Author manuscript, published in "13rd EURAM Conference, Istanboul : Turkey (2013)"

Business angels' practices in the screening stage: A study of knowledge transfer to the entrepreneur

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Are Business Angels likely to influence the entrepreneur before any investment decisions have been taken? If such is the case, what are the reasons for doing so and in what way do they influence the entrepreneur? In this article we examine knowledge transfer from angel to entrepreneur at the pre-investment phase which is seldom treated in depth in literature. Through the use of an original theoretical framework (the activity system model), we describe the activities which are at the heart of the interactions between Business Angels and entrepreneurs. Our methodology is therefore qualitative and founded on an inductive reasoning. The analysis and comparison of four French cases show that, in spite of the absence of a relationship bound by contracts, business angels can modify a venture's content and the entrepreneur can accept these changes due to the former's expertise in terms of explicit and tacit knowledge.

Keywords: Business Angels, Knowledge Transfer, Activity System

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1. Introduction

Creating a start-up necessitates the deployment of both financial capital, a fundamental resource for the creation and development of any business, and intellectual capital which will help the young company to acquire a competitive advantage. Having access to both of these kinds of capital will not only give the entrepreneur the possibility to reduce the risks linked to the creation stage but also the chance to accelerate its development. To finance his venture, the entrepreneur will also mobilise other types of capital. In general, he will begin by contacting his family and friends ("love money") but the amount obtained is often insufficient for start-ups of significance. He can ask banks who will require guarantees in exchange for the money lent. At different steps of the pre-financing phase he also has the possibility of being supported by various types of organisations and networks such as incubators, business development agencies, start-up clubs, etc.. He can also open his company's capital to Venture Capitalists (VC) or Business Angels (BA). These different contacts are all capable to a certain degree of providing funds but it has been argued that only the VC and the BA can provide the intellectual capital necessary to develop his business (Large and Muegge 2008).

Many studies have analysed the BAs' provision of capital and their involvement with the Head of the company which goes beyond their role of shareholder (Aernoudt 1999, 2001; Van Osnabrugge, 2000; Van Osnabrugge and Robinson, 2000; Madill, Haines, and Riding, 2005 ; Schäfer and Schilder 2008). These studies outline the different types of capital brought by the investors to the venture: finance, competences, mentoring and access to a network. According to Kerr, Lerner and Schoar (2010), this exchange of different forms of capital is a causal element of the success of an investment. The first contribution that these works make is a categorisation of the different types of capital brought by the BAs. For example, Saertre (2003) named this contribution as "4C's", comprising financial capital (capital), competences (competence), commitment to the entrepreneur (commitment) and access to a network

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(contacts). The second contribution from these works is the description of the investment as a process in several phases. The bulk of these works concentrate on the post-investment phase, in other words once the investment has been decided and formalised. However, the investment process followed by the BA is iterative, notably during the pre-investment phase (Paul, Whittam and Wyper, 2007). During this stage, the BA needs to frequently add to the information he has on the venture to help him make his decision. According to the effectuation theory (see Sarasvathy 2001) committed partners - the BAs'- create new means and new goals that drive the creation of the venture in ways they did not expect. Even if this fact has been previously studied by Sarasvathy (2001) or by Wiltbank et al (2009) very little work has considered the potential contribution of BAs to the evolution of the business at this stage of the process.

We propose to address this gap in the literature by studying BA practices during the pre-investment phase, describing in detail the activities at the heart of the processes in which they participate. We use a "practice" perspective which requires the researcher to take an interest in all the actors who are involved in this iterative engagement process. Our research question is: In what ways do BAs formally and informally support the entrepreneur in the pre-investment phase?

In the next section, we review the literature which deals with BA investment processes. Then, we present the activity system model to study these practices and detail our methodology. In the results section, we present BA activity systems in four case studies. Finally, we discuss our results and draw conclusions for further research, for BAs and for entrepreneurs considering BA investment.

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2. Business Angel practices in the pre-investment stage: a review of the literature

In this section, we review the literature which deals with BA investment processes focusing on the involvement of the BA (2.1) and the process of investment (2.2).

2.1 Business Angels as committed investors

The definition of Business Angel (BA) we adopt is inspired by Aernoudt (1999, 2001) and Van Osnabrugge and Robinson (2000, 39): "A Business Angel is an individual who invests a part of his personal fortune in a company which is usually in its start-up phase. He makes his competence, experience and network of contacts available to the entrepreneur. He is not related to the creator-manager of that company. "

These authors state that BAs do not constitute a homogenous group. Sorheim and Landström (2001) identify four profiles using two criteria: Investment frequency and level of competence. For them, the "*pure BA"* is characterised by frequent investments as well as a command of important competencies. These individuals can bring both money and also knowledge and skills to the companies in which they invest; the other three profiles either have limited competence or limited investment appetite to accompany the creator. Avdeitchikova (2008) also use two criteria: contribution to the company in terms of financial resources (FR) and non financial resources (NFR) in the form of knowledge and competencies. Two types of BA contribute NFR. The first type plays a "*classical BA role"* and contributes both FR and NFR, and the second plays a "*knowledge-oriented role*" in which the main contribution is NFR. However, studies disagree on the proportion of investments with NFR from BAs. Mansson and Landström (2006) estimate this at 75% whereas for Harrison and Mason (1992) it comes to 69% and for Reitan et Sorheim (2000) it is only 32%. NFR behaviour can be explained by different factors: altruistic motivations: the 'pleasure' of staying involved in business by helping entrepreneurs to create and develop their companies, and social motivations: helping to create employment and stimulating the local economy, as

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well as financial motivations, a willingness to be involved in the life of a company alongside its creator, the personal experience of being a creator and manager which generates good rapport with the entrepreneur, the sharing of advice and network of contacts, geographical proximity making frequent contacts possible, and the BA's knowledge of prior investments made in start-up and post start-up ventures.

