Mentoring the CEO or monitoring the ROI?
The business angel’s interrole in the venture relationship

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Introduction

In the field of business angel research, there are reports of business angels acting as mentors (Sohl 1999, Amatucci and Sohl 2004) and engaging in coaching (Lindström and Olofsson 2002, Brettel 2003) towards their ventures. Mentoring has been identified as a way of improving both individual and organizational performance (Allen et al., 2004). Generally, a mentor is conceived of as a trusted senior person whose role it is to guide a younger person, known as the protégé (Kram 1985).

However, business angels are private investors (Wetzel 1983), and investors have traditionally been conceptualized in terms of agency theory. Agency theory is based on the premise that the investor and the entrepreneur do not share the same interests (Arthurs and Busenitz 2003), and that the investor even needs to
safeguard the investment by restricting the actions of the entrepreneur (Jensen and Meckling 1976).

An essential component of mentoring is the deep trust between the mentor and the protégé, founded upon the way that the mentor takes the perspective of the protégé. In order for business angels to function as mentors there must be such alignment of interest. This suggests that business angels inhabit two roles: the mentor role that is defined by a focus on the entrepreneur and the investor role that is defined by a focus on the investment.

Ideally, the investor role and the mentor role complement each other: mentoring and coaching lead to venture growth and development, and eventually to a great return on investment as well. However, there may be times when the business angel is forced to choose whether to focus on the well-being of the entrepreneur or on return on investment. In other words, there is a potential interrole conflict where the mentor role is no longer goal congruent with the investor role. Surely such interrole conflicts have always existed for mentors, as evidenced in the mentor who is also the supervisor of the protégé?

Even though there is literature on supervisory mentoring, where the mentor is responsible for the organizational action of the protégé, such a supervisory responsibility is still different to actually having invested equity. Compared to traditional mentoring contexts, the fact is that the business angel as mentor has invested his/her own money in the business of the protégé.

This financial interdependency is in stark contrast to all traditional mentoring relationships studied, in that traditionally, the mentor does not risk substantial financial losses through the actions of the protégé. Although a supervisory mentor is affected by the actions of the protégé, it is only the business angel as mentor that has direct ownership and such an important vested financial interest in the performance of the protégé.

The practitioners of mentoring have warned against fostering overdependence in the protégé. Thus, it seems that the investor is faced with a
delicate balancing act: to safeguard the investment, act as mentor, but not act in such a way that the entrepreneur becomes too dependent on his/her advice.

The current paper is a study of business angel mentoring in light of this potential role conflict. The purpose of the paper is to analyze business angels’ experiences of the importance of the mentoring role as well as the role conflict between the mentoring role and the investor role.

The paper is structured as follows. The next section presents the literature on mentoring in general, followed by a section on previous research findings on business angel mentoring. Next, there is a section on research pertaining to the role conflict between being an investor or a mentor. This is followed by a section on method, after which the empirical findings from the interviews are presented and analyzed in terms of the way the role conflict is handled. In the final section, the paper is concluded with implications and limitations of the findings as well as some avenues for future research.

The mentoring role

In spite of agreement on the general concept of mentoring (Wanberg, Welsh and Hezlett 2003), even among mentoring scholars, a wide variety of mentoring definitions can be found (Haggard et al 2011).

The core meaning of mentoring is a dyadic developmental relationship between the experienced mentor and the less experienced protégé, whereby the protégé is helped with his/her career (Kram 1985; Eby 1997). A mentor may be the protégé’s supervisor, other organizational superior, peer or an individual in a different organization. The mentor provides two major functions to the protégé: career functions and psychosocial functions. Career functions aim at developing the protégé’s career, and the mentor may engage in coaching, sponsoring protégé advancement in job promotions, helping increase exposure and visibility, as well as providing protection and challenging assignments. Psychosocial functions are
aimed at developing the personality of the protégé, by enhancing self-worth and self-efficacy. Psychosocial functions are based on deep interpersonal trust and intimacy. (Ragins and Kram 2007) Role modeling is a foundational part of the psychosocial functions (Haggard et al 2011), to the extent that it has even been suggested that it constitutes a separate, third, function (Scandura 1992). Role modeling entails when the protégé feels that the mentor serves as a model that should be emulated (Wanberg, Welsh and Hezlett 2003).

Repeated empirical studies on mentoring show a positive effect on protégé performance (Scandura 1992; Chao 1997; Eby et al. 2008). However, there is an important difference between informal and formal mentoring. While a mentoring relationship arises spontaneously and is based on identification and interpersonal comfort (Allen et al 1997), attempts have been made to harness the positive effects of mentoring, through the development of formal mentoring programs. In formal mentoring programs, mentors and protégés are assigned to each other (Noe, 1988), there are specified developmental goals to be reached, and a set time limit for the program (Wanberg et al., 2006).

