



Angel Cognition and Active Involvement in BAN Governance and Management



**GRENOBLE
ECOLE DE
MANAGEMENT**
TECHNOLOGY & INNOVATION

Peter Wirtz*, Christophe Bonnet**, Laurence Cohen*

*IAE Lyon : Université Jean Moulin

**Grenoble Ecole de Management



BAE conference 2016, Essen





Context of Business Angel Networks

- Business angels (BAs) = “private individuals using their own money, directly in unquoted companies in which they have no family connection” (Harrison and Mason, 1999)
- BAs make important contribution in closing equity gap of young ventures
- Their cognitive features have been shown to have an impact on investment choice and outcome (Wiltbank et al., 2009) and on co-investment behavior with VCs (Bonnet, Wirtz, Haon, 2013)
- They contribute knowledge and skills (Harrison, Mason, 1999)
- Many initiatives to create structured networks (BANs): make angel finance market more efficient
- Becker-Blease & Sohl (2011, p. 715), “*Business angel networks [...] are comprised of angels who join with other angels in an organized form.*”



Evolution of BANs and value added

- Early example of a BAN: Silicon Valley's Band of Angels (founded in 1994)
- In Europe: number of BANs rose from **66 in 1999** to a total of **468 in 2014** (84 of which in France alone, most of them with a regional outreach). Source: EBAN (2014)
- Inception and spread of BANs is a **significant phenomenon** characterizing the market for entrepreneurial finance
- Functions of BANs have changed, from offering mere **matching services** to act as syndicates providing **due diligence, deal structuring** and **post-investment services**, as well as contributing to **educate** BAs and entrepreneurs (Gregson et al., 2013; Lange *et al.*, 2003; Mason, 2006).
- Presumption: BANs create value added for members when the latter feel satisfied with BAN services



A typology of BAN activities

	Venture governance	BAN governance and management
<p>Financial discipline and information management (theory background: standard financial modelling based on a predictive logic of rational expectations and maximizing expected utility in risky environments: agency theory)</p>	<ul style="list-style-type: none"> - Deal selection and matching - Due diligence - Deal structuring (price and contracts negotiation) - Post investment monitoring (financial reporting, ...) 	<ul style="list-style-type: none"> - Deal flow - Forming and managing angel syndicates - Creating formalized information-based tools (due diligence checklist, code of venture governance ...) - Monitoring of network activities and gathering external resources (board participation)
<p>Skill enhancement and knowledge management (theory background: conceptualize the joint construction of idiosyncratic (cognitive) resources in uncertain environments: resource- and knowledge based theories, effectual logic)</p>	<ul style="list-style-type: none"> - Strategic advice - Post-investment mentoring 	<ul style="list-style-type: none"> - Training seminars for members (BAs) - Participation in the formulation of BAN strategy (board participation)



Research question and hypotheses

- Delivery of BAN services (and, ultimately, value added) depends on active involvement of individual BAs
- Understand the intensity and type of involvement of BAN members
- Who are the active angels and **what explains their involvement?**
- Two conceptual frames: **decision making style** and **human capital**
- **H1:** At the level of venture governance, predictive BAs get more involved in disciplinary activities and information management than non-predictive BAs (deal selection, due diligence, deal structuring...)
- **H2:** At the level of BAN management, predictive BAs get more involved in the establishment and promotion of standard tools for venture governance (due diligence checklist, governance code of best practice ...) than BAs with a weak prediction orientation.



Hypotheses (continued)

- **H3:** Strongly control oriented BAs spend more time in BAN activities than individuals with weak control orientation.

Control orientation implies the possibility of continuous interaction, hence:

- **H4:** At the level of venture governance, strongly control oriented BAs get involved in post-investment activities.
- **H5:** At the level of BAN governance, strongly control oriented BAs get continuously involved with the board of the network.
- **H6:** Control-oriented BAs get more involved in skill enhancement and knowledge acquisition than those who score low on control-orientation.
- **H7:** Having acquired financial experience or training is positively related to the exercise of disciplinary governance activities (due diligence, deal structuring...).
- **H8:** A strong strategic experience positively influences BA involvement in cognitive activities (formulation of BAN strategy, providing mentoring and strategic advice to entrepreneurs...).



Methodology

- Internet survey launched in February 2015
- Regional BAN in France: Savoie-Mont Blanc Angels (SAMBA)
- Response rate: 23% (46 out of 197)
- Sample features: mostly men (93.5%), 59 average age, 82% hold a degree of higher education (master level 52 %, doctorate level 30 %), 76% subject to wealth tax.
- Cumulative investment per active angel: 8% below €25,000; **41%** indicate investing **between €25,000 and 50,000**; 32% indicate investing between €50,000 and 100,000, and 8% above €500,000.
- Questionnaire was co-developped with BAN manager and pretested with 4 BAN members



Methodology

(variables as measured by the questionnaire)

