Business angel post-investment activities: a multi-level review

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In this article, empirical research on post-investment activities of business angels is reviewed and conceptualized as five distinct governance processes: boundary spanning, structuring, leadership, doing, and monitoring. These processes have the potential to reduce the exposure of business angels to relational risk and market risk. The identification of these governance processes also contributes towards understanding the social aspect of business angels' post investment involvement. In particular, it is shown how the recognition of the cognitive/institutional dimension opens up for new questions about post-investment involvement. Finally, it is proposed that venture performance can be enhanced in practice if business angels and venture members develop skills that are connected to the governance processes.

Keywords: review, business angels; post-investment involvement; governance processes; organizational membership

1. Introduction

It is well known that business angels play an important economic role in the creation of entrepreneurial ventures, by providing financial and non-financial value (Kelly 2009).

Estimates from different countries suggest that the amount invested by business angels in start-up and early-stage ventures equals or surpasses that of formal venture capital (Avdeitchikova 2008; Mason and Harrison 2000; Riding 2005; Sohl 2003). Although business angels are heterogeneous in their individual characteristics, most studies agree that it is after having invested, through their involvement in the venture, that they create value, as evidenced in studies of the perceptions of venture founders (Lindström and Olofsson 2001; Lindström and Olofsson 2002; Müller and Zimmermann 2009), as well as in quantitative studies wherein it is demonstrated that the number of negative exits are reduced (Wiltbank 2005). While this value creation has attracted considerable interest, most *post-investment* business angel research has been descriptive (Harrison and Mason 2008a), and post-investment involvement has been described as a black box (De Clerq and Manigart 2007).

One solution to establishing a stronger theoretical foundation would be through more rigorous research designs, such as through stricter sampling procedures (Avdeitchikova, Landström and Månsson 2008; Harrison and Mason 2008a). Another approach – the one chosen here – is to establish connections between business angel research and other theoretical traditions, with the aim of broadening the current understanding of business angels and of adding theoretical depth (cf. Leitch, Hill and Harrison 2010). Because the business angel's investment relationship typically lasts many years, a prolonged post-investment coordination of effort – organizing – is implied between investor and investee, suggesting that it could be useful to conceptualize business angel activities in terms of governance processes. This aim is in line with current developments in research on business angels that emphasize the social aspects in

the investment process (see Bammens and Collewaert, forthcoming) and the role of the institutional environment (Bruton et al. 2010).

The purpose of the article is to use established concepts from organizational research to show the significance of social processes in the post-investment involvement of business angels.

This is achieved through a qualitative review of empirical research on post-investment activities of business angels, wherein the activities of business angels are thematically grouped and conceptualized in terms of distinct governance processes.

The article is organized as follows. Next, in section 2, the concept of business angel post-investment activities is clarified and defined as a phenomenon that needs to be studied at multiple analytical levels. In the subsequent section on method, section 3, the concept of a qualitative review is discussed, and an account of the review process is provided. In section 4, the post-investment activities of business angels are conceptualized as distinct governance processes employed to handle relational and market risk. This is followed by a discussion, section 5, which focuses on the cognitive dimension of business angel activities by highlighting three themes where a more profound analysis of cognitive processes could contribute. In our conclusions, section 6, we consider the implications for practice and research.

2. Theoretical overview: situating business angels in an organizational context

2.1 Business angels and investments in ventures

A business angel has been defined as “a high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an

active involvement in the business, for example, as an advisor or member of the board of directors” (Harrison and Mason 2008b, p. 309). Whereas the formal venture capital market consists of firms that invest capital supplied by other investors (Sahlman 1990), in contrast, the informal market for venture capital consists of actors who invest their own capital. Family investors are distinguished from business angels because it has been shown that family ties have particular effects on the investment relationship (cf. Riding 2008). From all over the world, studies show that typical business angels are wealthy, middle-aged men, with an entrepreneurial background, who invest in geographically proximate ventures, and often invest together with other business angels they know personally (Kelly 2009). Business angels view themselves as entrepreneurs rather than investors, and many of them have solid personal entrepreneurial experience (Harrison et al. 2007; Landström 1998; Politis and Landström 2002).

The investment process of business angels has been described as a stepwise process (Paul, Whittam and Wyper 2007), which is in line with work on formal venture capital (Tyebjee and Bruno 1984, Fried and Hisrich 1994), see Table 1 for a comparison of these steps in venture capital and business angel investments. This process involves potential investments being brought to the attention of the investor with a select few singled out for in-depth evaluation. After evaluation, for those ventures perceived as promising, the terms of investment are negotiated. After investment, post-investment involvement ensues. During post-investment involvement, an investor will typically try to maximize the value of the investment before an exit is made.

Insert Table 1 here

2.2 The post-investment activities of business angels

Focusing on post-investment involvement, it has been suggested that business angels do not vary their post-investment behavior very much among different ventures in spite of contextual variations (Avdeitchikova 2008). Still, they are a rather heterogeneous group in terms of investment activity and investment involvement (Sørheim and Landström 2001) as well as in their individual motivations for investing (Baty and Sommer 2002; Sullivan and Miller 1996). As a consequence, it could be expected that the ways they get involved during post-investment involvement would vary between business angels. It is known that business angels devote considerable attention to post-investment activities, primarily through managing the venture (Paul, Whittam and Wyper 2007). In general, the focus is on proactive involvement rather than reactive management by exception (Ehrlich et al. 1994; van Osnabrugge 1998), and there is no difference between experienced and inexperienced business angels (van Osnabrugge, 1998).

From around the world, empirical reports on the involvement of business angels in the post-investment phase are consistent. Beginning with the much-cited seminal paper by Wetzel (1983), it has been reported that business angels normally take an official position on the venture board of directors (Erikson and Sørheim 2005; Freear, Sohl, and Wetzel 1995; Landström 1993; Madill, Haines, and Riding 2005; Mason and Harrison 1996; Prowse 1998; Sørheim and Landström 2001; Wetzel 1983), and become involved through a consulting role (cf. Sohl 1999) or, more seldom, through employment in the venture (cf. Freear, Sohl, and Wetzel 1995; Mason and Harrison 1996).