Politis (2008) has analysed the contribution of added value brought by the BA through 14 studies carried out on the subject between 1992 and 2005. He identifies two types of contribution. The first can be described as a contribution in human terms thanks to the experience and competence gained during the BA's professional life. This resource-baed view approach sees the contribution of key knowledge resources to the young company from the definition and implementation of strategy to the day-to-day running of the company. The second type of contribution is as a coach to the entrepreneur, creating confidence and collaboration between them. From an agency theory perspective, this reduces transaction costs. Coaching can also be conducted through a position on the advisory or supervisory board to 'control' the entrepreneur's behaviour. This contribution can also be in the form of transfer of social capital thanks to the BA's networks, for example providing professional contacts with potential customers and partners who can act as an interface with other investors.

A study carried out by *France Angels* (2004) shows that the majority of French BAs are involved with the managers of the companies they have invested in. Moreover, in most cases this is done on a voluntary basis. In theory their professional experience gives them a legitimate reason for supporting the manager. They take risks by investing during the start-up phase, a period when the entrepreneur needs to be helped. The selection of their investments is based on the human dimension, notably the entrepreneur's capacity to inspire confidence and on his capacities in the chosen sector rather than the venture's specificities.

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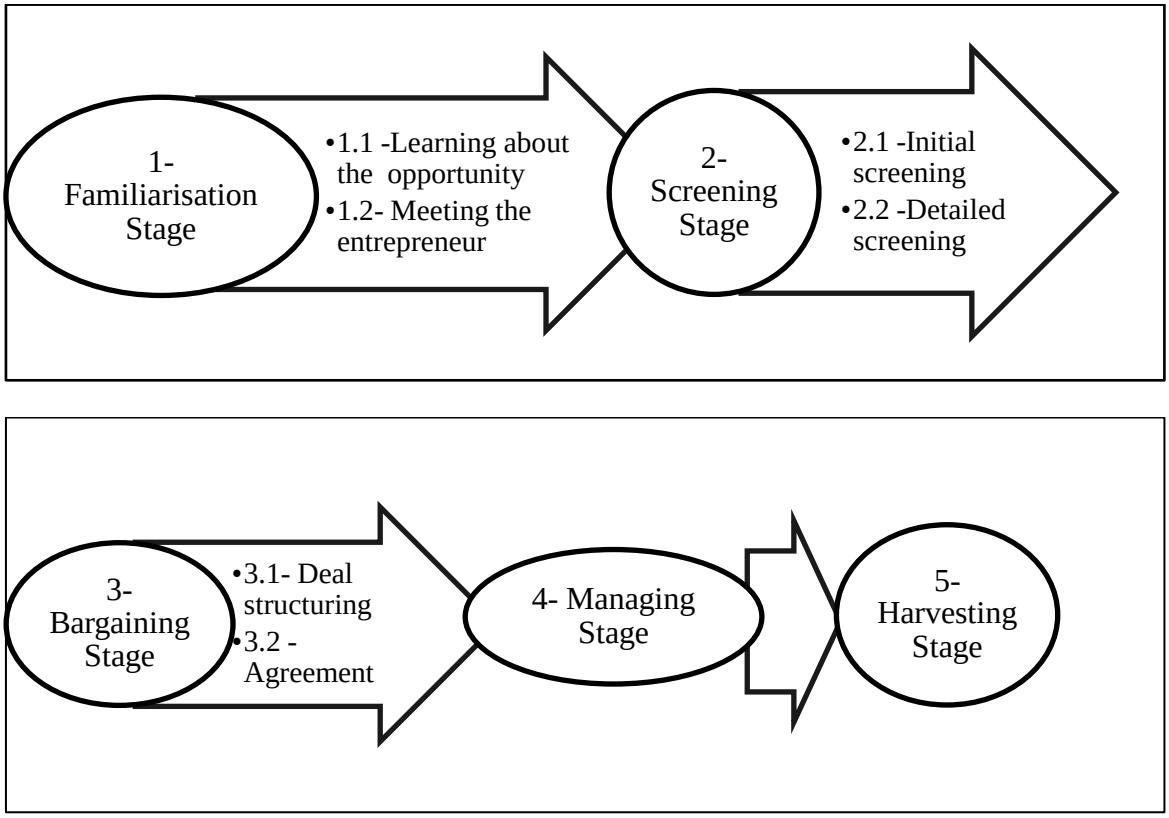
These different studies illustrate that the BAs (or at least some of them) view their investor role as a provider of knowledge and contacts to help the entrepreneur create and develop his business.

2.2 The different stages of the BA investment process

Some authors have proposed a universal process of BA investment , for example Van Osnabrugge and Robinson (2000), Haines et al., (2003), Amatucci and Sohl (2004), Paul, Whittam and Wyper, (2007), Sudek, Mitteness and Baucus, (2008) and Kerr , Lerner and Schoar (2010),. Van Osnabrugge and Robinson (2000) developed a model in eight stages to be applied both to the VC and the BA but the model was not empirically validated. The same criticism can be made of the Haines et al. (2003) model which also comprises eight phases. Amatucci and Sohl (2004) built their model around three main phases (pre-investment, negotiation and contracting and post-investment) to adapt their study to women entrepreneurs but it is still too universal, in our view. The model developed by Paul, Whittam and Wyper (2007) corrects these shortcomings (see Figure 1). Their method involved interviewing 30 BAs currently involved in investing in ventures therefore able to describe their present behaviour. Eight phases structure the process which also takes into account the influence of the context (BA practices and networks) and the investment objectives (financial, professional, personal).

