

AFTER THE INVESTMENT, WHAT DO BUSINESS ANGELS DO FOR THE VENTURE FOR REAL?

*Anne-Sophie de Gabriac, Université Paris-Dauphine PSL, France
Christophe Garonne, KEDGE Business School, France*

ABSTRACT

This paper investigates the practices of business angels *post-investment*. Using video testimonials from serial business angels and in-depth semi-structured interviews with business angels we open the black box of business angeling in practice. We explore the different forms of business angel activities, the variety of skills that business angels provide to early stage entrepreneurs, their motivation to get involved and the role of entrepreneurs to foster business angels' involvement.

INTRODUCTION

Business angels are wealthy people investing their own money in unlisted companies with no family or friend connection. While they invest individually most of them invest with the support of formal and informal business angels groups (Mason and Harrison, 2008). Business angels are key contributors to entrepreneurship development as their investments are the principal source of finance in early-stage ventures and exceed over time those made by the institutional venture capital industry (Avdeitchikova and Landström, 2016). Previous literature has mainly focused on what happens *before* the investment, especially the decision investment process of the business angels (Landström and Mason, 2016). The non-financial contributions of business angels in the early stages of a venture are widely recognized as positive (Politis, 2016), though little is known about the business angels practices *after* the investment. Recent studies tend to define business angels as “hands on investors” that contribute with their “skills, experience and networks to their investee companies through a variety of formal and informal roles”(Harrison, Botelho and Mason, 2016). Both academics and policy makers have called for a deeper understanding of the role of BAs beyond financing (Mason et al, 2017). This paper is a first attempt to answer this call.

THEORETICAL FRAMEWORK

The involvement of business angels is commonly categorized in terms of degree of intensity (active vs passive) and in terms of formalization (informal vs formal) (Wetzel, 1986). Previous empirical research indicates that the key contribution of business angels to entrepreneurs is their strategic advices (Mason and Harrison, 1996). Networking, marketing, management or financial advice as well as general administration are other contributions cited while a minority of business angels admit no contribution at all (Mason and Harrison, 1996). According to some investees, even passive involvement like monitoring of reports can benefit entrepreneurs as it forces them to be disciplined and accountable for. In contrast, experienced entrepreneurs can be reluctant to active involvement, fearing interferences with the way they want to run their business. However, all entrepreneurs want their business angels to be responsive and supportive if they have reasons to ask for their help (Macht and Robinson, 2008). Task-focused activities rely on the specific work-related expertise of the business angels. Novice business angels should only focus on soft involvement which is people-centered and interpersonal that adds value to the management team.(Macht, 2011). For Politis (2016), the hands-on involvement of business angels is characterized by the frequency and forms of contacts and the set of value-added benefits provided. She distinguishes four complementary forms of value adding roles that business angels may

performed: sounding board/ strategic role, resource acquisition role, mentoring role and supervision and monitoring role. However, this theory of the value adding roles which is based on previous existing empirical studies, does not clarify yet what do business angels really do after investment.

The entrepreneurship as practice perspective has been gaining ground in entrepreneurship studies. In this perspective, “an entrepreneurship practitioner carries patterns of bodily behavior, but also of certain routinized ways of understanding, knowing how and desiring, for and about, entrepreneurship”(Gartner, Stam, Thompson, Verduyn, 2016). Using this perspective allows us to get an appropriate lens to answer to our research question *what do business angels do for the venture after the investment*. This theoretical framework implies to go beyond the exploration of the concrete activities performed by the practitioners-business angels. Their skills, how they are acquired, and their practices such as shared routines of behaviors, common tools and procedures are also patterns to examine in our research. (Whittington, 2006)

