The Post-Investment Impact of Business Angels upon their Investee Companies

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Abstract:

The investment and involvement of business angels (BAs) in their investee companies is of crucial importance for the development of young companies.
This research aims to explore BAs' post-investment involvement in and impact upon their investee companies in a dyadic way. It will examine several theories related to BA-intervention and iteratively attempt to create a theoretical framework underpinning BA-involvement itself.

Due to a lack of literature and theories underpinning BA-involvement, this work follows several authors' (e.g. Harrison & Mason, 1999; Ehrlich *et al.*, 1994) requests for more investigation of and theories in the post-investment period.
Theory development builds on prior research and previously applied concepts (e.g. agency and resource-based theories) in the areas of BAs, venture capital, entrepreneurship and SMEs.
Business Angel Networks (BANs) and BAs themselves have been involved in the development of this research and confirm its value.

This research administers a questionnaire-based survey, followed by longitudinal case studies comprising of observations, interviews with BAs, entrepreneurs and occasional other related people (e.g. accountants), as well as the analysis of secondary data.
The survey develops an initial understanding from the BAs' perspective of their involvement and impact. The case studies will subsequently explore and explain the questionnaire findings in more detail.
This approach, resulting in thorough, exploratory data, studies the viewpoints of both BAs and investees and allows inductive theory-building.

The research is in its early stages and no definitive results are yet available. However, the questionnaire has been sent out to BAs.
The author's previous study (Macht, 2005), as well as preliminary findings of this research, has shown that BAs are involved in their investee companies in many different roles and provide a significant impact upon these companies, especially in relation to success, survival, efficiency and profile of the investee. Some comments about BAs' own view of their impact were, amongst others, their provision of experience with handling unforeseeable events and their strategies for avoiding their own prior mistakes.

This research will have a number of implications on both academia and practice, including the following:

- Results should affect practitioners like BANs, e.g. in relation to investor- and investee-training, awareness-raising, etc.
- Researchers obtain original knowledge in the neglected post-investment area and a theoretical framework upon which further research can be based.
- Longitudinal case studies and observations, rarely used in BA-research, increase the methodological multitude in the area.

Keywords:

Business angel, Post-investment, Involvement, Impact, Theory-building, Case studies

1. Introduction

The research underlying this paper focuses on business angels (BAs). They are defined here as private, wealthy individuals who invest their own money as well as their time in small, young, unquoted companies with whom they have no family connection (Sullivan & Miller, 1990; Deakins & Freel, 2003). Due to many similarities with formal, institutional venture capital (VC), business angels are also called 'informal venture capitalists' (Haar, Starr & MacMillan, 1988). The main difference between BAs and VCs is that BAs invest in younger, earlier-stage companies than VCs (Harrison & Mason, 2000).

It is widely known that BAs provide their investee companies with more than just money. BAs' financial capital helps the investee company overcome funding difficulties common in young enterprises (Sørheim, 2005). Additionally, BAs also spend time with their investees by offering their skills, knowledge and experience in the form of post-investment involvement (e.g. Ardichvili *et al.*, 2002). This involvement has the potential to impact significantly upon a BA's investee companies.

However, both literature and theory have so far rather ignored the post-investment period of BAs. Literature on BA-involvement is scarce and knowledge about the impact of BAs' non-financial contributions is virtually nonexistent. The development of theories applicable to BAs has also been hitherto neglected. Therefore, this study aims to

(i) contribute to the knowledge base about the under-researched post-investment period and
(ii) add to the theoretical sophistication of the business angel discipline.

This paper is structured in the following way: First, the literature will be critically reviewed, both in relation to BAs, as well as in relation to the theories that other researchers have attempted to apply to them. The methodology section explores the methods used in the entire, ongoing research project. The subsequent section provides an account of the questionnaire content and some preliminary results of the empirical research. After a description of some limitations and potential implications, the paper concludes with a short summary.

2. Literature Review

In 1999, Harrison and Mason identified three different generations of BA-research:

First generation studies, initiated in the United States in the 1980s and subsequently replicated in other countries in the world (e.g. in Sweden by Landström in 1993 or in the UK by Harrison and Mason in 1992a), focused solely on the 'ABC' of business angels, their Attitudes, Behaviours and Characteristics (Freear, Sohl & Wetzel, 2002).

In second generation studies, researchers started to make the research area more sophisticated: They investigated, amongst others, issues centring on the post-investment period and they started applying existing theories to BAs and their investments. The application of theories has up to now been the least developed category in research.