Research on post-investment business angel activities was reviewed by Politis (2008) and summarized in a sorting logic of four distinct value-added business angel roles: the sounding board/strategic role, the resource acquisition role, the monitoring/supervision role, and the mentoring role. These four roles are based on two dimensions. The first dimension is whether the contribution of the business angel is through human capital or through social capital. Human capital is the knowledge and skills of the business angel, accumulated during experience and training, and social capital is the reputation of the business angel as “a trustworthy and competent businessperson” (Politis 2008, p. 139). The second dimension captures the focus of the business angel: internally oriented governance or externally oriented provision of resources. Although these four roles are seen as distinct, it is likely that there are connections, overlaps, tensions, and dynamics among the four roles that are yet to be discovered (Politis 2008, pp. 140-141). Presently it is suggested that in order to approach the issue of such overlaps between the roles multiple analytical levels need to be considered. A framework for this is provided in the next section.

2.3 Key concepts of the review

Handling risk and uncertainty is a complex problem for business angels since new firms or firms in the early stages of development are particularly exposed to uncertainty, and many fail while still young (Headd 2000; Katz and Gartner 1988; Stinchcombe 1965). Drawing on the alliance literature (Das and Teng 1998), uncertainty from the point of view of the business angel is captured by two risk concepts. The *relational risk*, whether the venture will behave according to its agreement with the business angel, and the *market risk*, the risk that the venture will be unsuccessful in its market offering (Das and Teng 1998). In line with agency theory one way for business angels to handle relational risk is through contracting (cf. Jensen

and Meckling 1976). It is however immediately obvious that market risk cannot be handled by contract and, as critics of agency theory perspectives point out, it is not the only tool for mitigating relational risk in organizations where facilitative efforts play an important role for successful outcomes (Nilakant and Rao 1994). In other words, when the market risk and relational risk are considered together in the analysis of business angels' governance in the post-investment phase establishing causality becomes complex.

Such complexity is not surprising given the contributions from the research on the sociology of entrepreneurship which underscore the social embeddedness of actions in and structures of ventures (Thornton 1999). A useful way of analyzing this complexity was suggested by Ruef and Lounsbury (2007) who brought contextual, behavioral, constructivist, and ecological perspectives on entrepreneurship together in a multi-level framework. Two key contributions of their framework is to integrate micro and macro perspectives by introducing multiple levels of analysis as well as recognizing that entrepreneurial processes have both material/resource as well as cognitive/institutional dimensions. Figure 1 presents a simplified version of this framework.

Insert Figure 1 here

For the purposes of the present review we will use these two key elements from Ruef and Lounsbury's framework. First is the recognition that each process is active primarily at a single, specific level. In the post-investment phase business angels may try to mitigate relational and market risk through various activities, such as helping out with tasks, providing

access to network contacts, or giving feedback on strategy. Each of these activities can be situated at a certain level of the model. Taking the roles reported by Politis (2008) as an example, the resource acquisition role would be found at the environmental level, while the sounding board/strategic role would be plotted at the organizational level.

The second element we retain from the model is the idea that processes have both material and cognitive dimensions. The material/resource dimension focuses on financial flows and physical resources, whereas the cognitive/institutional dimension includes the micro processes of thinking, making sense, and feeling, as well as the macro aspects of the institutional and cultural context. Thus, the material dimension of introducing lean production is the decreased need for resources, while the cognitive dimension at the individual level is the change in perceptions resulting from implementing lean production, and the cognitive dimension at the organizational level is the way that the organization is perceived by stakeholders as a result from implementing lean.

The levels and dimensions should not be seen as isolated from each other. Influences run vertically between the environment and the individual level, but also horizontally between the material and cognitive dimensions. The model thus encourages analyses of the dynamic between cognitive and material aspects of organizing (Weick 1969; 1995), as well as linkages between the environmental macro level and the individual micro level. Below this insight is employed to identify five distinct governance processes (boundary-spanning, structuring, leadership, doing, and monitoring) that business angels use to influence ventures in the post-investment phase.

3. Method

3.1 Qualitative reviews

In order to conceptualize the current research on business angel post-investment activities as organizing, a qualitative review (meta-synthesis) was performed. Whereas meta-analyses are methods for conducting quantitative literature reviews (cf. Aguinis et al. 2011), “meta syntheses are integrations that are more than the sum of parts, in that they . . . are inferences derived from taking all of the reports in a sample as a whole” (Thorne et al. 2004, p. 1358). The collective findings in the review are used as raw data and analyzed for themes and patterns that are presented in a synthesis. The quality of the review depends on the quality of the studies reviewed, as well as the transparency in decisions and interpretations made. Using the findings in published studies as data ensures transparency in that others can access the same data easily (Weed 2005).

3.2 The identification of papers to include in the review

Employing a purposive sampling strategy (Booth 2006), we defined the sample as the conceptual core knowledge of both quantitative and qualitative empirical research on business angel post-investment involvement. The plan was to identify a natural starting point in the literature, a place where many business angel scholars publish their studies, and then use these studies to identify other studies through snowballing of references.

The concept of “core journals” (cf. Alavi and Carlson 1992; Conroy et al. 1995) was used as a starting point. It has been suggested that a small number of core journals often manage to capture the core knowledge in the area (“Bradford’s Law of Scattering,” quoted in Fell et al.

2011, p. 203). Three core journals were chosen: *Venture Capital*, *Journal of Business Venturing*, and *Entrepreneurship: Theory & Practice*. Protocol searches on variants of key words such as *business angels* and *informal investors* were conducted and a number of papers were identified in these core journals, as a starting point. In a second stage, the references found in these papers were investigated in order to identify papers from other journals as well. The goal was to identify as many papers as possible (cf. Greenhalgh and Peacock 2005). No time limits were applied, and the data gathering procedure was repeated until saturation occurred (cf. Bowen 2008), meaning that no new studies were identified upon repetition of the data gathering procedures. A description of the snowballing procedure is provided in Table 2.

