



Hong Kong Social Entrepreneurship Forum

[www.hksef.org](http://www.hksef.org)

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# Social Entrepreneurs Newsletter

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## Angel Investors: The Missing Link in HK Social Entrepreneurship Ecosystem?

One of **HKSEF**'s major challenges is to nurture and support would-be social entrepreneurs. It is easier said than done. The following phenomena have been intriguing – to say the least:

- There have been quite a number of very promising business proposals submitted to the **Social Investment Forum** in the past two years, but very few of them, if any, have actually taken off as viable social enterprises. The first winner back in 2009 did at one stage managed to secure over HK\$1.5 million from private investors but the venture failed to materialize in the end. Very sad.
- There have also been a large number of equally promising business proposals submitted to the various local business plan competitions, notably the annual **SE Challenge** open to all tertiary institution students in Hong Kong. Again, hardly any of winners or finalists was able to turn their projects into viable social businesses. One winner of the SE Challenge has been working on his business plan almost on a full time basis for one and a half years but has yet to get it off the ground. He is a very passionate and committed young man and it is discouraging to see him struggling with his project.
- Since its inception in last August, the **Social Investors Club** has reviewed a large number of business proposals prepared by would-be social entrepreneurs but it has not been able to find suitable projects to invest in. The only one that it had pledged investment has failed to get started.
- There are many would-be social entrepreneurs with good, mission-focused business ideas but most of them find it difficult to come up with business proposals that could attract investment funding. More often than not, these could not even pass the initial screening of potential investors like the Social Investors Club.

**What Went Wrong?** A better way of posing the question might be: **What is missing here?**

There are no simple answers or explanations. But it seems that a major part of the answer might be the lack of '**Angel Investors**' in the emerging field of social entrepreneurship in Hong Kong.

## What are Angel Investors?

According to Wikipedia,

“An **angel investor** or **angel** (also known as **business angel** or **informal investor**) is an affluent individual who provides capital for a business start-up, usually in exchange for ownership equity

or convertible debt. A small but increasing number of angel investors organize themselves into **angel groups** or **angel networks** to share research and pool their investment capital.

“Angel investors are often **retired entrepreneurs** or **executives**, who may be interested in angel investing for reasons that **go beyond pure monetary return**. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, and making use of their experience and networks on a less-than-full-time basis. Thus, in addition to funds, angel investors can often provide valuable **management advice** and **important contacts**.

“Angels typically **invest their own funds**, unlike venture capitalists, who manage the pooled money of others in a professionally-managed fund. Although typically reflecting the investment judgment of an individual, the actual entity that provides the funding may be a trust, limited liability company, investment fund, etc.

“Angel capital fills the gap in start-up financing between "friends and family" (sometimes humorously given the acronym FFF, which stands for "friends, family and fools") who provide seed funding, and venture capital.”

### **Some Interesting and Significant Facts about Angel Investing**

- The Harvard report by William R. Kerr, Josh Lerner, and Antoinette Schoar presented convincing evidence that angel-funded start-up companies are **less likely to fail** than companies that rely on other forms of initial financing.
- There is **no “set amount”** for angel investors, and the range can go anywhere from a few thousand, to a few million dollars.
- Less is known about angel investing than venture capital because of the individuality and privacy of the investments, but the U.S. Small Business Administration estimates that there are at least **250,000 angels active in the country, funding about 30,000 small companies a year**.
- The total investment from angels has been estimated at anywhere from \$20 billion to \$50 billion as compared to the \$3 to \$5 billion per year that the formal venture capital community invests. In fact, the potential pool of angel investors is substantially larger. There are about **two million people** in the United States **with the discretionary net worth to make angel investments**.
- Angel investors are older, have higher incomes, and are better educated than the average citizen, yet they are **not often millionaires**. They are a diverse group, displaying a wide range of personal characteristics and investment behavior.
- Most angels **invest close to home** and rarely put in more than a few hundred thousand dollars.
- Informal investment appears to be the **largest source of external equity capital for small businesses**. Nine out of 10 investments are devoted to small, mostly start-up firms with fewer than 20 employees.
- Angel investors accept an average of **3 deals for every 10 considered**. The most common reasons given for rejecting a deal are insufficient growth potential, overpriced equity, lack of sufficient talent of the management, or lack of information about the entrepreneur or key personnel.
- For the business seeking funding, the right angel investor can be **the perfect first step** in formal funding. It usually takes less time to meet with an angel and to receive funds, due diligence is less involved and angels usually expect a lower rate of return than a venture capitalist. The **downside** is finding the right balance of expert help without the angel totally taking charge of the business. Structuring the relationship carefully is an important step in the process.