Finally, third generation studies are those areas, which researchers will have to investigate in the future. Amongst the main directions that emerge are methodological and theoretical issues. In terms of methodological subjects, new research designs, such as case studies and longitudinal research are necessary. Theoretical frameworks previously applied to business angels do not fit the area or provide unusable results. Therefore, more theory-building is needed. Since the publication of the account of these generations in 1999, Harrison and Mason's calls for third generation research have already been followed to a certain extent: For example, Sørheim (2005) helped to increase the methodological multitude by using in-depth case studies. However, much work is still to be done into these directions.

The following subsections critically review the literature on the first and second generations of informal venture capital research. They centre mainly on a few important characteristics of BAs, on their post-investment behaviours, that is to say their involvement and impact, as well as on the theories applied to BAs.

2.1 Characteristics of UK-Business Angels

A majority of business angels display very similar characteristics and profiles in all countries, in which they have been researched (Duxbury, Haines & Riding, 1996), but, when profiling them, it has to be borne in mind that they are a heterogeneous group of people (Landström, 1993).

Almost all BAs are or have been entrepreneurs. They invest in industries that are familiar to them, so that they can use their own experience to further their investees (Ardichvili et al., 2002). They are primarily motivated by the financial return they can make from their investments, but they also possess very strong non-financial motivations like the fun of being involved or the opportunity to help new businesses. These secondary motives are often called "psychic income" (Ehrlich et al., 1994, p. 70). Another characteristic of BAs is that they tend to invest in close geographic proximity to either their home or their workplace, so that they can pay the investee a visit at any time (Harrison, Mason & Robson, 2003). In addition, they are most likely to invest in very young companies, mainly in the seed and start-up stages (Mason, 2002).

2.2 Business Angels' Post-Investment Involvement

As the research on BAs' post-investment period is, even worldwide, still rather scarce, one has to resort to literature on the closely related, but better researched, discipline of formal venture capital. However, it is crucial to remember that – in spite of some prominent similarities – BAs and VCs possess critical differences, which do not allow researchers to use findings from the two disciplines interchangeably.

One of the main characteristics of both formal and informal VC is the investor's involvement after the financial investment (Landström, 1993). It is also often referred to as 'post-investment value adding' (Baeyens and Manigart, 2006), 'contribution' (Fried and Hisrich, 1988) or 'assistance' (Sapienza, Manigart & Vermeir, 1996).

Previous research categorised involvement activities into different groups. Sometimes, they are divided into 'active' and 'passive'. For example, Sapienza, Manigart and Vermeir (1996) described passive involvement as the provision of only financial assistance, whereas active involvement includes the additional supply of non-financial support to the investee company. On other occasions, researchers divided the involvement activities into more distinct categories. Sapienza, Amason and Manigart (1994) catalogued them as 'strategic', 'operational' and 'personal', whereas Gomez-Mejia, Balkin and Welbourne (1990) classified them into 'formal' (including membership on the board of directors, the right to observe meetings and the monitoring of reports) and 'informal' (e.g. strategy sessions, unexpected phone calls and other social activities with the management team). Fried and Hisrich (1995) catalogued the kinds of possible VC-involvement into six main categories:

- (i) Operating services: consulting, providing further funding, serving as a sounding board, arranging partnerships, advising, managerial guidance, assistance with mergers and acquisitions, evaluation of management team members, security-check on strategies, focusing products or services, assistance in short-term crises and problems and development of new strategy to meet changing circumstances
- (ii) Networks: provision of contacts with potential other investors, underwriters, potential other board members, management team members, service providers, customers, suppliers or corporate partners
- (iii) Image: the presence of a VC is a sign of quality and builds up confidence in the investee company
- (iv) Moral support: the VC can discuss sensitive issues, provide support in situations of crisis and is a helpful, open and forthcoming partner or friend to talk to
- (v) Knowledge in general business issues
- (vi) Discipline: VCs pressurise the investee to comply with objectives or replace non-performing management team members

(For the above-mentioned activities see: Arthurs & Busenitz, 2006; Fried & Hisrich, 1988; Fried & Hisrich, 1995; Rosenstein *et al.*, 1993; Tyebjee & Bruno, 1984).

In addition to these categories of involvement activities, two of the most influential research studies into the involvement of VCs investigated the importance of the different roles which VCs can play in their investee companies.