METHOD

The paper is based on a qualitative research that focuses on exploring business angels support activities and practices after they invest in innovative early stage ventures, in solo or via a syndicate group. First step was to analyze secondary data. 17 video testimonials of French serial individual business angels were transcribed and analyzed. French leading business angels networks presentations of the activities of their members were also analyzed. Themes of practices emerged from this analysis and combined with literature helped us to design an interview guide to conduct in a second step, 20 in depth semi-structured interviews. First, we solicited for face to face interviews members of Les Business Angels des Grandes Ecoles, a French leading business angels syndicate whose 300 members have invested collectively more than 20 million euros in 200 ventures, over a period of ten years. In order not to have only syndicated angels in the sample, other business angels who mentioned in social networks their business angel activity were solicited through introduction. At the end of each interview, each respondent business angel was asked if he/she would introduce us to another business angel that he/she knew. Via this snowball effect method, we got a diversified sample of individuals both in terms of business angel profile (gender, age, expertise and experiences) and startup portfolio (number, sectors, investment size). All interviews were recorded than transcribed and we analyzed data concurrently to data collection. We used Nvivo software and an inductive approach to code. This iterative process for data collection and analysis eventually led to a point when no new themes nor categories emerged.

RESULTS AND IMPLICATIONS

Preliminary results uncover that attending to strategic committees meetings and improvised supportive activities are the key praxis of business angels activities. Only a minority of business angels are involved in full or part-time positions. Business angeling practices rely on the different skills and experiences of each individual. That is why it is crucial that entrepreneurs establish personal relationships with each business angel as early as possible to identify his/her skills, motivations and desired communication routines. According to business angels, entrepreneurs' capabilities and behaviors play a key role to trigger and maintain their value-added activities.

Strategic committees

An informal board is most of the time called the strategic committee among business angels. Usually, it starts after the first seed funding round and its composition evolves after each ulterior

funding round. The shareholders' agreement usually defines the composition, the roles, responsibilities and the modalities of this strategic committee. A typical composition is the founders, the most significant individual business angels in terms of shares, experience and/or expertise and 1 to 2 representatives of the more important angel groups in the new capitalization. This committee is chaired by the CEO. Some committees are decisional on a pre-agreed list of strategic topics and decisions but most of them are merely consultative. Frequency can be monthly, even after five years, at least quarterly and each time the CEO calls for it. Those meetings often take two to three hours, even more during the early stage of the firm. For maximum efficiency, dates are set from one meeting to the next, in order to allow every member to be physically present. Committee members usually request to receive digitally the agenda and presentation of the meeting at least 48 hours before the meeting, so that they are able to read and analyze them and eventually ask complementary elements in advance.

After investment, the first focus of the business angels who are involved in the committee is to define the KPIs and the frequency of the report and their meetings. Depending on the level of experience and maturity of entrepreneurs, the stage of development of the company, the development of reporting tools can be a tedious activity. There is a consensus among business angels that entrepreneurs should not lose time to edit reporting so the committee members who are at ease with figures and business metrics, are likely to help to design the report and suggest the right tool to automatize it. In digital operated ventures, the major trend is to give open access to internal dashboards. The agenda of the meeting is generally to review every aspect of the business: R&D, products and services roadmap, operations, business model evolution, sales pipeline, HR recruitment plan, financial KPIs and even disputes. The unwritten rule is to intervene on subjects in which board members have an expertise or previous experience. That is why the balanced composition of the committee is crucial. Members also need to respect the schedule and must not monopolize the meeting on their own perceived issues or skills. When there is a casting error, other business angels tend to quickly corner and exit this disturbing member at the next funding round. Habitually, a significant part of the meeting is also dedicated to some key problem solving or business options that entrepreneurs want to discuss with business angels. The idea is for entrepreneurs to test their plan or to have other insights or suggestions or to receive alerts, in particular when they cannot discuss of the subject with their team or if the entrepreneur is the only founder. For them those meetings are as well a unique opportunity to get collective intelligence for solving problems their venture may encounter and take informed decisions.

Many business angels report that it is common that entrepreneurs do not take systematically into account their advice or warnings and so, they usually need to repeat them.. One experienced business angel says that when an entrepreneur realizes after a while that he was right, it becomes part of his/her entrepreneurial learning process and that he/she listens more afterwards. He insists also on the fact that young entrepreneurs need to make mistakes to progress, this is part of their entrepreneurial journey. Thus, business angels, especially novice ones, need also to force themselves in some non-critical situations not to intervene so that this learning process takes place. However, when business angels realize over time that entrepreneurs are not able to take into account their advice for a question of ego, they tend to withdraw from the committee to avoid wasting their time and their expertise.