Figure 1. Model of the BA investment process by Paul, Whittam and Wyper (2007)



Studies that cover the pre-investment phase illustrate that BAs place great importance on the profile and experience of the entrepreneur when forming a first opinion of the venture (Mason and Harrison (1996) and Harrison and Mason (2002) as quoted by Paul, Whittam and Wyper, 2007). To gain the BA's interest the entrepreneur needs to be 'investor ready' (Douglas and Shepherd, 2002, 220). For that, he has to be able to provide pertinent information i.e. information expected by the investors in order to form an opinion on the venture itself, even if the format is not perfect (Clark, 2008). The quality of the preparation of the presentation (detailed and precise information and facts on the venture in its context, logical and coherent presentation, links between the venture and the environment) influences potential investors (Chen, Yao and Kotha, 2009) and not the entrepreneur's passion during his presentation. Mason and Harrison (2003) identified a relationship between the quality of the presentation and the perception of the entrepreneur's competence. In the case studied, following an unconvincing presentation the majority of BAs expressed a doubt on the

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entrepreneur's capacity to develop this company and refused to give this venture any further consideration. Some BAs on the other hand saw beyond the poor quality of the presentation and wished to consider the venture in more detail. The authors concluded with the following question "Are potential investors willing to work with the entrepreneur to develop an investable business plan prior to making an investment decision?" (p39). Kerr, Lerner and Schoar (2010) find that the interest levels of BAs at the stages of initial presentation and due diligence are predictive of investment success.

For Paul, Whittam and Wyper (2007), BA interest in a venture is dependent on two conditions: proximity and/or knowledge of the industry. However, a recommendation from a trusted personal contact can lead to interest being given to a venture which does not fill the above-mentioned conditions. Detailed analysis of the profile, experience and competence of the entrepreneur represents the next step. If the analysis is convincing the first "screening" can take place in which the BAs seek to confirm their first impressions and look more closely at the venture. This willingness to go further can be explained by the confidence granted to the entrepreneur. Krieger (2001) throws an interesting light on the influence of confidence in the evaluation of new businesses by the VC. The judgement of confidence in the entrepreneur is based both on the perceived competence (technical dimension) and perceived nature of his intentions (moral dimension).

This literature review leads us to note that in general the BA is involved with the entrepreneur to support him in the creation and development of his business. The entrepreneur's profile and experience are important elements in the eyes of the BA to form an opinion on the venture and prolong the investment process. Paul, Whittam and Wyper's (2007) model, as shown in Figure 1, will serve us as a reference point by allowing us concentrate on the pre-investment phase materialised by steps 1.2: "Meeting the entrepreneur" and 2.1: "Initial Screening". It is this stage of the process that we have chosen to study.

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Effectively, few articles have been written on this phase and in particular on the influence of BAs on the pre-investment evolution of a venture. Sudek, Mitteness and Baucus (2008) show that BAs spend more time than VCs during the pre-screen stage (stage 1: "Familiarisation" in Paul, Whittam and Wyper's model). Entrepreneurs may have to make multiple presentations to BA groups. As mentioned, BAs do not represent a homogenous group of individuals: they differ in the types of expertise they possess and their expertise impacts the importance they place on investment criteria. A BA begins by studying a venture in terms of his likely investment to see if he will keep investigating or reject it. However we think that it is possible for him to get involved with the entrepreneur to help him improve the venture's weak points. Our ambition is therefore to as accurately as possible describe BAs' actions in their context of concrete action as well as the meaning and influence of these actions (historical, social or organisational). According to Jarzabkowski, Balogun and Seidl (2007), this requires study of the links between 1: 'doing', 2: the "resources" to exert this action, and 3: the practices which affect it. Two reasons lead us to adopt this practical perspective: the absence of empirical studies on 'the doing' and the importance of this phase for the future of the venture and sometimes the entrepreneur. In the next section, we explain the method we used to find the links between these different elements in our study of BA practices in the pre-investment phase.

3. Research method: the activity system

In this section, we present the methodology that guided our data collection and empirical analysis. Our research objective is to describe BA practices in detail in order to understand their contribution in the pre-investment phase. Given the limited amount of work in this domain, we propose to use a methodology that is ideally suited for exploration of social processes: the activity system. The activity system is a methodology for the study of an

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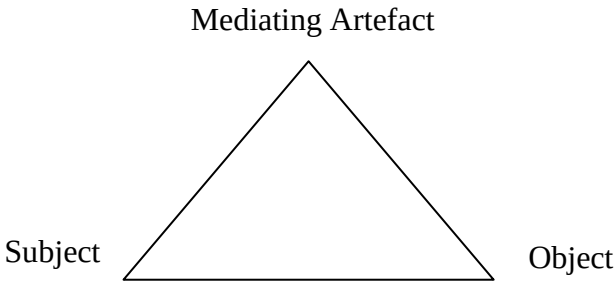
individual that takes into account the historical and social context in which that individual's action is rooted (Engeström, 2000). The notion of activity system allows us to put a value on the day-to-day activities of an individual in an organisational context. In our case, we will use this framework to establish links between a BA's "actions" and the "resources" employed to carry out these actions.

At its origins, the activity system approach appeared in the Soviet Union in the early 1920's as a way of studying learning phenomena. Since then the approach has been consolidated over three generations of research work (Engeström, 2000). The first generation was the work of Lev Vygotsky, the second Alexei Leont'ev and the third Yrjö Engeström.