Insert Table 2 here

In parallel to this iteration, some of the papers were cited in nearly all other papers. For each such paper, a search was conducted in Google Scholar, and the Google Scholar function *Cited by* was used to identify other potentially interesting papers within the field.

A two-stage screening process was employed: during the first stage, papers were gathered that pertained to business angels, informal investors, or private equity post-investment involvement. *Private equity* was included as a search term because a number of early papers on business angels were published under the title of private equity (cf. Fenn and Liang 1998). Any papers that at a glance clearly did not contain business angel post-investment activities

were discarded during stage one. These procedures yielded a final list of approximately 70 papers.

The subsequent second screening was conducted manually by the authors. In order to maintain high integrity in the findings included, a prerequisite for a high-quality qualitative review, material was restricted to peer-reviewed papers, in refereed journals, written in English, and most importantly: reporting original empirical data on business angels' activities during post-investment venture involvement. The second screening brought down the number of papers to 31, but after two papers focusing on dysfunctional business angel behavior had also been excluded, the final number was 29. The dysfunctional activities are not treated in the analysis, but discussed briefly.

The papers under review are listed alphabetically by author in Table 3. In the subsequent analysis, the papers are discussed thematically.

Insert Table 3 here

3.3 The review process

A summary of the 29 papers was written, as a first step of “engaging the data” (Locke, Golden-Biddle and Feldman 2004), using the vocabulary and terminology inherent in the papers. The content was subsequently manually coded for thematic content (Thomas and Harden 2008) and grouped according to the levels from the model: environment, organization,

and individual. After that, the groups of activities were conceptualized in terms of organizing, connecting them to well-established theory. The conceptualization iterated between reading the original papers, reading the thematic level summary, grouping themes, and coding them in terms of organization theory. The aim was to arrive at such basic governance processes that no new empirical activities could be conceived that did not fit into one of them.

In line with the “peer debriefing” technique for ensuring trustworthiness of qualitative research (Shah and Corley 2006), drafts of the review have been read and critiqued by colleagues locally and internationally within the field of entrepreneurial finance as well as within the field of organization theory and management. More specifically, by allowing colleagues into the coding process, assumptions are made explicit (Charmaz 2005). The coded material was subjected to two formal research seminars, at different times, at two different universities.

3.4 Limitations

In the present paper, the analysis is restricted to business angels. Some readers may raise the objection that a delimitation to business angels is too restrictive, since many formal venture capital firms have investment managers who engage in similar post-investment activities towards their ventures. It is true that there are similarities. From an agency perspective, however, the incentive structure in a formal VC investment relationship, where the investment manager is merely managing someone else’s funds, is quite different from the incentive structure of the business angel, investing his/her own funds. It has been argued that the fact that the business angel invests his/her own funds holds strong symbolic value in the eyes of the venture. This symbolic difference can be assumed to influence the way that activities are

perceived by the venture. Therefore, it cannot be ruled out that ventures perceive business angels and VC firm investment managers differently, even when their activities are similar.

A second reason for only reviewing business angels in this paper is to maintain conceptual clarity in research. We believe that future research on business angels as well as formal VC may benefit from reviews where the two communities are studied separately.

A limitation of only studying the findings of other studies is that findings are abstract. Empirical studies stating that business angels get involved through board membership, consultancy, and/or part-time employment actually tells us only what type of contract there is between the business angel and the venture. For example, the abstract finding board membership can be translated from a multitude of actual behaviors found in the raw data: formal – such as the allocation of voting rights (Prowse 1998); and informal – such as mentoring the CEO from a board position (Sohl 1999). Reconceptualizing the findings of others means that there is no access to such raw data, but great care has been taken to re-transfer any nuances that do survive the process of abstraction from raw data into findings.

Finally, an analysis of the post-investment stage in isolation is problematic. Even though formal contracting is defined as taking place before the post-investment stage, the contract has a structuring effect on the business angel – venture relationship in specifying roles and obligations (Kelly and Hay 2003). Inter-firm relational contracts can be understood as formalized organizational processes (Furlotti 2007), which is why formal and informal approaches to risk management should be studied in relation to each other, both initially and as the relation develops over time.

4. Analysis of the post-investment involvement in terms of governance processes

Next, the five governance processes through which business angels engage with ventures are presented. The analysis starts at the environmental level, with boundary spanning. The five processes possess both cognitive/institutional and a material/resource dimension, although both dimensions are not always present. For each process, the empirical findings from earlier research are linked to theoretical reasoning.

4.1 The boundary-spanning process

As organizations emerge and evolve they establish boundaries (Aldrich 1999), defining what is perceived as inside and outside the organization. Boundary spanning denotes an interface function operating “at the skin of the organization” (Leifer and Huber 1977), mediating between the external environment and the internal organization in an “organizational/environmental exchange” (Leifer and Delbecq 1978). Boundary-spanning roles may deal with both information processing and external representation (Aldrich and Herker 1977). One of the roles played by business angels is to handle external actors, for example, through business know-how and contacts (Mason and Harrison 1996), thereby becoming a boundary spanner. The context of new ventures is conducive to boundary spanning because since it is a common process in environments that are characterized by high uncertainty and in firms that have fluid organizational structures (Lynn 2005).

Evidence of boundary spanning included the following activities: managing or providing/facilitating access to external resources through personal and industry networks and contacts (Ehrlich et al. 1994; Madill, Haines and Riding 2005; Sætre 2003; Sørheim 2005), providing contact with business actors (Paul, Whittam and Johnston 2003), aiding in recruiting executive personnel (Ardichvili et al. 2002; Brettel 2003; Prowse 1998; Wong, Bhatia and Freeman 2009), facilitating additional financing (Ardichvili et al. 2002; Harrison and Mason 2000; Madill, Haines and Riding 2005; Paul, Whittam and Johnston 2003; Prowse 1998; Sørheim 2005; Wong, Bhatia and Freeman 2009), providing loans and loan guarantees (Prowse 1998), providing market/business intelligence (Madill, Haines and Riding 2005), and, finally, transferring some of their social capital to the venture in providing credibility and legitimacy (Harrison and Mason 2000; Madill, Haines and Riding 2005; Sætre 2003).

