members on everything...I work closely with a couple of other syndicate members in particular"*. A number of member and manager gatekeepers stressed that successfully dealing with syndicate members depended upon *"trust"*; another used the word *"respect"*. It was an issue that some interviewees had difficulty articulating but the essence was captured by one gatekeeper who said: *"You would soon know if they (the syndicate members) weren't listening to what you said or taking you seriously"*. Responsibilities of member gatekeepers and the manager gatekeepers of the mature syndicates also extended to issues concerned with the recruitment of new members who in many cases were introduced to the syndicate by existing members.

Linking role

In each of the interviews, gatekeepers were asked about what lay at the core of their job – to sum-up succinctly what they did. In answer, their role in linking the resources of the syndicate to the demands from businesses for finance came to the fore: *"What's a gatekeeper's job? You are the link between the members and the outside world.... letting money pass through – like sand in an egg timer. I see myself as a deal enabler"*. Gatekeepers saw themselves as a constructive, positive force in the investment process: *"When people ask me what I do, I say I facilitate deals"*. Another said that gatekeepers do more than *"simply oiling the wheels. You put the chain on the sprocket and help build an entire bicycle"*.

This linking role requires gatekeepers to be engaged across the entire informal investment process which can be broadly characterised in four broad, overlapping stages: sourcing, screening, negotiating and managing. However, we found that the level of gatekeeper involvement varies; while most member and manager gatekeepers are active across all stages of the investment process, we did find an example of a manager gatekeeper whose responsibilities focused on the sourcing and screening of investments. We also found that the level of authority given to gatekeepers to be similar; while they could reject a business plan they could not commit significant resources beyond the screening stage of the investment process without approval from the syndicate.

Gatekeepers generally prefer to see a two or three page summary business plan. In this respect the source from which the proposal is received can be important. If the gatekeeper has an established relationship with the source this can send a strong signal about the viability of the business for which investment is sought. Initial screening generally has three elements: first, there is a quick, initial cull of business plans received by the gatekeeper - *"I get rid of the rubbish"* said one while another labelled this assessment as *"a sanity check"*; second, the business plan is considered against the syndicate's investment preferences. At this point, the main areas assessed are the industry/sector in which the business operates, the stage of development of the business and the level of financial support required. Where the proposal is in a niche area in which the gatekeeper's experience is limited then more specialist help can be sought, often from within the syndicate. In this regard one member gatekeeper said about the initial screening stage: *"I like to use the bigger brain of the syndicate"*. The third element of initial screening would be meeting the entrepreneur or the team behind the business. This may involve a presentation to the gatekeeper and syndicate members. A positive assessment of the entrepreneur by the gatekeeper is crucial to moving the investment process forward.

During the screening stage the importance of adhering to the syndicate's investment criteria was stressed by the gatekeepers. One ruefully recalled that on becoming a gatekeeper he had wasted a great deal of time on proposals which did not meet the syndicate's preferences and therefore were unlikely ever to be funded. A word of caution was sounded, however, by one interviewee who said that gatekeepers should *"be careful about focusing on industries they have worked in"* thereby missing some good opportunities in other sectors. Notwithstanding, the gatekeepers did say that they provided feedback to the entrepreneurs including those whose requests for funds were being rejected. As one gatekeeper said: *".....part of my job is to pass back some realism to the entrepreneurs we don't back"*. But another advised caution: *"you can end-up being an unpaid consultant. Looking back one hard lesson I have learnt was after I gave a company lots and lots of advice and then the company said no – we don't want your money"*.

Following on from screening, but usually overlapping it, is negotiation. Gatekeepers wanted to establish early in discussions whether their view of the possible worth of the business and subsequent equity stake was going to be within striking distance of the entrepreneur's valuation. One gatekeeper said: *"get the terms on the table quickly – not the detail but the broad headings"*. Another commented: *"try to avoid doing too much work and then not going ahead"*. Another said that his job at this stage was often about *"....telling the entrepreneur some home truths – getting them to be realistic about projections"*.