In order to understand the nature of workers' tasks and their form of learning in the Russian work system, the psychologist Lev Vygotsky proposed to go beyond the classical subject-object or stimulus-response analysis. With a triangular model (see Figure 2), he introduced a third dimension, that of "mediating artefact".

Figure 2. Vygotsky's triangular model



Mediating artefacts modify the relationship between stimulus and response because they incorporate the individual's cultural values and social practice. Vygotsky therefore considers that the analysis of learning should not be limited to the study of the stimulus-response phenomenon; it must integrate the different objects produced by the individual (document, speech, practice, etc.). By introducing this third element in the study of individual

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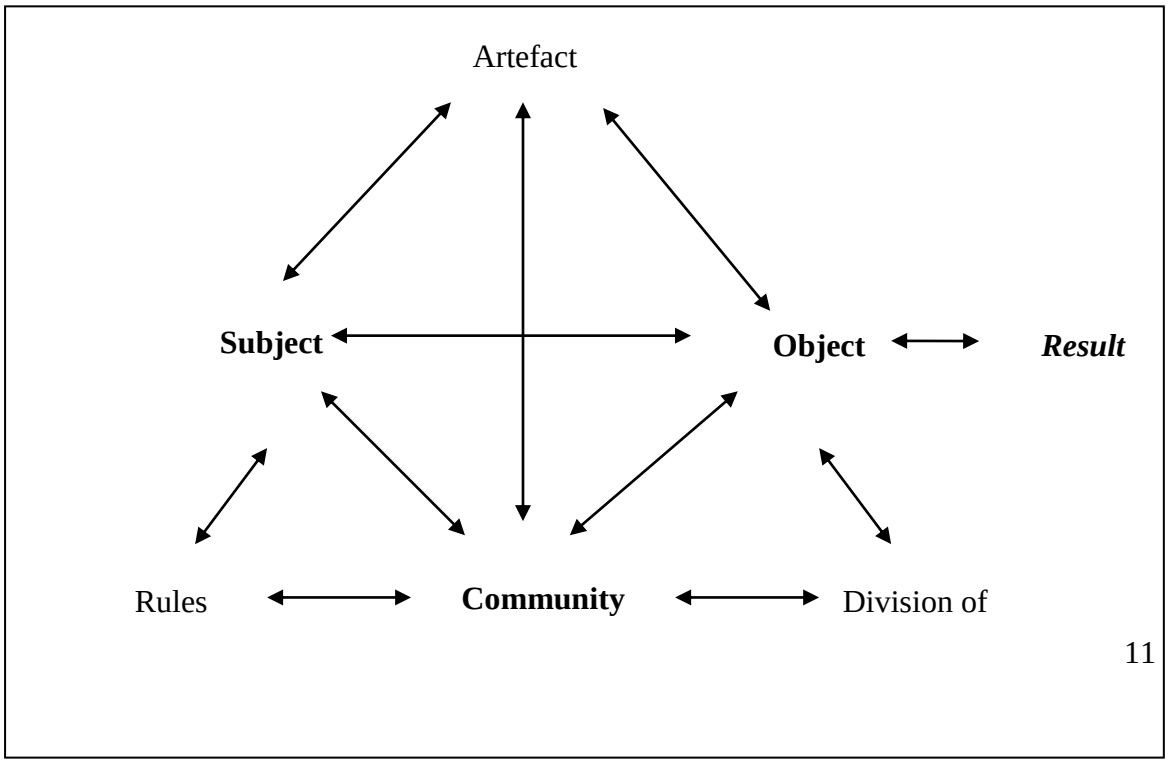
learning, Vygotsky proposes to study the context in which the individual is embedded. His work served as a base to theories of social practice and more precisely, those which are centred on "communities of practice" (Brown and Duguid, 1991; Lave and Wenger, 1991). This approach to learning was totally innovative as Engeström points out: "Taking into account cultural artefacts in human actions was revolutionary in the sense that the unit of analysis went beyond the separation between the Cartesian individual and the unattainable social structure" (Engeström, 2000: 134).

Centred on the, Vygotsky's method of analysis of individual learning was then enhanced by the work of one of his disciples, Alexei Leont'ev, who proposed to compare the individual activity system (subject-artefact-object) with the one relating to a group of individuals (subjects-artefacts-objects). Despite this enhancement, Leont'ev did not greatly change the model. However, Engeström later proposes a more complete version of the activity model by integrating the individual's resource system (that he can use in his daily work). This resource system includes rules, tools and division of tasks that an individual can also use to act in his environment (Figure 3).

Figure 3. Activity systems model (from Engeström, 2000)



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The objective of the model proposed by Engeström is to bring out the tensions and conflicts within the activity system in order to improve understanding of the phenomenon of learning. He applied this model to study care practices in a hospital by a relatively inexperienced doctor. The latter's actions were meticulously written down according to the activity system and the resource system. He noted for example that the doctor (the subject) interacted with the patient (the object) but also with other doctors (the community) to make his diagnosis. The interactions were modified by the rules, tools and the division of work in place within the hospital.

From Figure 2, we understand then that in the above example, an activity system should include all formal and informal elements in carrying out the work of being a doctor. The social relationship between the subject (the actor) and the object (of his action) is modified by the use of mediating artefacts (tools); it is done under the constraint of rules ("what should I do in this case?"), within a community ("what do my colleagues do in this case?") and respecting a division of work ("who does what in this case?"). This model offers a framework for analysing the work of an individual (a part of the whole) including the work relationships with others in the structure (the whole).