The effects of formal mentoring programs have yet to be proven. For instance, protégés from a formal program report that the role played by mentors formally provided to them is less important than the relationships they have with their supervisor and coworkers (Raabe and Beehr 2003). This means that although there may develop a number of mentoring relationships within a formal program, far from all assigned dyads do (Wanberg et al 2006). Among the relationships that do develop, there is a continuum of effectiveness ranging from highly satisfying mentoring down to marginal or dissatisfying relationships: the presence of a formally appointed mentor does not equate a mentoring relationship. (Ragins, Cotton and Miller 2000).

Moreover, there is recognition that mentor relationships may include negative or even destructive aspects (Kram 1985; Scandura 1998). Eby et al (2000) studied negative mentoring from the protégé’s perspective and found evidence of
15 different kinds of negative mentoring experiences, later clustered into two factors (Eby and Allen 2002). These two factors can be described in terms of whether negative behavior is evident in the relationship from the beginning (poor dyadic fit) or develops under way (distancing/manipulative behavior). Poor dyadic fit simply means that the mentor and the protégé had bad personal chemistry from the outset. This was regarded by the protégés in the study as something natural that although unfortunate would occur regularly, since statistically you cannot avoid entering such bad relationships from time to time. Distancing/manipulative behavior, on the other hand, means that a relationship was initially positive but turned bad over time. This type of negative behavior, developed during the relationship, was perceived as much more malicious by the protégés.

Thus, the study by Eby and Allen (2002) suggests that once you have established trust in the mentor relationship, there are behaviors that are perceived as negative by the protégé that the mentor should avoid, as the fall from grace is so much higher when negative behavior emerges after some time.

Another interesting aspect that can be learnt from research on negative mentoring is that the fact that the mentor is also the supervisor of the protégé may further worsen the negativity (“supervisory mentoring”) (Scandura 1998; Bozeman and Feeney 2007). When the mentor is also the supervisor, the protégé is much more vulnerable since the mentor holds control over valued organizational resources and is in a power position versus the protégé, creating “concerns regarding how bad experiences with a mentor will influence day-to-day work experiences or even hinder future career prospects” (Eby et al 2010, p. 90).

Such behaviors have been listed elsewhere (Eby 2000). However, another approach can be used. It has been argued that mentoring is actually only one of many developmental interactions, placing mentoring together with coaching, apprenticeship, action learning, and structured networks (Douglas and McCauley 1999). However, all developmental interactions are united in their focus on the
learner, whether they be learning-related, emotional support-related, or career progression-related (D’Abate, Eddy and Tannenbaum 2003).

In line with this argument, negative mentoring is defined simply as behaviors that give the protégé a perception of no longer having that support.

*Empirical research on mentoring in the business angel – venture relationship*

Business angels are private investors who invest their own capital in unquoted firms where they have no family connection (Mason and Harrison 2008). Investments are typically made in relatively early stages of firm development (Mason and Harrison 1994). Besides financial capital, entrepreneurs indicate that business angels make important non-financial contributions to their ventures (Lindström and Olofsson 2002). It is a close relationship and entrepreneurs say that this support from the investor is equally valuable to the financial capital (Sohl 1999). In fact, it has been suggested that most business angels view these non-financial contributions as a critical part of their investment activity (Madill, Haines and Riding 2005). They have been highlighted as an important component in the development of a well-functioning and trusting relationship between business angels and entrepreneurs (Harrison, Dibbon, and Mason, 1997), because these social-relational means enable joint planning and problem solving (Politis 2008).

Lindström and Olofsson (2002) state that Swedish business angels who act as mentors act in a way that is designed to motivate and initiate a learning process among the venture employees. In their study, the role of coach is one of four roles played by the business angel: specialist/expert role, financier role, organizing/director role, coach (Lindström och Olofsson 2002). The authors suggest that the role “of coach or mentor” (p. 91) is especially important in early stages of venture development as well as in those instances where the business angel is unable to become even more involved in operations.
In a study of German business angels, significant non-financial contributions reported by business angels were providing access to contacts, expertise in financial matters and coaching provided to the entrepreneur (Brettel 2003). These three were presumably the components in the mentoring discussed by the author. Even when investors syndicate, they want to have an individual “role of mentoring” towards the venture (Brettel 2003, p. 258).

Amatucci and Sohl (2004) report from studying five women entrepreneurs that “[…] angels served as a mentor and were deeply involved in both strategic and operational activities.” (Amatucci and Sohl 2004, p. 193) One of the entrepreneurs states that the business angel will always be her mentor and friend (p. 187). There is no further elaboration on the meaning of mentor.