### **Exactly What We Need**

Although the above pertains to ordinary businesses, they are applicable to social enterprises all

the same. Indeed, what we need at this stage are exactly angel investors who are ready to work with and invest in would-be social entrepreneurs. The role of an angel investor in the Hong Kong context might be:

- Identifying would-be social entrepreneurs who have demonstrated passion and commitment to address a major social issue
- Providing guidance and support to the would-be social entrepreneur in clarifying the vision and mission and designing the core products and business model
- Investing a modest amount in the project to demonstrate commitment and support
- Connecting the would-be social entrepreneur to social impact investors at the appropriate moment(s)
- Assisting in the preparation of the business proposal to tell a compelling story and to secure investment funding

### **More than a Mentor**

It is unfortunate that the concept and practice of angel investor is not yet well known in Hong Kong. Instead, there seems to be an undue emphasis on mentorship.

To be sure, mentor and angel investor have a lot in common; but there are also major differences. The most critical one is ownership and commitment. The mentor-mentee relationship is often too informal, lack of focus, non-demanding, non-result oriented, little accountability on both parties – it is a ‘nice to have’ thing. When angel investing is involved, it is another ball game: there is joint ownership of the budding venture, the commitment level is much higher, the working relationship is more result focused, more demanding and with much clearer time-bound accountabilities on both parties.

There are many benefits in a mentoring program but it seems that it is more suitable for general and professional development of the mentee. To be effective, an angel investor needs to be a mentor as well, but the mentoring is more business directed.

It seems that the greatest obstacle to finding more angel investors might be the requirement to invest. But as we have noted above, the amount of investment by an angel investor need not be too high; it could be anywhere between HK\$10,000 and HK\$200,000. Above all, it is an investment, not a donation. The angel investor of a social enterprise should expect that the investment could yield a return and could be recovered in due course. It is part of the challenge and fun an angel investor should be looking for.

#### ***A Personal Appeal***

*Over the past few years, I happen to have been performing the role of an angel investor without consciously being aware of it. I have made modest investment in six social enterprises and five of them are doing very well. Three of them are ‘real’ investment, in the sense that they might generate a monetary return (in addition to the social impact return) when the businesses continue to be profitable, and the shares are transferable and therefore recoverable. Three of them are more like ‘sponsorships’ as I had not thought through them when I made them.*

*I would like to start an informal network of Angel Investors. If you are interested in knowing more about it, please write to me at [kakuitse@gmail.com](mailto:kakuitse@gmail.com) I will be convening the first meeting next month.*

**Quote of the Fortnight**

名句精選

*“Money is like manure.  
You have to spread it or it  
smells.”*

**J Paul Getty**

**Website of the Fortnight**

精選網站

**Hong Kong's Angel Investors  
Network**

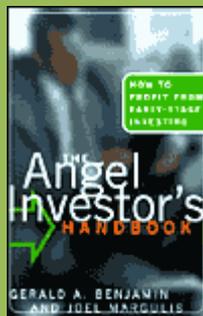
Connecting HK entrepreneurs and angel  
investors worldwide

[www.investmentnetwork.hk/home](http://www.investmentnetwork.hk/home)

Just as social enterprises need to learn  
from business operations, so can social  
impact investors learn from angel  
investors.

**Book of the Fortnight**

新書精選



**The Angel Investor's Handbook:  
How to Profit from Early-Stage  
Investing**

By Gerald A Benjamin and Joel B Margulis

Bloomberg: 2007

*"Captures the essence of what an angel  
investor is and the underlying motivations that  
make angel investors tick."*

**Video of the Fortnight**

錄像精選

*There are quite a number of videos on  
angel investors on YouTube,  
see, for example:*

**How to Finance Business:  
How to find Angel Investors**

<http://www.youtube.com/watch?v=ZdCh0FAxPvM&feature=related>