The activity system approach offers a way of address the issues raised in the literature review, that is our lack of knowledge of real BA practices at the pre-investment phase and the context in which they are evolving. We have chosen to formulate our research question as follows: 'in what ways do BAs formally and informally support the entrepreneur in the pre-investment phase?i In Table 1, we set out our subsidiary research questions, based on the framework used in the activity system approach. In the next section, we describe how we answered these questions and present our four chosen cases.

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Table 1. Questions guiding the researchers in practice analysis

Dimension in the system	**Researcher guiding question**	**Implications for data collection**
Subject	*Who is the BA and what are his specificities?*	Study the profile, experience and competence of the BA
Object	*What is his role in the BA – entrepreneur relationship during the pre-investment phase?*	Study the BA's behaviour, notably during the pre-investment phase
Community	*Who is he collaborating with?*	Study BA's relationships internally (within the structure) and externally (with their personal network)
Rules	*What means are put in place during the pre-investment phase?*	Study the organisation of the process put in place during this stage
Artefact	*What are the BA's practices in his relationship with the entrepreneur?*	Study the management instruments, methods or concepts used by the BA
Division of work	*Who does what?*	Study the division of tasks between the different sectors

Data Collection

Our chosen method is a structured qualitative one using case studies and the activity system approach introduced in the previous subsection. This is a particularly appropriate research strategy for studying a dynamic and complex topic such as how BAs support entrepreneurs in the pre-investment stage. According to Yin (2003, 5), it is preferable to conduct several case studies and compare them to bring out their similarities and differences. In our case, the unit of analysis is the activity system, as described above.

We conducted a theoretical sampling which resulted in the choiced of four ventures which were presented to BAs within structures referred to as A and B, presented later. The selection of case studies was made in a theoretical and also practical manner. Half of the cases did not proceed beyond the screening stage. The observations were made possible due to the privileged position held by one of the authors in structure B. Being an associate within this

structure gave us the possibility to observe the genesis and evolution of situations by regularly meeting with the different actors. This is why we refer to ourselves as active participant observers (Junker, 1960) and we categorise our considerations in the epistemology of critical reality which leads the researcher to make mental constructions to describe the reality he is observing and analysing (Guba and Lincoln, 1994). Our research process is therefore a learning process between ground-level observation, our interpretations and our conceptualisations. Objectivity is achieved thanks to a prolonged presence on the ground and the cross-referencing of the interpretations made of our observations of the different actors under study.

Seven BAs and five entrepreneurs involved with four ventures were interviewed. The data collection was through a triangulation process: 60 hours of logged observations and at the same time we co-led semi-directive focussed interviews (33 hours over 33 interviews) and procured internal documentation (business plans and executive summaries, presentations, and documents written by the BAs and entrepreneurs). The data collection took place over an intermittent period lasting twelve months (around three months per venture). Thanks to this long collection period, each observation was able to be cross-examined with the documents in our possession and the interpretations of the interested parties; each documented study was able to be validated or invalidated by an observation or interview; each interview was subjected to document consultation and observations.

In accordance with our methodology, we see the analytical data processing as an iterative process between the ideas and experience on the ground. This going back and forth helps us both to understand the point of view of the interviewed person, that is the sense behind the words he or she uses, as well as to check the meaning given by the researcher himself. We successively examined the context, investment process followed by the chosen companies,

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profiles of the BAs involved with the prospective investments and the characteristics of these prospective investments.

Context of the cases

The four venture cases were studied in two different contexts: Association A and Investment company B. Association A is a structure whose purpose is to put entrepreneurs and investors in touch with each other. It has 50 members of whom some have never invested in a venture while others have made as many as 20 investments. A organises a monthly meeting to present selected ventures (2 or 3) to its members. The majority of ventures need less than €500,000 (often limited to €200,000 for a first round). A's objective is to put in place various communication actions to recruit new members and make systematic contact with entrepreneurs seeking finance. It also lets new BAs integrate into the group, giving them the possibility to get acquainted with the culture of an investment process. Each member BA is at total liberty to invest or not in the ventures presented to him.

As A does not have the right to invest in the proposed ventures it created investment company B to allow the BAs to invest in the ventures they are interested in (the BAs being members of both structures). Investment Company B is a Limited company with capital of €409,000, a Board of Administration and a Supervisory Board. It was created to allow the BAs to invest in the ventures they are interested in. It has 20 shareholders and at the present time 3 investments (2 are in the negotiating phase). Certain BAs who are associates in B can find themselves investing 'with two hats on': both directly and through B. It has a selection and monitoring committee composed of four members who select the ventures, prepare the prospective investment (under the responsibility of a member who is charge of that particular investment, known as the 'leader'), make the investment decision and follow the progress of