MacMillan, Kulow and Khoylian (1988) found that the activities with most VC-involvement were the following: being a sounding board to the investee company management, strategic and operational planning, recruitment of managers, attaining alternative sources of equity and debt, contacts to customers and suppliers, interfacing with the other investors and monitoring financial or operating performance.

Gorman and Sahlman (1989) added the following further important involvement activities: being a confidant, introductions to service providers (e.g. lawyers), board member recruitments, right to use some resources of the VC, and the resolution of compensation conflicts.

Apart from this large, but certainly not all-embracing, amount of possible involvement activities, little is known about the actual role that VCs play in their investee companies (Fried, Bruton & Hisrich, 1998). The literature about business angels' post-investment involvement, which will be reviewed next, is even scarcer.

Just like VCs, BAs possess knowledge, skills, experience and business contacts, which they use in order to contribute value to their investee companies. A study by Harrison and Mason (1992b) concluded that only a minority of BAs monitor reports, meaning that they are involved rather actively. Landström (1993) on the other hand characterised UK-business angels as passive: many of them only review reports and participate at stockholder meetings, but display very little involvement on a daily basis. The reason for this divergence might be explained by the heterogeneity of angel investors: both studies agreed that a large proportion of BAs are active, but also a significant amount of angels is passive.

According to several published papers, as well as according to the author’s own previous research, BAs are involved in a very wide range of activities (Kelly & Hay, 2001; Macht, 2005; Mason & Harrison, 1996). Since they invest earlier than VCs, they can help with the development of the strategy. Other involvement possibilities are the following: member of the board of directors, chairman of the board, provision of strategic advice, networking (e.g. with potential customers), experience in marketing, finance, accounting, management and general business, sounding board to the management team, follow-on finance and creation of confidence in the investee. BAs can also supply some intangible contributions by lifting the entrepreneur’s spirits, increasing enthusiasm, sharing the burden, providing a broader view or being a coach and mentor.

Contributions provided by BAs are very similar to those provided by formal VCs (Ehrlich *et al.*, 1994). Nevertheless, the two investor types differ in their involvement in many ways:

First, BAs tend to invest in earlier stages than VCs, where the management of the investee companies often do not yet possess the experience necessary to handle all occurring situations, rendering the involvement of the BA crucial (Månsson & Landström, 2005).

Second, although VCs can become involved in all managerial activities, they usually confine themselves to unique projects (Fried & Hisrich, 1995). They only intervene on the operational day-to-day basis if major problems arise (Sweeting, 1991). Most BAs also do not get involved operationally (Politis & Landström, 2002), whereas some of them start working for the investee company, as salaried consultants, advisors or even employees (Kelly & Hay, 2003).

Third, some activities are unique to each investor type: VCs replace members of the management team (Rosenstein *et al.*, 1993), whereas BAs provide their competences and their small investment amounts to prepare the investee company for subsequent VC investment (Månsson & Landström, 2005).

Fourthly, as BAs – unlike formal VCs – do not have to invest their money, they do not posses as stringent time constraints as VCs. This allows them more time for active involvement. At the same time, BAs do not have the time to play an active role in many portfolio companies simultaneously (Mason & Harrison, 2002).

2.3 Business Angels’ Post-Investment Impact

Literature on the impact of BAs’ involvement is extremely scarce, which again necessitates falling back on the literature on formal VC. The latter displays some evidence of VCs' impact. However, since these studies were conducted on large organisations, the findings may not be fully applicable to BAs and small, young ventures (Fried & Hisrich, 1995).

In general, research into 'value added' by VCs has been conducted by either scrutinising stock returns after the initial public offering or by questioning the VCs and/or CEOs of investee companies (Sapienza, 1992). Data resulting from questioning VCs and/or CEOs displays findings from individual or dyadic viewpoints (perspectives of venture capitalists only: see e.g. Gorman & Sahlman (1989); entrepreneurs only: see e.g. Rosenstein *et al.* (1993); both VCs and CEOs: see e.g. Sapienza & Timmons (1989)).

Unfortunately, most of these general studies mention the impact of involvement activities only marginally. They rather focus on issues like the mere involvement activities (e.g. MacMillan, Kulow & Khoylian, 1988), the usefulness of these roles from different viewpoints (e.g. Rosenstein *et al.*, 1993) or the contextual factors of the involvement (e.g. Sapienza, Amason & Manigart, 1994). Those studies where the impact is mentioned will be reviewed below.