Through boundary spanning, the business angel is able to expose the venture to ideas and initiatives that are in accordance with environmental norms, as a way of environmental adaptation. Conceptually, boundary spanning processes are not regular operational processes focused on the environment; instead, the boundary process is defined as all investor activities for handling and managing the environment *in capacities that are not part of regular venture operations*. Therefore, activities such as selling and marketing – even though directed toward the environment – should be seen as normal firm activities and not as boundary-spanning activities, even when performed by the business angel.

In the material dimension, the business angel is able to influence the inward flows of resources, such as money and people, from the venture's environment (Pfeffer and Salancik 1978). By influencing who gets recruited and if there is any money coming in or not, the business angel is able to influence the venture, thereby affecting primarily market risk.

The cognitive-institutional dimension of boundary spanning is active in the venture's relation to the institutional environment, both through control of the information coming in, as well as through normative ideas that shape actions and by which legitimacy is created and conferred (Fiss 2008; Powell and DiMaggio 1991). Business angels provide external legitimacy for the venture simply by investing, as a way of signaling to external actors that the venture has considerable potential (Delmar and Shane 2003; Sætre 2003), but may also actively engage in a storytelling role, providing accounts to external actors about the strengths and weaknesses of the venture (cf. Lounsbury and Glynn 2001). Such activities are aimed at the environment of the organization to reduce market risk.

In summary, the boundary-spanning process in itself, with its external focus, is primarily directed at managing market risk, through a mutual, dynamic process where the organization adapts to its environment and the environment is enacted by the organization. In the specific context of business angels and ventures, the business angel helps enact the environment and helps the venture to adapt to the environment. The impact of the boundary-spanning process on relational risk is not immediately obvious since the external focus of boundary-spanning by definition is geared at market risk. We acknowledge that there may be more indirect consequences such as becoming increasingly identified with the activities of the venture.

4.2 The structuring process

Structuring is a process at the organizational level that has been defined as “the development, maintenance, and modification of a system of relative positions and links among actors situated in a social space” that results in “a network of stable and ongoing interaction patterns, both formal (e.g. routines and organizational units) and informal (e.g. cliques and coalitions)”

(McEvily, Perrone and Zaheer 2003, p. 94). The structural design of an organization involves choosing a degree of vertical and horizontal differentiation as well as a degree of decentralized decision making (Jones 2007). Such formalization introduces a dysfunctional rigidity (Vlaar, Van Den Bosch and Volberda 2007) but also includes the important codification of human capital into structural capital (cf. Nonaka 1994), as the personal knowledge of organizational members is transformed into explicit, written, or otherwise codified knowledge, such as explicit rules, written manuals, work procedures, or descriptions of data. However, structuring can also be unplanned and achieved through unwritten norms. Such implicit agreements, so-called psychological contracts (Schein 1970), can be just as binding as a written agreement.

Business angels engage in structuring in several ways. They introduce and support more formalized approaches to operational and strategic work by introducing strict accounting procedures, regular reports on financial data, and operational progress and cash flow planning (Stedler and Peters 2003; Macht 2011b). The business angels are also involved in long-range planning through formulating business strategies (Ehrlich et al. 1994), developing the company's long-term strategy (Prowse 1998), or discussing such strategies (Amatucci and Sohl 2004; Brettel 2003). Others have identified activities such as project refinement (Lindström and Olofsson 2001) and involvement in setting performance incentives (Prowse 1998). In a similar vein, the structural capital is increased as business angels help by enhancing management skills (Paul, Whittam and Johnston 2003).

There is strong empirical support for structuring as an important process in the business angel setting, as evidenced by “the need to specify roles and responsibilities in contractual form” (Kelly and Hay 2003, p. 302). Structuring is important in handling market risk, in that work

activities both inside and outside the organization are integrated and controlled (Child 1972). The relational risk is handled by structuring since it makes the venture more transparent and manageable. The activities identified in the review emphasize the material dimension of structuring, for example routines for supply chain management and distribution logistics, yet it is well recognized that formal structure has cognitive-institutional implications by functioning as a source of external legitimacy (Meyer and Rowan 1977). Increased legitimacy in the eyes of business angels is likely to influence perceptions of relational risk.

4.3 The leadership process

The established conceptualizations of leadership entail leader behavior aimed at influencing followers' goals (Stogdill 1950), performance (House 1971), and power relations (Pfeffer and Salancik 1978). Whereas the classic leader behaviors were seen in terms of two-factor models with task and relational components (Bass 1990), more recent work, new leadership, or transformational leadership (Bryman 1996; Bass 1999) emphasize the management of meaning and identity. The leadership process then comes to include a cognitive-institutional dimension where influential individuals shape the definitions of organization realities, identities, and values through, for example, visions that reflect the leader's values and his or her interpretation of the organization's mission through patterning the frames of reference and meaning of followers (Osborn, Hunt and Jauch 2002). Common to all definitions of leadership is the exertion of influence (Cogliser and Brigham 2004). Although it is usually seen as an intra-organizational influence process, it can very well exist between organizations (Connelly 2007) and in wider societal contexts (Gardner 2011). Given the role of influence processes in governance, it should not be a controversial proposition that investors can exhibit leadership behaviors.