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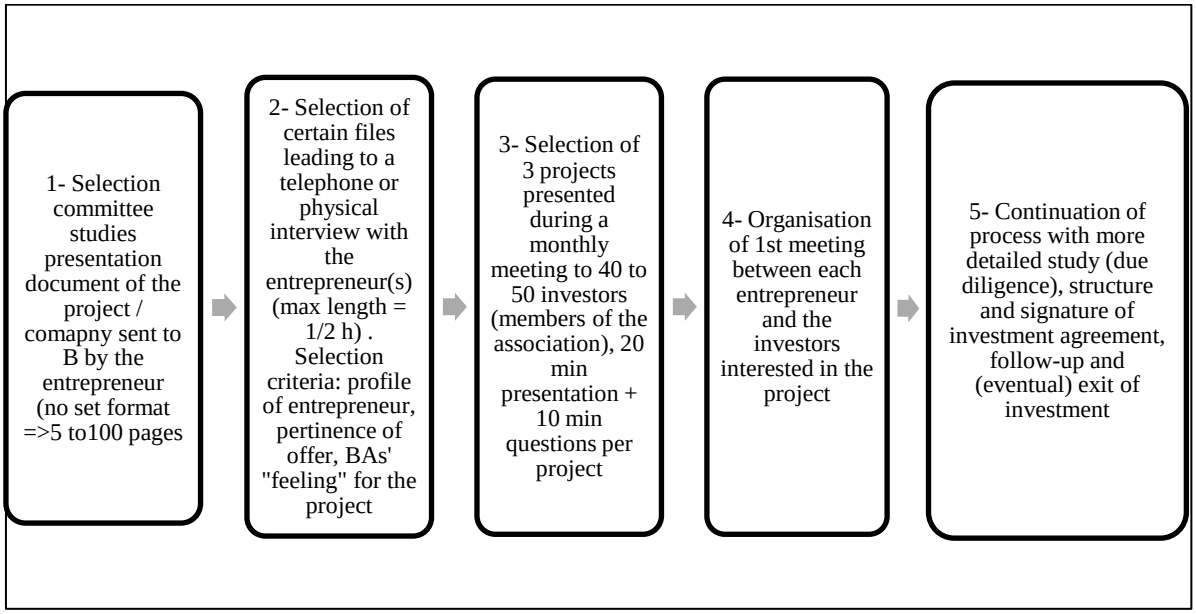
the investment (quarterly reporting). B benefits from IRPP and ISF (French income tax) reductions provided that the investments are in eligible small companies.

The investment process used by BAs under structures A and B are summarised in Figure 4.

Figure 4. Investment process followed by the BAs within structures A and B



The prospective investments selected for this work followed the investment process shown in Figure 4. The next subsection describes the Bas involved in each of the four case ventures.

Profiles of the BAs involved in the four chosen venture cases

A total of seven BAs worked on the four prospective investments; we label them for present purposes as BA1 to BA7 respectively. They were all males between the age of 40 and 65 who had each already carried out between 2 and 19 investments of between €10,000 and €1,500,000. Five of them had been a company Managing Director or Senior Manager, three had created and sold off their company, one had taken over another company, one was a

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consultant, and one an auditor. Their professional experience had been acquired in the specialised distribution, industrial, financial, trading and communication sectors. They were all involved with the Head of the company in which they had invested. This presence can be identified in a formal way such as member of Board of Administration or Supervisory Board or less formally by participating in "ad-hoc" committees (strategic or managerial) which are set up so that the investor can be associated with the business or even more informally by being involved on a voluntary basis as a tutor/coach to the entrepreneur (bringing advice and experience). With reference to Sorheim and Landström (2001)'s typology, they are "pure BAs*"*; Avdeitchikova (2008) might have classified them as playing a "classical BA role". They are the providers of "smart capital" ("4C's") in the sense of Saertre (2003).

To complete our description of method, Table 2 lists the characteristics of each venture.

Table 2. Characteristics of the four ventures studied

	Company 1 and Entrepreneur 1	**Company 2 and Entrepreneur 2**	**Company 3 and Entrepreneur 3**	**Company 4 and Entrepreneurs 4 and 5**
Type of business	Distribution of decorative, textile and homeware products (2 points of sale : 1 dedicated shop and 1 franchise)	Technological innovation in acoustics	Company advice for obtaining public funding (8 franchises)	Design of reusable display stands and logistics management
Phase	Creation	Early stages	Under development	Creation
Amount sought	€400,000	€150,000	€100,000	€100,000

4. Results: The BA activity systems

In this section, we present the BA activity systems at the pre-investment phase. Detailed analysis of the decisions made for each venture, showing positive elements and questions

raised after the presentation to the BAs (step 3 of the investment process) is presented in Table 3. Employing the activity systems approach, we have identified three elements which characterise actual BA practice. Each of these is presented in the next three subsections, with supporting evidence provided by relevant quotes from interviews.

Table 3. Mediating artefacts between the BA and the entrepreneur

	"Method" type	**"Experience" type**	**"Network" type**
Explicit knowledge	- structuring of a marketing plan (choice of targets and definition of a marketing action plan) - redefinition of merchandising policy - redefinition of strategy notably concerning funds to be raised => parallel situation experienced by a BA which helped him to develop his network of franchises and block a competitor's entry - reflection to put in place an "ad-hoc" legal structure (industrial property for innovation, statutes for inventor and manager (to be recruited) and company organisation) - reflection on network development strategy in terms of the balance between franchises and own shops - Help to evaluate the company and legal procedures for opening up capital - Help to think about defining a pertinent reporting	- modification of funds allocation to recruit a different profile than originally envisaged. Change suggested by BA who had experienced parallel situation in the company he had created - management advice to motivate and involve employees suggested by a BA – ex company founder and manager - competence definition "*… capacity to bring out the best in the people who worked with him*". He offers to share his experience with one of the entrepreneurs	- opening / prospection of a new potential market with availability of contacts coming from the network of one of the BAs familiar with the sector - proposition of presenting a potential candidate to develop and manage the franchise network of one of the companies - proposition of presenting a potential candidate to manage the commercial and economical development of the venture
Tacit knowledge	- tutoring for structuring an external growth operation (acquisition of a network of shops)	- organisation of a "real life" meeting with a potential customer: - analysis of commercial practice - arranging the contact with the potential customer	- organisation of meetings with banks to negotiate treasury facilities allowing: - help to improve negotiating skills with banker - putting entrepreneur in touch with several banks with whom several BAs had worked