The strategic committee evolves progressively as the venture grows and entrepreneurs mature. At the beginning after investment, business angels tend to help entrepreneurs to structure their business and to choose the right business and operations priorities. Many entrepreneurs scatter themselves into too many sales fields and do not manage to harvest any of them. Business angels' role is to help them to identify and focus on the right ones. Their experience helps them also to

moderate systematically the over optimism of entrepreneurs about their capability of selling. They can also play a key role to identify if some of the entrepreneurs are harmful to the company or if they miss some skills. Several business angels related how they negotiated the exit of one of their entrepreneurs or the strong impact of the recruitment of executives that they had forcefully suggested to complete the founders' initial team. After a while when the business model is found, the board meetings focus more on the business vision and how to accelerate to get there. Meanwhile, business angels with a solid experience of funding rounds and good exit track records, play a key role to set adequate funding strategies that limit dilution effects and maximize exit perspectives both for business angels and entrepreneurs. This is of major importance for primo entrepreneurs and novice business angels who tend to be quickly blinded by the valuation proposed by the VC funds.

Supportive activities performed by business angels

Between strategic committees, entrepreneurs face a lot of issues and most of the time need to discuss about them. The first quality of supportive business angels is to be reactive and to respond positively to the solicitations of entrepreneurs. It can be an answer to an email, text message, a quick call or a request for a face-to-face meeting on a particular topic. The second form of support is to take time to listen to entrepreneurs and to discuss openly about any issues they face. It helps them a lot to overcome the solitude of entrepreneurship at the beginning and to become progressively more resilient to ups and downs. The third supportive type of action is to work with the founders or one of their employees. Numerous examples were collected on how business angels work to improve business management, operations processes, reduce costs, help to find and negotiate terms with the right supplier or business partner, help to (re)design value proposition and to optimize customer presentations, help to sell more and better, help to recruit and select the right people, help to prepare budget and shareholders presentations, help to prepare investor presentations and to raise funds. The fourth type of support is to behave like an ambassador within one's network. It gives more legitimacy to the venture. It is very helpful to gain contracts with large accounts, seduce the best talents, negotiate conditions with the best business partners and to convince new investors to join. Ambassadors implicate them more than introducing. They can second entrepreneurs in trade negotiations and lobby to promote their investees within their network. We got various examples of decisive impact to gain new contracts. In terms of HR, it is frequent that business angels are part of the decision process and meet candidates to help choose the best one but also to promote the risky venture to the candidate. To contract the best business partners, primo entrepreneurs in some areas have no clues and make mistakes. Experienced business angels help them to evaluate their needs, choose the right business partner and help reduce costs significantly. In term of funding, experienced business angels play a key role to design the funding strategy and promote the investment afterwards. It is frequent that they assist in pitches and that they back actively the entrepreneurs during the negotiations of valuation and new shareholder agreement. Depending on venture stage of development and according entrepreneurs' needs, those supportive actions habitually involve the business angels from a few hours per month up to 2 days per week for a temporary period, on particular important and immediate issues. Most of the time the meetings take place in the venture's premises. A minority of very busy business angels meet and work with entrepreneurs at breakfast or lunch time, in the most convenience place for them.

Syndication has in some cases a very bad impact on business angels support activities after investment as they might prevent the existence of a personal relationship between business angels and entrepreneurs before and after investment. The lead instructor or the biggest individual investor of the business angel group is usually designated after the investment to be the representative of all the individual business angels. So if the syndicated business angels are not informed or solicited personally by the founders they are unlikely to be actively involved in the venture apart from

monitoring passively performance, attending to annual meeting and giving financial support to the venture in future rounds. This is a key difference with solo experienced business angels who systematically negotiate their presence in the board of the venture, in exchange of their investment and this has key effects on the activities of business angels afterwards. This is also why some representatives when they are in a situation in which they represent so many business angels tend to be more focused on representing the interests of the business angels and communicating with them rather than being proactive to help the entrepreneurs between planned board meetings.