In part, the leadership process influences the material dimension. One of the most frequent roles taken by business angels is that of influencing decision making by acting as a sounding board (Mason and Harrison 1996) and by taking part in discussions on operations. It has been argued that business angels possess unique capabilities by virtue of the combination of separate skills and diverse knowledge in a single person (Politis 2008), an expertise (Sætre 2003) through commercial skills and entrepreneurial experience (Mason and Harrison 1996), financial know-how, marketing know-how, strategy formulation, management experience, and industry knowledge (Brettel 2003). Through the sounding board role, these skills can be utilized in venture decision making, by providing strategic advice on different subjects (Madill, Haines and Riding 2005; Mason and Harrison 1996). Paul, Whittam, and Wyper (2007) explicitly mention that Scottish business angels are able to get the best out of a team in a reference to group leadership. This focus on decision-making and groups indicates that leadership by business angels in the material dimension is a process that plays out at the organizational level, rather than on the individual.

The cognitive/institutional processes dimension is also present in the leadership process. Close relationships exist between investors and individuals in the venture, where the business angel functions in a mentoring and/or coaching capacity (Amatucchi and Sohl 2004; Brettel 2003; Sohl 1999). Mentoring and coaching have been demonstrated to be very similar to transformational leadership (Scandura and Schriesheim 1994), a leadership specifically oriented toward the growth of the followers. Moreover, it has been shown that there are frequent interactions between business angels and their ventures (cf. Lahti 2011). Through these interactions the business angel is able to promote certain perceptions and definitions over others on many levels, from strategic to operational issues. The cognitive dimension of leadership is thus more active on the individual level than the organizational.

The leadership process is relational in both the material and cognitive dimensions and therefore primarily directed at reducing relational risk. By facilitating venture performance (by providing advice and mentoring) market risk can also be mitigated.

4.4 The doing process

Seminal studies of managerial work provided accounts of what managers actually do (Carlson 1951/1991, Mintzberg 1973), providing a contrast to understandings of management in terms of ideal functions. More recently, management research has come to deal with various aspects of practice, in what has been called “the practice turn” (see Miettinen, Samra-Fredericks and Yanow 2009 for an overview). These two traditions alert us to what business angels are doing in ventures. Thus, the focus is on operational tasks that form part of the operations of the venture. The *doing* process denotes activities that are part of everyday venture practice – where the business angel performs venture tasks that could be carried out by a venture member.

The review shows that business angels often reject the role of the distant investor; instead they get directly involved in the operational work in the venture (Freear, Sohl, and Wetzel 1995; Landström 1992). Wetzel (1983) identified in his survey that business angels might be employed both part- and full-time by ventures. This involvement ranges from addressing organizational issues in the venture or shaping the business model (Ardichvili et al. 2002) to providing hands-on assistance (Madill, Haines and Riding 2005) and personal involvement (Stedler and Peters 2003), through engaging in consulting help when needed (Erikson and Sørheim 2005; Freear, Sohl and Wetzel 1995; Landström 1993; Sohl 1999; Sørheim and

Landström 2001) or solving major operational problems (Prowse 1998), technical problems (Lindström and Olofsson 2001) or evaluating capital expenditures (Prowse 1998).

The process of doing influences both relational and market risk and works in both dimensions in three different ways. The first is reducing market risk by providing superior task knowledge and carrying out these tasks better than previously done internally. The second interpretation of doing is the symbolism of a business angel getting his/her hands dirty, performing tasks customarily performed by the venture team members. If this help is received in a positive spirit, the symbolism of doing could reduce relational risk. If it is perceived in a negative way, doing is seen as meddlesome, for example as a sign of lack of trust in the capacity of the venture.

However, the third and most important interpretation of doing is as “organizational learning” (Senge 1990). It is understood as a process of mutual learning involving both explicit and tacit knowledge (Polanyi 1966). In the investment setting the knowledge shared through the frequent interaction between investors and entrepreneurs has been seen as efficient in creating mutual understanding (DeClerq and Sapienza 2001). The role of doing is most intriguing in relation to tacit knowledge. Such knowledge is unlocked by behavior and can be passed on only by working closely with someone knowledgeable over a period of time. Therefore, as a business angel cooperates with a venture team member on a specific task, tacit task knowledge could be shared. The opposite is equally true, as the venture learns from the business angel in those areas where the business angel appears to hold superior expertise. Through this transfer of tacit knowledge in both directions, doing decreases relational risk by increasing understanding and lowering the risk of misunderstanding. Thus, doing can be a

way to access tacit knowledge and enhance coordination and control in areas that are – per definition – not directly accessible through formalization (cf. Nonaka 1994).

4.5 The monitoring process

In conclusion, there is the fifth process; monitoring. Whereas the other four processes can be pictured at specific levels, the monitoring process is interwoven with the other processes.

Structuring specifies and defines processes and outputs, whereas the monitoring process surveys the processes and measures their outputs. Therefore, structuring provides the standards of reference for monitoring. However, *boundary spanning* as well as *leadership* both provide the business angels with access to information where both the detector and the assessor function can be brought into play. Through boundary spanning, the business angel is able to assess information on venture performance detected from external sources and compare it to internally detected information. Through leadership, the business angel is provided with opportunities to gather information and learn from venture team members, both during more formal interaction, such as meetings, but also more informally, through telephone calls, emails, social interactions, or on-site visits. The detector employed in boundary spanning and leadership is primarily restricted to explicit or even codified information, whereas monitoring performed through *doing* is able to tap into tacit knowledge as well.

There are both formal and informal ways to monitor the performance of an organization. Formal monitoring is, at its most basic level, defined as a formal reporting system involving a detector function and an assessor function (Anthony and Govindarajan 1995). The detector is for finding the information needed for monitoring, and the assessor is for comparing this information to various standards.

Monitoring underlies the entire business angel investment process (Paul, Whittam and Wyper 2007). In some scholarly works, the entire post-investment stage of managing the investment is understood as nothing more than a period of monitoring venture progress (van Osnabrugge and Robinson 2000). Their perspective disregards the variations that business angels exhibit in their monitoring, from passively monitoring progress to actively intervening in the creation of such progress. Business angels engage in individual monitoring activities that include information gathering from a board position (Prowse 1998), monitoring strategy (Mason and Harrison 1996), financial and operating performance (Ehrlich et al. 1994; Stedler and Peters 2003), and the constant monitoring for signs of deterioration of the relationship (Berggren and Fili 2008) – signs signaling an increase in relational risk.