The relationship between the subject (BA) and the object of his activity (entrepreneur)

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A supporter-supported type of relationship like the one observed in certain cases of venture financing by BAs in the post-investment phase can be seen at the beginning of the process before a decision is made to take the prospective investments further. The BA and the entrepreneur behave as if an agency relationship has been established between them even though this is not the case (no contract having been signed). We explain this situation for each actor as follows:

- The BA, being used to supporting the entrepreneur in the companies he has invested in, takes on this role from the beginning if the venture interests him. This interest comes from his experience:

> This venture reminds me of another venture in which I successfully invested a number of years ago: same type of entrepreneur, similar market. It is interesting even if it carries a number of drawbacks. I would like to help this person to improve his venture even if B does not follow through with an investment (source: BA2).

It can also be linked to the impression made by the entrepreneur:

> I wasn't bowled over on reading the business plan but the entrepreneur has impressed me, he knows exactly what he is going to do, he answers every question clearly. There are some points to improve upon but we need to help him with these points. I have an intuitive feeling that he is the right person. I must validate my impression with BA3 and BA5 (source : BA4).

- From the entrepreneur's perspective, he is interested in the BA's competence and experience. He gives him credit for his professional past (creator-company director) and he recognises know-how which he has not yet acquired himself. Not being dogmatic (in our cases, at least) he is ready to listen to any advice which helps him improve his venture.

> If I've chosen this type of financing – the BAs – it is to benefit, on top of the money, from their advice and support. I wasn't expecting that until the investment had been made. It's really lucky for me that they are offering help to improve my venture on the points outside my domains of competence…" (source : E1).

> When after my twenty minutes presentation, they asked me the two questions I was hoping they wouldn't ask I said to myself that these people have already understood the key elements of my business. They must surely have the experience and competence that can help my company to perform better (source: E3).

Here the BA is behaving like a tutor who transfers tips and know-how (a form of tacit knowledge) as well as the structuring of ideas. He wants to help the entrepreneur to progress by bringing him his experience and competence. The entrepreneur accepts this advice because it comes from people who have a strong credibility in his eyes and because it helps him to access the latter's resource system.

The relationship between the subject (BA) and the mediating artefacts used to accompany the entrepreneur

We have identified two types of mediating artefacts which assist in the relationship between the BA and the entrepreneur. These artefacts are part of the BA's resource system. We have labelled them "unique" and "combined". The mediating artefacts cover three domains of competence and can be distinguished from explicit knowledge (that is expressible) and tacit knowledge (non-verbally expressed). The first concerns method, the second experience and the third social capital (or network) (see Table 3).

These contributions, whatever their category, come from the BAs' "diagnosis" which is based on their professional experience. At this stage in the process this "diagnosis" is not formalised, in the same way that questions raised on the files are not based on a methodological approach, which comes at a later stage ("due diligence"). The "due diligence" phase, which starts once the prospective investment is judged to be interesting, will allow the different points to be looked at in more detail through an analysis based on a structured method.

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The various tacit contributions were made on the basis of the BA's "feeling" for the venture. In most cases, they were not rejected by the entrepreneurs, who "integrated" them into their plans and changed their ventures in the light of these contributions. In this situation, the entrepreneur is developing a way of learning through assimilation and his observation of the BA. The BAs' views were sometimes firmly discussed but never refused by the entrepreneurs who, after all, could have decided not to take account of these observations, having no contractual relationship with the BAs.

The relationship between the subject (BA) and his community (the other BAs)

The BA's opinion on a prospective investment can be formulated as follows: continue the analysis or stop there. This is an iterative process because his judgement will be built on three levels (summarized in Table 4).

Table 4. Practices observed and contributions of our study

	Description of practices	**Contributions from our study**
Relationship between the BA and the entrepreneur	The BA adopts a pedagogical role towards the entrepreneur to help him improve his venture. The entrepreneur accepts this contribution due to BA's legitimacy.	The accompaniment observed during the post-investment phase can begin much earlier in the process. A type of agency relationship is established (collaboration between the two parties) without the contractual dimension.
Mediating artefacts used by the BAs towards the entrepreneur	The BA helps the entrepreneur by bringing his methods, experience and access to his network. These contributions can be combined.	The contributions are identical to those observed when accompanying in the post-investment phase. They are however more "intuitive" because not within a structured framework such as when carrying out a "due diligence"
Relationship between the BA, the other BAs and his external network	The decision (acceptance or refusal to continue to study the prospective investment) can be brought into question during exchanges between the BAs and their networks. The entrepreneur can find it difficult to take these changes on board.	Like in the post-investment phase, the BA exchanges with other BA and his external network but the consequences can lead to a change of decision on the follow-up of a prospective investment.

- his personal appreciation based on his experience and his "feeling" concerning the venture's entrepreneur:
- the confrontation of his own judgement with the other BAs' judgements, although he will take most note of those BAs he trusts, based on their common investment experience, legitimacy due to relevant sector knowledge, or "successful" professional track record. At this second level his opinion can be significantly changed.
- a third level of influence on his judgement occurs when he asks people from his personal network to give their opinion on a particular point of the venture. Here again, his position may be modified and he may even change the other BAs' opinions when he gives them this new information.

In some cases, prospective investments experienced changes in appreciation as a result of changes of opinion, either internal (within the structure of A or B) or external (with the BAs' personal networks). For example, ventures 2 and 3 were successively refused then accepted. We discover that entrepreneurs sometimes found it difficult to understand these changes of opinion. Moreover, the consequences for them were heavy if their venture was to fail at this stage, given that the investor network would pick up on the "bad press" from the BAs who would be consulted before making their decision.