Researchers studying the post-investment impact face a crucial problem: the difficulty of measuring it. Many scholars use 'performance' as a measurement for value added: One of the main findings of Rosenstein *et al.*'s (1993) questionnaire was that VCs do not increase firm-performance more than any other outside board members. Equally, Sapienza, Manigart and Vermeir (1996), as well as Sweeting and Wong (1997), did not find any relation between the performance of the venture and the involvement of the VC. Fried, Bruton and Hisrich (1998) even concluded that VC-involvement on the board could negatively affect the performance of the investee. Constructive strategic feedback provided by the VC on the other hand should lead to improved decision-making and enhanced performance of the investee company (Busenitz, Fiet & Moesel, 2004).

Performance can be measured by a large array of different indicators. Financial measures, like the profitability of the VC's exit, are often used (e.g. Busenitz, Fiet & Moesel, 2004). Other examples of performance indicators applied in the VC-context are sales volume, net profits, market share, return on investment (Sweeting & Wong, 1997), as well as a number of non-financial criteria like "new product/process development, market development, operating efficiency, personnel development [and] harvest/exit readiness" (Higashide & Birley, 2002, p. 66). Sometimes, even subjective, non-numerical performance indicators like the VC's satisfaction with the entrepreneur's performance are utilised (Sapienza, Manigart & Vermeir, 1996).

However, measuring impact in terms of a venture's performance can be severely criticised: Financial performance indicators in general are not only useless for very young firms without proper financial systems, but also evaluate more the impact upon the VC than upon the investee company. Other measurements might also not be applicable to young investee companies due to their newness (Van Osnabrugge & Robinson, 2000). Furthermore, measuring venture performance in comparison to competition is impossible for angel-funded businesses since there is often no information about competitors available (Arthurs & Busenitz, 2006). Qualitative indicators might be a solution, but are inseparable from self-report bias (Sapienza, Manigart & Vermeir, 1996). Finally, related to the multitude of different indicators is the difficulty of comparing results.

Due to these shortcomings, some researchers used other indicators than performance to measure the value added impact: For example Davila, Foster and Gupta (2003) used an increase in headcount as a proxy for growth. In reality however, headcount is only a minor measure of growth.

An important limitation of VC-impact is that VCs can only add value if the entrepreneur is responsive to the involvement and keen to learn (Sapienza, Manigart & Vermeir, 1996). This can be achieved if the parties continuously share information in a cooperative way. Ongoing information-sharing should result in better organisational learning for the venture (Busenitz, Fiet & Moesel, 2004). Arthurs and Busenitz (2006) also argued that VCs can impact upon their investee companies by increasing the venture's strategic and operational learning: VCs possess experience in the ways in which changes within the external business environment affect businesses. They can use this knowledge to educate their investee companies, so that the latter can better adapt to transformations in the environment.

Since so far, only the impact of VCs has been reviewed, the following paragraphs will be devoted to BAs' impact.

Sørheim (2005), in one of the few papers about business angels' impact, investigated one area of BA-involvement in more detail: their facilitation of further financing for their investee companies. BAs can be boundary-spanners participating at negotiations, door-openers by presenting their own view about the venture to potential investors, providers of financial packages due to their extensive experience or co-entrepreneurs by using their own expertise in raising capital. Due to BAs' networking amongst each other, they often bring other BAs into their investments, which also facilitates the reception of further funding.

Another form of impact is the confidence that the investment of BAs creates within a venture: although the results are not unequivocal, many VCs regard the investment and involvement of business angels as a positive sign for quality and thus decide to also invest in this business (Harrison & Mason, 2000). This is sometimes referred to as 'leverage effect' (e.g. Mason & Harrison, 1995).

Neither the record of impacts above nor the BA-literature depicts an all-inclusive listing of possible impacts. The kinds of impact described in the literature are dispersed and represent only a rather generic account of possible involvement activities and their general impact. Harrison and Mason (2004) attempt to capture more possible involvement and impact types by questioning BA-entrepreneur-dyads about critical incidents that happened during their relationship. They want to examine if and to what extent BAs actually add value in such critical situations. Unfortunately, this research project is still ongoing.

Fried and Hisrich (1995) concluded that the impact of relationship investors (VCs and BAs) can be significant, but the value added and the effectiveness of this added value vary from company to company. Therefore, more empirically grounded research into the post-investment period, as well as a detailed investigation of specific cases is very important in identifying BAs' value adding capabilities.