In their empirical study of Canadian business angels, Madill, Haines and Riding (2005) suggest that there are six types of non-financial contributions: advice, contact, hands-on-assistance, boards of directors and advisors, market and business intelligence, credibility/validation (Madill, Haines and Riding 2005). Out of these contributions, the first three are behaviors associated with the mentoring role: providers of contacts, guidance and hands-on assistance.

Recently, a study by Macht (2011) argued that business angels can add value to a venture even when the business angel lacks experience of the particular industry the venture operates in. In her view, mentoring would consist of providing moral support, through something she calls soft involvement.

Moving from business angels to venture capitalists, mentoring is reported in a number of studies but its content is not explored (cf. Sapienza, Manigart and Vermier 1996; Hellman and Puri 2000; Bottazzi and Da Rin 2002; Hsu 2004; Cochrane 2005).

For example, venture capitalist involvement is studied in four countries by Sapienza, Manigart and Vermier (1996). They define involvement in three roles. The strategic role includes acting as a sounding board, financier, and business advisor. The interpersonal role includes acting as a mentor/coach, as well as a
friend/confidant. The networking role includes being a source of professional contacts, of industry contacts, and management recruitment. (Sapienza, Manigart and Vermier 1996, p. 454) They find that the strategic role is the most important, followed by the interpersonal role. They conclude that the interpersonal role of the venture capitalist is a significant element in the functioning of the venture relationship. Thus, the content of mentoring is expressed as the interpersonal role.

As we can see from the review above, both the literature on business angels and venture capital lack a single definition of mentoring. In fact, the actual activities undertaken by the business angel pertaining to the mentoring role have seldom been specified. In her review, Politis (2008) conclude that “[...] activities that can be related to the mentoring role include providing moral support, lifting the spirits, sharing the burden, providing a broader view, and discussing and dealing with sensitive personal issues.” (Politis, 2008, p. 136)
Table 1
Overview of mentoring definitions in the business angel literature

<table>
<thead>
<tr>
<th>Developmental interaction</th>
<th>Behaviors</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mentor for money</td>
<td>Assistance and business experience</td>
<td>Sohl 1999</td>
</tr>
<tr>
<td>Coach and mentor used</td>
<td>A refined approach to the entrepreneur based on an ambition to maintain the motivation and enthusiasm and initiate a learning process among the venture employees.</td>
<td>Lindström and Olofsson 2002</td>
</tr>
<tr>
<td>Coach (part of mentoring)</td>
<td>Personal networks</td>
<td>Brettel 2003</td>
</tr>
<tr>
<td>Mentor</td>
<td>Coaching of the entrepreneur</td>
<td>Amatucci and Sohl 2004</td>
</tr>
<tr>
<td>Mentor</td>
<td>Financial know-how</td>
<td></td>
</tr>
<tr>
<td>Mentor</td>
<td>No description</td>
<td></td>
</tr>
<tr>
<td>Soft involvement</td>
<td>Providing moral support</td>
<td>Macht 2011</td>
</tr>
</tbody>
</table>

To make things more complex, monitoring sometimes includes providing managerial assistance, which is linked to mentoring.

After making an investment, many investors elect to actively monitor their new ventures. This may be in part to ensure that the entrepreneur uses the
new funds competently, but it is also to offer their managerial assistance. (Van Osnabrugge and Robinson, 2000, p. 188).

Is there any difference between monitoring and mentoring and why would such a difference be of any importance? This question is the foundation for the next section of the paper.

**The theoretical reasons for a role conflict between being mentor and investor**

The investor role is made up of expectations of a set of behaviors focusing on the development of the investment, in line with the traditional principal role, as described in agency theory (Jensen and Meckling 1976). Agency theory states that the agent is given an assignment by the principal, often one the agent is better capable of carrying out. However, the principal is worried that the agent will not maximize the effort on the assignment, but rather, use resources for self-serving purposes.

A business angel invests money in exchange for a share of the future value/development of the venture, as presented through a business plan; a qualitative and quantitative estimate of the future value of the investment, however uncertain. Although the goals are described in the business plan, the personal goals of the founder can differ. For example, the founder may well be much more interested in exploring the research potential of the technology than following the commercial route laid out in the business plan. How can the business angel safeguard from this moral hazard? The answer depends on which management philosophy you adhere to. Basically, there are two major management philosophies; control-oriented and involvement-oriented (Davis, Schoorman and Donaldson 1997).
Table 2.