To summarise our results, we found that the BA can support the entrepreneur in the pre-investment phase without prejudicing his decision to invest in the venture. We found that BAs would try to help the entrepreneur improve his venture to make it more attractive, and that entrepreneurs tended to accept and act on this help. The four case studies suggest that this support by the BA is based on an exchange of knowledge that can be formal (i.e. explicit transfer via documents, methods, analytical tools) and informal (i.e. tacit via the entrepreneur's observations of BA practices and the socialising with members of the BA's

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social network). We summarise the practices observed during our study as well as the contributions made by BAs to pre-investment stage ventures in Table 5.

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Table 5. Outcomes for the four ventures

	Company 1 and Entrepreneur 1	**Company 2 and Entrepreneur 2**	**Company 3 and Entrepreneur 3**	**Company 4 and Entrepreneurs 4 and 5**
Favourable elements	- Professional background from the creator and his knowledge of the sector. - Willingness of the manager to rely on BA's skills and background to fill in his management and business administration gap - Good relationship between the 2 BAs and the entrepreneur	- Participants convinced by the demonstration about innovation's effectiveness - Relevant potential market size (PA system for buildings, vehicles, boats. , medical, material tests, army,…)	- Good control of the development of the firm by the entrepreneur - Quality of the presentation	- Trust between the entrepreneur based on their professional experience - Good understanding of the project demonstrated by the questions & answers
Unfavourable elements	- Merchandising concept to be re worked. - Manager skills to be demonstrated - Development strategy to be deepened	- Inventor's personality (artist hard to contain) - No management or marketing skills - Relevant potential market size that requires a well targeted marketing plan - Need to find a manager and an industrial partner - Need to define a legal structure allowing splitting the patent property.	- Discussions on the development plan especially on the resources allocation considering a potential competitor entrance on the market. - Capacity of the entrepreneur to enter a new development phase going through:. -a new internal organization requiring several recruitments - A growth in the franchise network	- Discussions on the development plan especially on the resources allocation and development speed - Strongest claimed control on the commercial approach that let fear a certain rigidity of ME4 in charge of the commercial and marketing functions
Outcomes	- 3 BAs have helped M.E1 to re work his project. It has been deeply studied (due diligence) after this re work. - 250000€ invested and 2 BAs are present at the firm executive committee	- 4BAs helped M.E2 to rework his project and to set asides the identified doubts. - M.E2 stopped the investment process with BAs but he found an investor later thanks to this experience	- 2 BAs helped M.E3 to rework his development strategy and identifying, thanks to their networks, potentials candidates. - B has invested 152000€ instead of 100000€ asked	- 2 BAs helped M.E4 et E4' to rework development strategy. - Both have met potential clients belonging to BAs relational network - Public accreditation obtained to get a loan of honour 30000€

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5. Conclusion and limitations

BA support of entrepreneurs in the pre-investment phase can have an important influence on the future of a venture. The contribution brought by the BAs at this crucial stage can help the entrepreneur to improve his venture and increase his chances of finding funding. The use of the activity systems approach allowed us to better understand this process by adopting a "practice" perspective. As shown in Table 5, the activity has transformed the ventures in ways the BA did not expect. It demonstrates the existence of effectuation process in the pre-investment phase. From a detailed analysis of our data, we came to three conclusions that enrich the litterature.

Firstly, even without a contractual relationship between the BA and the entrepreneur, we can identify a supporter-supported type of relationship, a little like a teacher and pupil.

Secondly, the BA's contributions are numerous and cover different dimensions; however they are not based on a structured methodology but on the BA's experience and his feeling about the entrepreneur and the venture. Some of the "softer" features, such as mentoring practices or sharing of business contacts, may help new ventures the most. These results are consistent with the work of Kerr et al. (2010), but we additionally demonstrate that all the entrepreneurs studied have benefited from the BAs' different forms of capital in the early stage (even if half of the ventures did not successfully navigate the screening phase).

Thirdly, the decision to take the study of the prospective investment further is very fragile and can be called into question by changes to the BA's opinion on the venture. This opinion can be affected by opinions given by the other BAs within the structure as well as people from the BA's personal network who have been consulted on a particular point of the file.

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From a methodological point of view, the main limitation of our study is linked to our status of active participant observers which can have influenced our interpretation of the collected data. The objective of using the activity systems model is to limit this bias. In our view, this approach worked well, and surfaced subtle links that we might have missed in a pure 'grounded theory' approach. The method of choosing the cases is disputable because it was influenced by the BAs' decisions. However, we were able to use theoretical sampling to ensure a diversity of cases. A quantitative questionnaire would have allowed us to measure the BAs' contributions and enabled us to precisely categorise them, but the attempted use of this tool inspired a reticent reaction on the part of the BAs. From a theoretical point of view, it also seemed necessary to us to improve our understanding of the decision-making process. It was necessary to look deeper into the BAs' motivations than would be possible with a structured questionnaire. In the event, we found that the BAs we observed had both financial motivations (profit, tax benefits) and "altruistic" ones (to help an entrepreneur start up his business).

Our study suggests that entrepreneurs should be made aware that in seeking BA funding, they can be helped very early on in the investment process. To benefit from the BAs' contributions, entrepreneurs must be convincing by giving pertinent information which responds to the BAs' expectations. To do this successfully, entrepreneurs must learn about the structures they are going to contact, to understand their organisation and specificities, to know the BAs' profiles and therefore better understand their motivations and expectations concerning their ventures.

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