Research should start focussing on other aspects of impact due to the before-mentioned flaws of measuring it with the likes of performance or growth. Some researchers already touch on several other possible measurements: improved decision-making (Busenitz, Fiet & Moesel, 2004) and operational learning (Arthurs & Busenitz, 2006) can increase a business's *success*, expertise that helps investee companies adapt to changing circumstances increases its *survival* chances (*ibid.*), confidence in the business improves its *profile* in the eyes of externals (Fried & Hisrich, 1995) and the provision of contact networks increases *efficiency* because the management team do not have to spend time searching for these contacts themselves (Macht, 2005).

When examining the impact, one has to bear in mind that the effect of VC-involvement upon the investee company can occur in several directions: Inputs can be constructive, impotent or destructive. If an input is constructive, it adds value. If it is impotent, it does not have any effect, whereas destructive input destroys value (Fried & Hisrich, 1995). For example, investors can encourage the entrepreneur to carefully think through every option before acting, which takes time and could end up making the entrepreneur work less efficiently (Busenitz, Fiet & Moesel, 2004).

2.3 Theories Applied to Business Angels

In addition to the lack of research in BAs' post-investment period, the entire area of entrepreneurship is further characterised by a lack of theoretical frameworks (Phan, 2004). The main reason for this is the fact that theories were usually developed for large organisations, which are intrinsically different from small businesses, especially from young, entrepreneurial ventures (Dandridge, 1979). Distinct theories for small businesses and entrepreneurship are necessary in order to be able to properly understand these areas.

As with empirical research, the main focus in previous theory application and building has also been on formal VC. However, some researchers are now entering the second and third generations of BA-research and apply or develop theories for angel investments. What has been concluded in most cases for both formal and informal VC is an absence of suitability of existing theories (Cable & Shane, 1997).

Agency theory, one of the most widely-used theories, has been frequently applied to VC, but has been found to not be entirely suitable. It focuses on the relationship between principals (investors) and agents (entrepreneurial management team). This separation of ownership and control can lead to conflicts due to different interests of the participating parties (Bruton, Fried & Hisrich, 2000). In order to reduce these agency risks, investors monitor their investee companies for example through active involvement (Busenitz, Fiet & Moesel, 2004). The studies using agency theory for VC concluded that it is not overly applicable: the relationship between investor and entrepreneur is better characterised by a joint venture with possible mutual gains, than by a principal-agent-relationship (Sweeting & Wong, 1997). This is in contrast to a crucial assumption of agency theory: a strictly hierarchical relationship (Cable & Shane, 1997). Furthermore, agency theory assumes that principal and agent are only motivated by financial or economic factors, whereas entrepreneurs and BAs are often driven by non-financial motivations (Wijbenga *et al.*, 2003).

Another theory often used in VC-research, which also overcomes some of the weaknesses of agency theory, is the Prisoner's Dilemma framework. Here, a conflict exists or develops between interdependent parties (Cable & Shane, 1997). Both parties can either follow their individual self-interest to receive a certain payoff or cooperate to collectively obtain a larger payoff. However, due to asymmetric information, the parties do not know the extent of the payoffs. The angel-investee-relationship and the angel's non-financial involvement are at least as important as the funding itself, which implies that cooperation is a critical part of an investor-investee-connection. The Prisoner's Dilemma framework is more useful than agency theory for BAs and investee companies, amongst others because it does not assume a hierarchical relationship between the parties (Bruton, Fried & Hisrich, 2000; Cable & Shane, 1997). However, it focuses on the investor-investee relationship, but neither on the BAs' involvement activities, nor on their impact, making also this framework not totally suitable for the post-investment period.

The resource-based view also finds many possibilities of application in entrepreneurship, in spite of having been developed in strategic management (Arthurs & Busenitz, 2006). Resources are defined as

> "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991, p. 101).

Ardichvili *et al.* (2002) studied the different types of resources that angel investors can contribute to their investee companies and identified five main categories: human, social, physical, organisational and financial capital. Human capital is embedded in human beings and consists of their skills, knowledge and abilities (Erikson & Nerdrum, 2001; Ardichvili *et al.*, 2002). Business angels certainly bring human capital to the investee company by contributing their own knowledge, experience and skills. In addition to that, BAs can increase the human capital of the investee company's employees who can learn from them. Social capital constitutes the resources that are and can be obtained through social relationship networks (Sørheim, 2005). BAs increase the social capital of the company by providing their own networks of contacts and by thus growing the venture's contact base. One example of this increase is the introduction of other investors to the company, which enhances both the relationships that the business has with external financiers and the chances of further funding. Physical resources are tangible assets like machines or factories, whereas organisational capital is knowledge embedded in the organisational culture, databases, manuals or patents. Apart from educating employees, BAs can also make the business learn from their own experience and thus increase organisational capital. Financial capital consists of equity and debt and it is the one resource that initiates the relationship with business angels (Cassar, 2003). Consequently, BAs are capable of adding value through their knowledge of and access to resources, their skills to negotiate for resources, and/or their abilities to develop resources (Ardichvili *et al.*, 2002).