Post investment, syndicates usually appointed one or more of their members to be a non-executive director, sometimes to act as chairman, of the ventures in which an investment had been made. At this stage it was often the responsibility of gatekeepers to manage the dissemination of information about the performance of investments to syndicate members. A member gatekeeper said: *"I see*

myself as the chief executive of a multi-divisional company – with each investment (made by the syndicate) being the equivalent of a division. Part of my role is to make sure each company and the person (a syndicate member) appointed as the non-executive is doing the right things at the right time – for example, reporting to the syndicate on a regular basis and in the right format”. A manager gatekeeper made a similar point: “In an established syndicate like ours, a lot of my time is spent on servicing...attending to existing investments”.

4.4 The Skills of Gatekeeping

Gatekeepers require a considerable absorptive capacity to deal with the high volume of business plans which they receive. Moreover, knowledge of company law, accounts and due diligence procedures is also required. However, none of the gatekeepers felt that such skills determined their effectiveness in the job. One said: *“Technical skills are given - stuff like accounts. What really matters are the soft skills like persuasion and negotiation”*. Similarly, another said that gatekeeping is *“not a numbers game”*. All gatekeepers viewed soft skills as crucial: *“You need experience and instinct and these are linked. There is no formulaic way of dealing with the issues that arise”*. Another made a similar point: *“...the key to a successful deal management is how you deal with the personal aspects of the relationships with the people (the entrepreneurial team) you are dealing with”*. Two of the gatekeepers referred to *“having a nose for the job”*. Asked about what does *“nose”* mean one said *“...being able to choose the right entrepreneurs and constructing a transaction that is going to work”*. Another gatekeeper said that choosing the right companies to back required *“nous”*. The value of experience in this context was emphasised by a long-serving gatekeeper who said *“Nothing that happens here”* (in the syndicate) *“is something I haven’t had experience of”*.

5. The effectiveness of gatekeepers

This research leads us to conclude that business angel gatekeepers can be defined as the key individuals who operate at the core of angel syndicates and link the internal resources of the syndicate to its external environment. While this definition has the advantage of relative brevity and a generality of application, it should not disguise the challenges and significance of the job. Gatekeepers are more than go-betweens and simple conduits in the informal investment process; they can have a considerable influence on the numbers of early stage companies receiving early stage finance. In particular, we found that two inter-related factors impact upon, and in large measure, determine the effectiveness of a gatekeeper; first, the ability to build relationships, and second, possessing and exercising the necessary skills and knowledge. Each is now discussed in turn.

5.1 Relationships

The success of a gatekeeper is dependent in large measure on the quality of the relationships which she or he cultivates both outside and inside the syndicate. Externally, the gatekeeper is the 'face' of the syndicate and interacts with a diverse range of individuals including professional advisors, public officials and entrepreneurs. Internally, there must be a good working relationship with members of the syndicate, particularly core members, or the gatekeeper's job would be untenable. A key factor distinguishing the nature of the external relationships from the internal is the degree of interdependence which we found to be greater in the latter. Many external relationships are short-lived or infrequent, for example with individual entrepreneurs and some professional advisors; by contrast, relationships with syndicate members have a degree of permanence and regularity. Furthermore, the relationship between gatekeepers and syndicate members is characterised by reciprocity. Syndicate members depend on the gatekeeper to conduct initial assessments of potential investment opportunities. In turn, gatekeepers rely upon syndicate members for their expertise, particularly at the screening stage of the investment process.

A further challenge for gatekeepers in relation to their relationships is coping with change. Syndicates are not static networks. They are constantly evolving, and a major task for a gatekeeper rests in the assessment and handling of key issues that arise from the syndicate's development. Over a period of time the membership base may change and investment preferences may alter. Externally, networking is on-going; new relationships are made and cultivated while some established contacts may become less important. Gatekeepers face an on-going test in reconfiguring their personal networks to improve the quality of the syndicate's deal flow and the efficiency of the screening and investment management process.