Business angels and employees

Some business angels take a part-time or full-time position to fill a personnel gap they identified while investing or after due to specific situations. This concerns business angels who cannot afford not to be paid for their work. We interviewed one of them, 46, who used to be a C-level executive in the software industry and then started to be a general management consultant for SMEs. She is now part-time CEO in three different startups she invested in. She really likes it versus her former consultant role as now she is really part of the team and thus has a real impact on strategic decisions and their implementation. She said though that each venture was too small for her to be hired full-time and that it would not be challenging enough for her to focus on only one. Another business angel, 45, who was looking to take over a firm in the cosmetic industry accepted to be hired as CEO in one of her investee who was in trouble. The founder who was in charge of creation solicited her, once she split with her cofounder who used to run the venture, just before a funding round. She accepted the low salary because she liked the founder's personality and creative talent and the exciting challenge to develop the company from inside. Since then, she has been able to keep angel investing and to be involved in new ventures. Another one who is a pre-retired innovation consultant in the telecommunication industry, 62, started her first investment 14 years ago, in exchange of a job in the venture. When she decided to quit after a few years, she complained that she never managed to invest and get a position again in her investees and that her missions never came from her business angel activities. She said that it was not in the French mentality: for the entrepreneurs she met, business angels should not be paid for their mission as they are supposed to be already wealthy people. For some French leading angel networks this approach to get a paid position is absolutely contrary to their ethics and the volunteer aspect of the activity of their members. For example, they deny any business angel benefits such as free shares in exchange for participating actively in the strategic committee.

Business angels' motivations to get involved

Intellectual activity is one of the main reasons to get involved for retired top executives as well as maintaining a social activity. But whether they are very busy professional or retired, for many of them, being a business angel is a real passion that oxygenates them. They have a real pleasure to keep learning about market industry and technology innovation trends or business management and practices.

All business angels report how fun it is for them to be supportive. Many mentioned what they like the most is to create immediate value through the sharing of their experience, failures and successes as well as their expertise and networks. Thus, this is fundamental for entrepreneurs at the very beginning post investment to identify both business angels' skills and desired communications to set the most diversified strategic committee but also to contact the right ones at the right time.

A minority of interviewed business angels expect to make high money returns by being actively involved. Many of them admit that they like the activity itself of gambling on ventures. "It is Vegas".

They know it is highly risky but they bet that the entrepreneurs will succeed in this very hazardous quest. Being associate to this quest is for them to be part of a real adventure that they like to live more or less directly. Some of them mentioned that they became friends with other business angels they invested with and that they liked to review ventures performances with them. Other business angels who are retired and belong to angel groups multiply their bets with small amounts, hoping to early fund the next unicorn but show no particular intention to get involved apart from being informed.

The role of entrepreneurs to foster business angels' involvement

Entrepreneurs seem to play a determinant role to motivate business angels to get involved. When asked about the reason to stop involvement, business angels mention: if they feel they have no more value added for the firm as entrepreneurs do not solicit them anymore, if they don't get any information and transparency from the entrepreneurs, if the entrepreneurs are installed and satisfied in a routine or if they quit.

Some characteristics that business angels like about the entrepreneurs emerged during the interviews. They are bright and complementary, when they pitch their innovation and their market strategy, it's exciting and understandable. They are passionate about their venture, hard worker and they are resilient whatever difficulties they face. They are transparent and trustworthy: they don't keep problems or hide things from their associates. They know their strengths and weaknesses and use their associates to fill the gap. Before making their own decisions, they talk and take several opinions. Progressively they develop their entrepreneurial and managerial skills and in return business angels learn and extend their experience.

CONCLUSION

This paper makes several contributions to the literature on business angels: based on in-depth interviews, we realize that business angels have a very large scope of activities post-investment that have high added value both for the start-up and entrepreneurs. We uncover that entrepreneurs need to understand as early as possible what are the skills, experiences and potential resources of business angels as well as their motivations and availabilities. This is key to cast a balanced strategic committee in terms of skills, experiences and access to resources. At the very early stage and for novice entrepreneurs, a monthly meeting seems to be the optimal frequency to review venture kpis, discuss strategic topics and debate about issues that entrepreneurs face. In addition, we reveal that between planned meetings, the commitment of the business angel is also related to the attitude of entrepreneurs: they expect entrepreneurs to be demanding and be proactive to share any relevant information, whether bad or good, as most business angels do not want to be intrusive in the way entrepreneurs run their business.

CONTACT: Anne-Sophie de Gabriac; asdegabriac@gmail.com; (T): +33-65-293-8228; Université Paris-Dauphine PSL, 62bis rue de la Tour, 75116 Paris, FRANCE.