All in all, resource-based theory seems to be a good conceptual framework for BA-investments. This is consistent with Sørheim's (2005) conclusion that insights from social capital theory appear to be viable for investigating certain BA involvement activities. However, research will have to make a few adaptations: Human capital for example is usually focussing on the knowledge, skills etc. of the employees and entrepreneurs, but not on the resources within the investor (Ardichvili *et al.*, 2002). Since BAs are more than financial investors, researchers should consider including them in human capital theory.

In addition to the above-explained theories, many other researchers have attempted to apply different theoretical frameworks to formal and informal VC. Only to mention some of them: Procedural Justice (e.g. Busenitz, Fiet & Moesel, 2004), learning and knowledge-based view (De Clercq & Sapienza, 2002), resource exchange theory (Gomez-Mejia, Balkin & Welbourne, 1990) or incomplete contracts (Ardichvili *et al.*, 2002).

All theories have one thing in common: Only a few of their aspects are entirely applicable to the small business, entrepreneurship, venture capital and business angel context. In order to be fully suitable for BAs, the existing theories require adaptation (Sapienza, Manigart & Vermeir, 1996). Sullivan and Miller (1990, p. 305) tellingly summarise this view: Although formal theory can present an important opportunity to BA-research, "borrowing of formal theory from other disciplines may not be fully suitable to the idiosyncratic needs and views of our particular field".

3. Methodology

The aims of this research project are to investigate business angels' post-investment involvement in and impact upon their investee companies in order to increase the understanding of the BA-discipline. Furthermore, the project aims to build an original theoretical backing for the post-investment period of BA-investments. In order to achieve these aims, this research applies a mixed methods approach consisting of two main stages:

1. Questionnaire-based survey
2. Longitudinal case studies with interviews, observations and the analysis of secondary data

The questions of the questionnaire have been developed from the results of both literature review and informal discussions with experts in the BA field (business angels themselves, entrepreneurs, academics, business angel network managers and other people with close contacts to angel investors, e.g. bankers and lawyers). These conversations took place between October 2004 and March 2006 (also as part of Macht, 2005).

The questionnaire captures the views of angel investors on their involvement activities and on their perceived impact upon their investee companies. The purpose of the questionnaire is twofold: On the one hand it establishes what BAs do after their financial investment and how they impact upon the investee and on the other hand it will be used to inform the second stage of the project.

Since BAs prefer to stay anonymous, it is impossible to target them personally (Harrison & Mason, 1992a): The questionnaire had to be distributed through intermediaries, especially business angel networks (BANs). In order to be as unobtrusive and uncomplicated for respondents as possible, the questionnaire was developed as an electronic document and also as an online questionnaire on www.surveymonkey.com. BANs in the entire UK distributed the document and the link to the online version between April and July 2006, with the data collection due to finish at the end of September 2006. In addition to that, BAs familiar to the author were asked to distribute the questionnaire to other angels they know, a method called 'snowballing' (Duxbury, Haines & Riding, 1996). Furthermore, investee companies acquainted through previous research (Macht, 2005) were asked to distribute the questionnaire to their investors. This multitude of different ways of distribution is important for BA-research: Due to the invisibility and anonymity of the market, it is impossible to know the entire population. Therefore, no sampling method can result in representative findings. However, the choice of several different ways of distribution increases the likelihood of the sample actually being representative and thus reduces bias (Mason & Harrison, 2002).

The second stage of this research project will be conducted sequentially after the administration of the questionnaire. It consists of qualitative, longitudinal case studies of four angel-investee company-dyads. The longitudinal element will allow studying the impact of the participating BAs and the change it makes to the company over time (Saunders, Lewis & Thornhill, 1997). The case studies will begin in January 2007 and comprise of interviews and observations over the period of 12 months.