All business networks operate in uncertain environments. However, the risks faced by syndicates are exacerbated as those ventures in which they might invest face not only the usual vagaries experienced by all firms but also the problems of early-stage development and commercialisation. These may include shortages of key skills and other organisational

resources required to develop a start-up business successfully – in short, early ventures suffer from "the liability of newness"¹². Against this background of ambiguity and risk, trust is vital if angels are to delegate authority to, and act upon the advice given by, a gatekeeper. Confidence in the other party is vital when judging ideas, seeking perspective and feedback and is critical for an effective relationship between angels and a gatekeeper.

5.2 Skills and Knowledge

The second key factor which determines the effectiveness of an individual gatekeeper is whether she or he possesses and exercises the requisite skills and knowledge. In their work both inside and outside the syndicate gatekeepers require a wide range of skills, particularly soft skills such as working with others, persuasion and negotiation. However, our research leads us to conclude that if a gatekeeper is to be successful, he or she must do more than 'tick all the boxes' under the categories of hard and soft skills. There is an additional dimension to successful gatekeeping. We noted earlier that interviewees stated that to be effective required "*having a nose for the job*", and also saying that the job required "*nous*". Teasing out what is meant by such words and phrases leads us to focus on the tacit knowledge component of personal expertise, namely the insights individuals possess but which are hard to define, and which they themselves cannot fully express or otherwise find difficult to communicate¹³.

Tacit and explicit knowledge are complementary and both are necessary to the successful gatekeeper. For example, gatekeepers utilise explicit knowledge when they apply a range of tools and quantitative techniques to analyse and assess business plans. Tacitness, however, encompasses those elements of knowledge that provide a gatekeeper with an instinct about which business plans might just succeed and therefore are worthy of greater scrutiny – what can be termed "*street smarts*"¹⁴. Similarly, when considering who to back, an entrepreneur's CV can be assessed on any number of rational bases, but we found that gatekeepers often also rely on their instinct to inform their decision. Given that tacit forms of knowledge can only be acquired informally through experience, it is axiomatic that successful gatekeepers should have a wide and varied work background. Just as tacit knowledge is a key source of continued competitive advantage for innovative firms¹⁵ it can be postulated that gatekeepers with high levels of tacit knowledge can bring similar benefits to their syndicates. A key feature about the knowledge and skills required of a gatekeeper is that to be effectively deployed they need to be oriented to context. A key resource in developing

¹² Stinchcombe, A.L. 1965. *Social Structure and Organizations*. In: March, J.G. (ed.), *Handbook of Organizations*. Chicago: Rand McNally and Co., 142-193.

¹³ Nonaka, I. 1994. *A Dynamic Theory of Organizational Knowledge Creation*, *Organization Science* 5, 14-37.

¹⁴ Sternberg R.K. and Wagner R.J. (1987). *Tacit knowledge in managerial success*. *Journal of Business and Psychology*, 1, 301-312.

¹⁵ Perraton, J. and Tarrant, I. 2007. *What does tacit knowledge actually explain?* *Journal of Economic Methodology*, 14, 353-370.

gatekeepers are the syndicates themselves wherein reside considerable technical skills, accumulated experience and tacit knowledge. Tapping the benefits of this knowledge and expertise will depend upon an iterative process of exchange between the gatekeeper and syndicate members. In turn, this will be facilitated by direct and frequent contact particularly in the period following a gatekeeper's appointment. Job shadowing, where a prospective or newly appointed gatekeeper, is given the opportunity to work alongside a more experienced gatekeeper could be a way of addressing the issue. Thereafter, mentoring might also be a useful personal development tool.

6. Conclusion, recommendations & future research

In the context of maturing informal investment markets, business angel syndicates have been taking an increasing share of overall angel investment. Within these syndicates a coordinating and managing function has emerged which is undertaken by individuals who have come to be known as business angel gatekeepers. As syndicates have grown in importance the gatekeeper role has become critical to the supply of, and access to, finance by early stage companies. This paper is the first attempt to examine and understand the gatekeeper function and identify the factors which are important to discharging it effectively. The two types of gatekeeper, member and manager, are remarkably alike; each requires a similar skills mix to perform the key roles of sourcing, screening, negotiating and managing investments, albeit their involvement at each stage will vary depending upon the syndicate's operating practices and on the preferences of its members. The gatekeeping function consists of three key roles, external, internal and linking. To carry out these roles effectively, gatekeepers require the ability to build relationships both inside and outside the syndicate, possess considerable personal expertise including a proficiency in what are commonly called 'soft skills' and deploy high levels of tacit knowledge.