Monitoring also has a strong signaling value. Simply by measuring something, we affirm its importance (Pfeffer and Sutton 2006). Thus, not only should monitoring have a strong effect material effect on relational risk, through its potential of increasing resource efficiency, but also in the cognitive dimension, through signaling what the focus of the venture should be. Monitoring also addresses market risk, in that it involves the evaluation of the venture's competitive market performance – as well as the cognitive aspect of legitimacy.

4.6 Summary

The review identified five distinct governance processes (Table 4) employed to influence the venture. The processes have impact on the market and/or relational risk that the business angel is exposed to. It was further shown that the processes have both material and cognitive-institutional dimensions.

Insert Table 4 here

As noted in the theoretical section of the paper, business angels are heterogeneous. Moreover, ventures are also heterogeneous, in firm development stage, industry, venture team, technology etc. In consequence, the five governance processes outlined are not likely to be employed equally by all business angels in all venture relationships. Possible variation will therefore be discussed in the next section.

5. Discussion

The present review explicitly connects business angel post-investment activities to three levels of analysis, in the sense that business angels involve themselves in their ventures through governance processes. Some of these processes belong to a single level, such as boundary spanning at the environmental level. Other processes, such as monitoring, can be active on several, multiple levels simultaneously; the environmental level, the organizational level, and even the individual level.

The contribution of the review is the translation of empirically based post-investment activities into distinct, theoretically derived processes. Through this conceptualization, access is provided to rich, well-established theory as well as methodological tools for conducting future research on business angels. An understanding of the interrelationships among the processes is facilitated through the use of three analytical levels and two dimensions of each level (cognitive and material). Organization theory has long acknowledged the importance of the cognitive/institutional dimension and demonstrated that the symbolic effect from doing something can far outweigh the actual, material effects of that act. A classic example would

be the king riding into battle at the front of his army. In the material dimension, the king is just one more soldier, but in the cognitive dimension, he symbolizes much more.

For business angels, the cognitive dimension of their activities, as perceived by their ventures, is worth studying. Furthermore, it is probable that the perceptions of activities are heavily influenced by the perceptions held by the venture of the business angel him-/herself.

Specifically, the trust the venture places in the business angel. In classic financial theory, such as agency theory, the investor is a principal with a status as outsider. This outsider is not trusted. However, as mentioned at the beginning of the paper, outsiders can earn trust and become insiders (Xu and Ruef 2007). The activities of an outsider are perceived differently than those of an insider.

In recognition of the importance of the cognitive dimension, the next sections (5.1 – 5.3) illustrate this by discussing motivation in the venture, the moderating effect of organizational membership and finally dysfunctional investor behavior.

5.1 The importance of the cognitive dimension for understanding motivation in the venture

Each process holds a material and a cognitive aspect. Through a discussion of motivation, it will be shown that the cognitive dimension is necessary for a far more comprehensive understanding of post-investment activities. Our first example is the cognitive dimension of monitoring. While Davila and Foster (2007) show that the adoption of management control systems in early-stage start-up companies appears to increase growth in those companies, Falk and Kosfeld (2006) maintain that there are hidden costs of monitoring in terms of reduced motivation of the individuals being monitored. Thus, on the one hand, control systems provide risk reduction through structuring. But, on the other hand, the monitoring inherent in

the same control systems could just as well increase the relational risk between investor and investee. This implies that monitoring that could potentially be considered as obtrusive by the venture, should be considered carefully. The second motivational issue is the relation between intrinsic and extrinsic motivation. The hypothesis that external incentives reduce intrinsic motivation (“crowding out”) has received strong empirical support (Bénabou and Tirole 2003), implying that there are dangers in offering monetary incentives to the venture members. If it is assumed that the entrepreneurial team, at least initially, is motivated by an intrinsic desire to achieve, a reward system based on external incentives may well decrease that intrinsic drive. The third and final example is drawn from research on empowerment (cf. Conger and Kanungo 1988). It has been suggested that the high level of uncertainty facing venture team members may create a strong sense of powerlessness in them. Such a sense of powerlessness can lead to a decrease in motivation among the venture team members, but certain empowerment techniques can be used for restoring motivation through empowering the venture team members (Conger and Kanungo 1988). Many of these techniques are entirely cognitive in nature, and therefore necessitate an understanding of the cognitive dimension of each process.

The three examples here suggest that the motivation of the venture could be damaged in the long term by careless monitoring, a rewards system based on external incentives, and not paying attention to empowerment; all of which lead to an increase in relational risk in investor-investee relations. Therefore, through understanding the cognitive dimension of processes, an understanding of the interrelationships between the processes is achieved.

5.2 The moderating effect of organizational membership

Another factor that may influence how the process configurations are perceived by the venture is whether the business angel is seen as an outsider or an insider by the venture. The cognitive dimension of monitoring and structuring is likely to be linked with the perceived membership status of the business angel relative the venture, as outsider or insider. Xu and Ruef (2007) show how, over time, an investor came to be perceived as trustworthy by the venture and subsequently came to be defined as an organizational insider, as part of the entrepreneurial team. As the business angel becomes an insider, relational risk is decreased. However, market risk could increase because of the adverse information effects of strong ties to the venture (Granovetter 1973). One way of becoming an insider that has been suggested in the present review is through doing. The tacit knowledge exchange from shared experience involves frames, interpretations, and shared understandings, and in sharing these, the business angel comes to be perceived as a venture insider. Another way could be when the business angel's engagement in the boundary-spanning process leads him/her to become increasingly identified with the activities of the venture.

Because an investor is perceived as either an outsider or insider, it is suggested that only those processes that are perceived as compatible with their membership status are available to each investor. Thus, certain activities are perceived as legitimate, while others are perceived as unsuitable. The concept of insider/outsider suggests that once the business angel is perceived as an insider, formal monitoring activities would be unsuitable, while leading and mentoring would be far more legitimate governance processes.