The contents of the first few interviews will be based upon literature and the results of the questionnaire, whereas the following interviews will rest upon the findings of all previous interviews. This design allows potential changes in direction, should the data call for them. In addition to questioning BAs and the directors of the participating firms, this research attempts to create comprehensive, detailed knowledge about the cases by also including occasional interviews with other people related to the dyads, like other investors, bankers or accountants (*ibid.*). In addition to interviews, BAs will sporadically be observed when they become involved in their investee companies, for example at board meetings. Furthermore, secondary data like minutes and agendas of meetings will be used to complete the impression of BAs' involvement and impact.

In spite of the plan to start the case studies in January, it was deemed useful to initiate the contacts with the participants by already conducting a few initial, informal interviews and observations with and of the respondents from April 2006.

Most previous research has been conducted with the use of questionnaires or interviews. Researchers like Sohl (1999) or Harrison and Mason (1999) have called for different methodologies, including case studies and observations, which this research project follows.

In addition to the empirical research, this study attempts to iteratively create a theoretical framework, which can be applied to business angels. The new theoretical framework will be based on the best suitable existing theories and parts of existing theories. The main theory-building process will begin with the administration of the case studies: First, literature review on theories will be used to develop interview questions, then interview transcripts and observation diaries will be analysed with regard to these theories. This should result in either reviewing more literature about those theories, or in an alteration of focus into the direction of different theories. Those theories that are chosen after the first data collection phase will then be incorporated into a further data collection phase. Depending on the outcomes from that second phase, further literature will be reviewed about either the already selected theories or about newly emerging ones. This will continue in a circular, iterative way until an appropriate theoretical backing is achieved.

This way of theory-building has not been used to a great extent, but it is valuable because it allows the emerging theory to be empirically well grounded (Eisenhardt, 1989). The theory will materialize with the help of the existing theories, but none of them will be rejected at an early stage. Agency theory, Prisoner's Dilemma and the resource-based view have been identified to be of major importance, but data collection will not be limited to only those. When building theories from case studies, it is important to be flexible in terms of not only possible bases, but also in terms of data collection methods: Triangulation, "the combination of methodologies in the study of the same phenomenon" (Jick, 1979, p. 602), will be applied here through the usage of questionnaires, interviews, observations and the analysis of secondary data. Triangulation is extremely important for this kind of theory-building because it allows a stronger grounding of the emerging construct (Eisenhardt, 1989).

4. Questionnaire Content and Preliminary Results

The questionnaire comprises four main sections:

The first section asks about the respondents' backgrounds, replicating questions about the ABCs of business angels. This is important in order to relate involvement and impact to the angels' particular characteristics.

Section two enquires general issues about the respondents' involvement in their investee companies. Subjects like the angels' own perception of their activeness of involvement and reasons for becoming involved are present in this section alongside information about the amount of time the angel spends with the company, the resources s/he provides to the investee and the entrepreneur's perpetuation of these resources. Furthermore, the respondents are asked whether they offered their involvement voluntarily and whether they have ever received any investment training.

In the third section, respondents are asked to choose an investment that is typical for them and provide some general information about this investee company, amongst others the stage of development, the industry and geographic location. Afterwards, a list of possible investment activities, adapted from MacMillan, Kulow and Khoylian (1988), asks for an indication of how important the activities are with regards to the investee companies. A 5-point scale ranging from 'not important at all' to 'very important' is provided.

The final section lists the activities again asking for an explanation of how they influence efficiency, profile and success or survival of the investee companies. Another 5-point scale ranging from 'very negative influence' to 'very positive influence' was provided, which will in a final analysis be weighted with the results from the other scaled question. Furthermore, the angels are asked whether their financial or non-financial investment is more important to the investee, in which stages involvement is most important and how responsive entrepreneurs were to the involvement activities. A final open question requires the respondents to indicate what – in their own view – their largest impact is.

Since the questionnaire will still be live until the end of September, no thorough analysis of the so far sixty-four usable responses has been possible yet. Also the informal interviews have not been analysed rigorously. An early account of some striking initial findings of both questionnaire and case studies is provided below:

Nearly all respondents provided their networks of contacts, skills, knowledge and experience to their investee companies. However, not all entrepreneurs then perpetuated these resources.