The research set out in this paper has implications for stakeholders in informal investment markets, in particular for entrepreneurs seeking to raise equity finance, support agencies who wish to encourage new ventures, individuals who would consider becoming a gatekeeper and policymakers who wish to direct resources more effectively. These implications are addressed in the recommendations set out below.

Recommendation 1

Entrepreneurs should focus on preparing summary business plans which address the investment criteria of syndicates and heed the imperative of projecting themselves and their business experience to the gatekeeper. A business plan is not viewed by gatekeepers as an end in itself but as a possible basis of further dialogue with the entrepreneur. The gatekeeper's early perception of the business and the people behind it is critical to subsequent engagement with the syndicate. A number of syndicates publish details of the investment criteria and preferences and these should be addressed by entrepreneurs and business support agencies which assist entrepreneurs become investment-ready.

Recommendation 2

Simply to see gatekeepers as screening agents is to grossly underestimate the complexities of the role. It is substantially broader, more demanding and significant than would appear from a cursory examination. As informal investment markets mature gatekeeping becomes hugely significant to continuing the development of business angel syndicates. For those deliberating about whether to become a gatekeeper, we recommend that they assess their existing skills and experience against those identified in this report and identify areas in need of

further development. In particular, we would highlight the softer skills and the breadth of experience that effective gatekeeping requires.

Recommendation 3

An important aspect of the work of gatekeepers is the informal consulting advice they provide to early-stage ventures. Indeed, in the research we came across a number of examples where, despite deciding that a business was not an investable proposition for their syndicate, the gatekeeper had gone to considerable lengths to offer advice and suggest alternative sources of finance – as one put it "to point the entrepreneur in the right direction". We are in no doubt that receiving advice from a seasoned gatekeeper can be invaluable to an entrepreneur in helping the venture become more investment-ready. We recommend that mechanisms which encourage and resource gatekeepers and their syndicates to develop this informal advisory and consulting role could usefully be examined by policymakers. We believe that, in comparison to previous initiatives, this could be a cost effective way of delivering investment readiness. Moreover, this could also be a way of developing the next generation of gatekeepers.

Recommendation 4

The complex mix of skills and experience required of a gatekeeper may mean that recruitment of individuals as manager gatekeepers may prove difficult. In turn, this may inhibit the development of syndicates with consequent implications for the financing of early stage businesses. Ways of capacity building by transferring experience from existing to prospective gatekeepers with mentoring, job shadowing and placements being feasible options should be explored. This could be implemented in conjunction with recommendation 3 above and reinforced if recommendation 5 is also adopted.

Recommendation 5

LINC Scotland already hosts regular meeting of angel syndicate leaders. We recommend that LINC should also consider holding regular meetings of gatekeepers as a way of facilitating knowledge transfer. This would provide a focal point which could help in harnessing the collective experience of gatekeepers. Regular meetings would not only assist in building the reservoir of tacit knowledge but also would enable gatekeepers to share experiences, monitor investment trends and identify ways in which their role could be developed.

Future research

This research contributes to the literature by defining a business angel gatekeeper and setting out the key roles involved and the skills and knowledge required. As informal investment markets mature, syndication and the role of gatekeepers will require further study. There is a need to consider how the gatekeeping function in other countries compares to that in Scotland. What practices elsewhere can usefully be transferred from other countries to assist

in the development of angel syndicates in Scotland? More generally, evidence should also be gathered about whether syndication reduces risk for individual angels. Finally, this study has focused on the supply-side of the informal investment market. Much could be gained from a complementary demand-side study. Entrepreneurs who have gained finance from angel syndicates are an obvious starting point. What advice do they have for those who are contemplating an approach to a gatekeeper? Enabling entrepreneurs to reflect on their dealings with angel syndicates and their gatekeepers could be invaluable in developing good practice.

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