5.3 Dysfunctional investor behavior

A final group of issues that demonstrate the value of including the cognitive dimension of business angel activities lies in the growing body of research on “the dark side” of investor-

investee behavior (e. g. Collewaert 2012; Macht 2011a). In these studies, post-investment involvement is not necessarily assumed to be beneficial. Such studies originated in the context of formal venture capital (Parhankangas and Landström 2004; 2006; Yitshaki 2008) and have been continued within the business angel context through studies on conflict behavior (Collewaert 2012), perceived unethical behavior (Collewaert and Fassin 2011), as well as incompetence and meddling (Macht 2011a; 2011b). Dysfunctional behavior is not always primarily symbolic. The basic form of sabotage, where someone will deliberately – physically – damage operations, has strong material repercussions.

However, it is the perceptions of activities as positive or negative in the eyes of the venture that decide whether relational risk is reduced or increased (and to a lesser extent the perceptions held by market actors / external stakeholders). Taking the work of Collewaert and Fassin (2011) as an example, the cognitive dimension is necessary to include because of the sense-making processes dealing with naming and shaming that play an important role in conflicts between entrepreneurs and investors. In this way, the cognitive aspect of activities seems decisive for understanding the positive as well as the negative effect of business angel activities.

6. Conclusions and implications

Our main conclusion is simple: business angels engage in five distinct governance processes, which have cognitive as well as material dimensions, in order to reduce market and relational risks. In relation to previous research, it has been shown that the cognitive/institutional dimension of post-investment involvement can impact venture performance. The preceding discussion indicated that some of the processes are not synergetic, but rather will neutralize each other if used together. Implications for practice are straightforward. Investors and

investees should be aware that the angel-venture relation holds a significant social dimension which is captured by the five governance mechanisms. With such an awareness they can draw on knowledge and skills associated with these processes (e.g. leadership or monitoring) in order to improve venture performance. The cognitive dimension opens up for the recognition of identity processes, which our discussion of organizational membership showed. The practical implication of organizational membership is that investors should avoid the neutralizing effect of employing certain processes together. In general, investors and investees should recognize that a goal such as “understanding each other better in the post-investment relationship” is something that will increase the chances of better venture development (Cable and Shane 1997).

For research, the present review suggests several avenues for the future. The first is the study of each individual process. Focusing on the tensions and ambiguities inherent in the interplay between material and cognitive aspects within each process, may help answer when and why some processes are perceived as more legitimate than others. The second is the study of configurations of several processes employed simultaneously. It has been suggested that there are synergies between certain processes (Politis 2008). Equally important, it is suggested in the present review that some processes probably neutralize or counteract one another.

Identifying and studying different process configurations would constitute the second avenue for future research. The third and last avenue of future research suggested here, is the study of the dynamics of process configurations over time: what sequences can be identified empirically, and what logics govern the choice of certain sequences over others.

In the field of formal venture capital, Shepherd and Zacharakis (2001) have proposed that achieving a good fit is a major factor affecting the health of a post-investment relationship,

suggesting that there are configurations and sequences that fit the expectations of the other part of the relationship and are perceived as more legitimate. These studies should be undertaken with an explicit care given to whether the business angel involved is perceived as an outsider or an insider by the venture. An example of this could be an insider business angel, involved in structuring and boundary spanning, in a research-based venture entering the innovation system with science parks and incubators, and stakeholders controlling access to soft funding.

Overall, focusing on organizational processes means devoting attention to agency, change, and the embeddedness of actions in contexts (Pettigrew 1997). Presumably, specific contexts trigger the adoption of specific processes. Biographical approaches (Kimberly 1987) could be used to capture critical events in the relationship in context, and the processes employed to handle these events. Different nuances – and maybe even new phenomena – could be described through exploratory research based on interviews and observations, in studies aware of both the material and cognitive dimensions of the investor-investee relationship.

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Fig. 1 Levels and dimensions of the entrepreneurial context

Table 1. The investment process for venture capital firms and business angels

Tyebjee and Bruno (1984) Venture capital	Fried and Hisrich (1994) Venture capital	Paul, Whittam and Wyper (2007) Business angels
Deal Origination	Origination	Familiarization
Deal Screening	Specific Screening	Screening
	Generic Screen	
Deal Evaluation	First-phase Evaluation	
	Second-phase Evaluation	
Structuring	Closing	Bargaining
Post-Investment Activities		Managing
		Harvesting

Table 2. Stages in the process of identifying relevant research articles to include in the review

Stage	Procedure for identifying papers to include in the review	Source of papers	Output list of papers
1	Initial protocol search	Core journals	Initial core list
2	Snowballing references from initial core list	All journals mentioned in initial core list	List 2
3	Snowballing references from list 2	All journals mentioned in list 2	List 3
	Iteration		Saturation Final list to review (same as Table 3)

Table 3. Papers included in the review

Authors	Year	Data	Key activities identified in the review
Amatucci and Sohl	2004	Interviews with 4 women entrepreneurs with business angel as investor.	Business angels act as mentor and friend, and discuss strategic issues.
Ardichvili et al.	2002	27 structured interviews with independent serial investors.	Business angels address organizational issues in the venture, shape the business model, aid in recruiting executive personnel, facilitate additional financing, provide connections to social networks, and sit on the board or occupy top management positions.
Berggren and Fili	2008	Semi-structured interviews with more than 20 Swedish business angels.	Business angels are engaged in monitoring where they scan for cues of deteriorating venture relationship.
Brettel	2003	Structured interviews with 48 German business angels.	Business angels are involved through a supervisory board or an advisory council, and they participate in shareholder meetings. They provide access to personal networks and bring financial know-how, management experience, and industry knowledge to the venture, by engaging in coaching, marketing, strategy, and recruitment.
Ehrlich et al.	1994	Survey of 47 entrepreneurs in California with a business angel as investor.	Business angels' most common activities are to act as an interface with the investor group, aid in obtaining alternative equity, monitor financial and operating performance, act as a sounding board and formulate business strategy.
Erikson and Sørheim	2005	Same data set as Reitan and Sørheim (2000)	Business angels are involved through shareholder meetings, board membership, and consultancy.
Freear, Sohl, and Wetzel	1995	Accounting data from 284 NTBFs and interviews with 124 entrepreneurs with business angel as investor.	Business angels are involved through representation on the board, by being consultants, or directly working for the venture.