Category	Variable
Decision making style (explanatory)	<p>Prediction (multi-item formative 5-point Likert scale; individuals are considered highly predictive if they score above median)</p> <p>Control orientation (multi-item formative 5-point Likert scale; individuals are considered control oriented if they score above median)</p>
Human Capital features (explanatory)	<p>Type of functional experience (coded 1 if at least one year of experience, 0 otherwise)</p> <p>CEO strategy, marketing, finance, entrepreneur</p>
BA involvement (dependent)	<p>Type of involvement (1 if involved 0 if no involvement)</p> <ul style="list-style-type: none"> - Deal flow - BAN company presentation events - Training seminars for members (BAs) - Formal pre-selection of potential deals - Due diligence - Post investment monitoring - BAN board participation - BAN-fund investment committee and board <p>Intensity of involvement</p> <ul style="list-style-type: none"> - Number of days per year spent in the activities of the BAN <ul style="list-style-type: none"> Less than 12 days per year = low intensity (0) At least 12 days per year = high intensity (1)



Descriptive statistics (Satisfaction with network services)

Statistic	Mean	Standard deviation
The BAN allows me to have access to a greater number of investment opportunities	3.96	1.25
The investment opportunities offered are of good quality	3.78	0.99
The details given by the network on the evolution of changes in tax regulation are helpful to me	3.87	1.38
Being a member of the network allows me to develop my personal contacts	3.91	0.86
The network contributes to local economic development	4.39	0.65
I can bring my experience and expertise to the network	3.70	0.94
I can get benefit from the experience and expertise of other network members	4.04	0.63
The network plays an active role in the recognition of Business Angels by financial professionals (banks, venture capitalists...)	4.02	1.2
The network plays an active role in the recognition and the legitimacy of Business Angels to the public and public authorities	4.2	1.09
The network plays an active role in the recognition of Business Angels by entrepreneurs	4.09	1.09
The network provides tools and services that enable a rational approach to investment (due diligence, assessment methods, shareholder agreements, good governance charter.)	4.13	1.11



Descriptive statistics (involvement in BAN governance and management)

	Answers	% Yes	% No
1	Deal flow: You bring investment opportunities.	30,43%	69,57%
2	You attend at least once a year company presentation events	97,83%	2,17%
3	You attend at least once a year training sessions	60,87%	39,13%
4	Formal pre selection : You contribute to the pre selection of investments	41,30%	58,70%
5	Due diligence: You contribute to due diligence concerning investments	47,83%	52,17%
6	You lead training sessions for members	8,70%	91,30%
7	Post investment : You take part in the post-investment supervision of ventures	41,30%	58,70%
8	You are a member of the board of your network	26,09%	73,91%
9	You are a director or member of the investment committee of a fund organized by your network	19,57%	80,43%



Descriptive statistics (prediction and control)

Prediction oriented	Agree	strongly agree	Percent	Total Responses	Mean	Median
When you gather information on the project, you study expert forecasts.	23	10	71,70%	46	3.61	4
When you look at the forecasts for the project, you use them to establish the net present value of the company (discounted cash flows).	23	5	60,90%	46	3.33	4
When you evaluate the venture's strategy, you study the strategy of competitors	25	10	76,00%	46	3.76	4
You base your decision to invest on the internal rate of return (IRR) of the project	17	3	43,50%	46	3.20	3
Control oriented	Agree	strongly agree	Percent	Total Responses	Mean	Median
When assessing the venture's strategy, you think about the way you can contribute to it.	20	11	67,40%	46	3.61	4
You base your decision to invest in the project on the value added that you are able to deliver through your accompaniment of the company	10	5	32,60%	46	2.78	3



Descriptive statistics (human capital)

	Frequency	Percent
CEO	36	78,26%
Strategy	10	21,74%
Marketing/sales	16	34,78%
Finance	19	41,30%
Entrepreneur	21	45,65%
n =	46	



Results (logit regression: intensity of involvement)

	Estimate	Std. Error	Wald	df	P.-value
Predictive BA	0,223	0,734	0,092	1	0,761
Control oriented BA	2,015	1,111	3,292	1	0,07
Strategy experience	3,245	0,916	12,54	1	0
Marketing experience	1,361	0,745	3,337	1	0,068
Finance experience	0,452	0,719	0,395	1	0,53



Results (continued)

- **Control orientation favors** strong overall **involvement** (H3).
- Human capital in **strategy and marketing/sales** fields also **enhance involvement**.
- Ctrl. orientation explains presence on the BAN board ($p=0.098$)
- Experience in marketing/sales is single most important predictor for preselection, due diligence, post investment follow-up (all at the 5% level).
- Relevance of marketing/sales to evaluate market potential
- Financial experience predicts presence on board of BAN investment fund
- **Predictive** decision making style **never significant**.



Conclusion

- **Control orientation** appears to be a **significant driver** of a BAN's operations and efficacy
- Surprisingly, a strongly predictive decision making style does not appear to have a significant influence on specific information-oriented BAN activities (such as due diligence, etc.)
- One possible explanation may reside in **the increasing professionalization of BAN services over the past decade** that is perceived by respondents
- Human capital influences the nature of BAs involvement
- Future research:
 - extend survey to neighbor BAN
 - interviews with involved BAN members