In terms of importance of certain activities with regards to the investee company, most activities were ranked as 'important' and some as 'very important'. However, there are also a number of indications that the activities are 'indifferent' and the exceptional response that an activity is 'not important' or 'not important at all'. In this case, especially the responses for the BA as a full- or part-time employee in the investee company stick out: 31% think that it is not important at all and 14% consider it not important, whereas only 24% think it is important and no responses for 'very important' have been recorded. This is in contrast to an early observation from the case studies: the investee company had to discard of their sales representative due to the latter's lack of commitment, which had lead the business into cash flow difficulties. The current managing director is an experienced sales person, but would have to give up many of his current duties in order to take on the sales responsibilities. The BA, who is savvy in entrepreneurial, financial and general management issues, offered to become employed as a managing director on a part-time basis in order to manage the company financially and strategically and in order to apply his own experience to improve the company from within. He has recently offered to do that job for a modest compensation and on the short run, with the possibility of increasing the duration, should the circumstances require it.

Most activities were considered to influence efficiency, profile and success or survival in a positive or very positive way, but also with a substantial number of investors rating the influence as indifferent. Again, the role as an employee sticks out: it is the only activity that was mentioned by some respondents as having a negative influence upon the company in each of the three categories.

In this case, the question arises: If so many BAs think that being an employee of the investee is unimportant and has a negative influence on success, survival, efficiency and profile, why does this particular BA consider it to be of high importance and useful for the venture? This and other questions will be dealt with in the interviews.

The open question concerning the investors' own perception of their impact resulted in a wide array of interesting comments. Most of them can be summarised under the heading of 'experience', e.g. experience with handling unforeseen events, financial and broader management experience or the avoidance of own, previously-made mistakes. Another general heading could be 'objectivity', e.g. the independent assessment of strategy or a realistic estimation of future development plans. These comments will certainly be incorporated into the case study interviews to investigate them in more detail.

5. Limitations and Implications

Due to the invisibility of the business angel market, researchers have to rely on convenience sampling, which usually makes the results unrepresentative (Freear, Sohl, & Wetzel, 1994). However, the entire population of BAs being unknowable, no study can be verifiably representative, which justifies the usage of convenience sampling in BA research (Mason & Harrison, 2002).

Self-selection bias will probably occur in that only successful investors respond to the questionnaire and participate in case studies (Haar, Starr & MacMillan, 1988). Besides, it is questionable whether the responses are honest, because investors might want to present themselves better than they really are (Mason & Harrison, 2002).

Response-bias is another problem, but it is impossible to test this bias because of a lack of information about non-respondents (Mason & Harrison, 2004). In addition to that, the questionnaire only requires response from one party of the investment, which might reduce validity of the results. However, the dyadic view that will be taken in the subsequent case study phase will increase the validity of the entire project (Sapienza, 1992).

Another limitation is that the number of case studies has to be restricted to four due to time constraints.

This research study will have implications on academia as well as on practice: Longitudinal, in-depth case studies with observations have so far been rather neglected in the BA research field (Paul, Whittam & Johnston, 2003). Therefore, this research will increase the methodological multitude in the area and create original knowledge about BAs and their post-investment period. In addition to that, the study will result in a proposed theoretical model applicable to business angels and thus increase the theoretical backing in the area (Van Osnabrugge, 2000). The research has been developed in close consultation with BAs and BANs who have confirmed the value of the findings because they can show what business angels really do and how this impacts upon the investee companies. In doing so, the results can be used to educate investors and investees alike, to improve matching between business angels and entrepreneurs looking for funding and to increase awareness of angel investors and their possible benefits and downsides.

6. Summary

In spite of business angels' importance for financing young, entrepreneurial ventures, their post-investment period has been a rather neglected area of research. The research project underlying this paper focuses on BAs' post-investment involvement in and impact upon their investee companies by using a mixed methods approach: an online-questionnaire-based survey discovers angel investors' views on their involvement and impact before the results will then inform interviews. These interviews are, together with observations and the analysis of secondary data, part of longitudinal case studies. This research design fits the nature of the project well. Due to a lack of suitable theoretical frameworks for business angels, the study will simultaneously use the findings from the primary research to build on existing theories in order to iteratively create a new theoretical backing suitable for BAs and their investments.

The BA-research area is characterised by a number of problems of both theoretical (e.g. strong reliance on VC-literature is needed) and practical (e.g. difficulties in locating research participants) nature. However, the author has so far managed to conduct her research as expected. One of the reasons for that is an extraordinarily high interest in the topic and thus support and cooperation from both BANs and BAs.

The interim results from the questionnaire and initial case studies suggest that BAs are involved in a large array of different activities, some of which can improve the investee company's success or survival, efficiency or profile in the eyes of externals. Some activities on the other hand destroy value by having a negative impact upon the investee.

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