Harrison and Mason	2000	Survey responses from 38 venture capital firm executives in the UK.	Business angels add value to their ventures in the eyes of venture capitalists by referring deals to venture capitalists.
Lahti	2011	Interviews with 53 Finnish business angels.	Business angels' level of involvement is studied. Activities reported are visits and telephone calls.
Landström	1992	62 questionnaire responses from Swedish firms using business angels.	Business angels' level of involvement is studied. Activities reported are contacts and operational work.
Landström	1993	52 questionnaire responses from Swedish business angels.	Swedish business angels are active through work on the board, providing consulting help when needed.
Lindsay	2004	79 survey responses from high net worth individuals.	Business angels have an entrepreneurial orientation.
Lindström and Olofsson	2001	150 survey responses from firms with business angel as investor.	Business angels provide the most valued contribution to early stage NTBFs, through project refinement, market coupling, technical problem solving, as well as financing.
Macht	2011a	Interviews with 4 business angel-CEO dyads.	Business angel involvement depends on the responsiveness and actions of the CEO.
Macht	2011b	2 dyads from the same data as Macht 2011a.	Business angels establish accounting systems and reporting structure, provide contacts, provide moral support to the CEO, and legal counsel. Business angel involvement can be conceptualized as soft or hard, where hard involvement is easily perceived as negative by the CEO.
Madill, Haines, and Riding	2005	33 responses to open ended questionnaires from CEOs with business angel as investor.	Business angels provide advice, contacts and networking, market intelligence, aid in accessing additional funds, provide hands-on assistance, provide credibility validation, and mentoring.
Mason and Harrison	1996	Telephone interviews with 31 business angels and 28 owner-managers.	Business angels provide strategic and financial advice, networking, skills in marketing, management, finance/accounting, and general administration.
Paul, Whittam and Johnston	2003	140 replies to a survey questionnaire to Scottish business	Business angels provide business contacts, skills in management, and aid in accessing additional funds.

Paul, Whittam and Wyper	2007	angels. 30 interviews with Scottish business angels.	Business angels base their post-investment activities on two continuous processes; assessment of venture and business angel performance, and the process of the personal relationship between the business angel and the venture.
Politis and Landström	2002	4 interviews performed with 4 business angels (16 interviews total).	Business angels are involved as co-entrepreneurs.
Prowse	1998	12 interviews with business angels in Texas.	Business angels have founding experience, management experience, provide loans and loan guarantees, aid in setting up performance incentives, allocate voting rights, aid in accessing additional funds, recruit top management and board members, help solve major operational problems, evaluate capital expenditures, develop the company's long-term strategy. They are involved through board positions or consultancy.
Reitan and Sørheim	2000	425 non-random survey responses from Norwegian business angels.	Business angels are involved through board membership or consultancy.
Sætre	2003	20 interviews with entrepreneurs and investors involved in 4 Norwegian firms.	Business angels provide industry networks, industry experience, aid in accessing additional funds, affect corporate strategy, influence operational decisions, and provide credibility.
Schäfer and Schilder	2009	Structured interviews with 11 German business angels.	Business angels are involved in strategic problems, network advantages, business assessment reports and consultancy.
Stedler and Peters	2003	232 non-random survey responses from German business angels.	Business angels provide hands-on personal involvement, projected-actual comparisons, cash flow planning, annual reports, order book.
Sørheim	2005	5 business angels in Norway interviewed twice (10 interviews total).	Business angels provide access to additional funds. They are shown to be members of the entrepreneurial team.
Tashiro	1999	10 interviews with	Business angels provide general

		Japanese business angels on post-investment activities.	advice as an outside adviser or a board member; and specific advice regarding technology, human resources, or finance.
Wetzel	1983	Interviews with 133 business angels in New England.	Business angels are involved in the board of directors, through consultancy, or through full- or part-time employment in the venture.
Wong, Bhatia and Freeman	2009	Secondary data from 215 investment rounds by angel investors in 143 companies.	Business angels are vital for procuring a management team and procuring additional funds.

Table 4. Definitions of governance processes in the business angel-venture post investment relationship

Process	Level	Definition
Boundary spanning	Environment	Activities for managing and relating to the environment in capacities that are not part of regular venture operations. However, if the business angel is given formal responsibilities directed toward the environment in terms of venture operations (e.g., selling or marketing), such activities are not defined as boundary spanning; rather, these are seen as doing.
Structuring	Organization	Activities that specify roles, processes, and output in a systematic way with stability over time, for material or cognitive (internal identity and external legitimacy) reasons. Structuring also includes agenda setting and incentive schemes, because they specify outcomes of operational work. Most of the activities called “indirect leadership” (Hunt 1991; Yukl and Lepsinger 2004) are found here. However, short-term plans and monitoring activities are excluded.
Leadership	Organization	Activities performed during interaction with venture team members, aimed at influencing their behavior. It focuses on individual members through coaching, mentoring, and group leadership. Leadership is limited to interaction-based activities for influencing venture behavior (“direct leadership,” Hunt 1991; Yukl and Lepsinger 2004), and excludes monitoring and structuring.
Doing	Individual	Activities where the business angel is performing operational tasks that belong to daily venture operations (tasks including selling, marketing, production, R&D, etc.).
Monitoring	Environment Organization Individual	Activities that generate feedback for evaluating performance in handling both relational and market risk. They include formal management accounting systems as well as informal monitoring opportunities found during boundary spanning, leadership, and doing.