A comparison of control- and involvement-oriented management philosophies

<table>
<thead>
<tr>
<th>Risk orientation</th>
<th>A control-oriented management philosophy</th>
<th>An involvement-oriented management philosophy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Control mechanisms</td>
<td>Trust</td>
</tr>
</tbody>
</table>

| Time frame       | Short term                                | Long term                                   |

| Objective        | Cost control                              | Performance enhancement                     |

Drawing on Davis, Schoorman and Donaldson (1997), it is suggested that the pure investor role is based on a control-oriented management philosophy. The investor should focus strictly on the investment and not on the people involved, in order to avoid costs and maximize return in the short term. However, as the objective in a startup is to maximize performance in order to grow, an involvement-oriented management philosophy is better suited. An investor who follows an involvement-oriented management philosophy will accept vulnerability in the relationship by handling risk through trust, maintain a long-term time perspective, and focus on performance enhancement through empowerment.

For the investor, being a mentor is a double-edged sword. It provides a close relationship with the venture, but it also puts a lot of pressure on the investor to not disappoint the CEO. Recall that the research on negative mentoring implies that when a protégé experiences negative mentoring, these experiences are made worse when the mentor controls important resources, and are even more exacerbated if there was previously a trusting mentor-protégé relationship. These conditions fit how business angels act as mentors.
Therefore, it is suggested that an investor acting as mentor adheres to the involvement-oriented philosophy based on trust. As long as there is trust, the investor can act as a mentor, which will enhance performance from the protégé. As soon as trust erodes, the investor and mentor roles will stop overlapping, forcing the investor to choose whether to focus on the investment or on the protégé. In such an instant, the investor will remain in the mentor role as long as possible in order to avoid perceptions of negative mentoring.

The two functions of the mentor and how they correspond to the behaviors of a business angel is described in table 3.

Table 3
Mentor functions and corresponding business angel behaviors

<table>
<thead>
<tr>
<th>Mentor functions</th>
<th>Corresponding business angel behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychosocial support, including being a role model</td>
<td>Building the self-confidence of the entrepreneur, and coaching him/her in work as well as in private life. Functioning as a role model in those areas where the business angel has relevant experience and the CEO lacks experience.</td>
</tr>
<tr>
<td>Career development</td>
<td>Developing the career of the CEO through continuous coaching on the topic of development of the venture.</td>
</tr>
</tbody>
</table>

The classic mentoring function of providing psychosocial support and being a role model is clearly present in business angel and venture capital studies of mentoring. The function of being a role model to the CEO is straightforward: as a former entrepreneur mentors the younger entrepreneur. The second function, providing
career development, is where the business angel helps the CEO forward in his/her career. It is in the function of career development that the choice between the CEO or the venture may arise: here, the latent role conflict between developing the career of the CEO or the venture lies.

Method

In 2008, I met a business angel who talked about being a mentor for the CEO in the ventures where this business angel was involved. I was unsure of what had been written on this topic previously. I went into the literature to find out more. Initially, two types of searches were made. A search in Google Scholar on the phrase venture capital followed by the word mentoring gave some 15 000 hits. In an effort to narrow the search down, the assumption was adopted that any relevant papers would have mentoring in title or keywords, as well as venture capital in title or keywords. Going into JSTOR, ScienceDirect and EBSCO, there were no hits when such narrow searches were performed.

There was a great deal of confusion in terms of terminology. Because of the use of coaching-mentoring as well as mentoring-monitoring interchangeably, the complete lack of definitions in some papers, and the definitional variation among others, and finally, not a single paper mentioning the potential mentor-investor role conflict, it seemed that the topic of this paper was relatively unexplored. Therefore, it was deemed fruitful to continue with a qualitative research approach.

The aim was to explore the phenomenon mentoring deeper than reported in previous business angel research. Semi-structured, in-depth interviews (Holstein and Gubrium 1997) were conducted face-to-face with 9 business angels during a period of four years 2008-2011. Each interview typically lasted nearly two hours. They were taped, transcribed verbatim, and coded manually for different themes, in a logic borrowed from grounded theory (Charmaz 2005). The business angels are primarily active in the area around the capital of Sweden, although their ventures
are in many cases international or global. The angels were identified using a matching service as well as through personal contacts. The matching service is provided by an organization called Connect, sponsored by the Swedish government (www.connect.se).

In order to further strengthen results, member checks (Shah and Corley 2006) were undertaken with selected interviewees during 2012, and in 2013, the near-final results were discussed with another group of 10 business angels, and their experiences were compared to the findings from the interviews.

**Empirical findings: Being a lead investor in early-stage ventures means being a mentor**

The business angels interviewed stated that mentoring does not follow automatically as a consequence of investing in a venture. Rather, the business angels interviewed reported that their behavior varied depending on the individual investment relationship and that each investment was unique. They would take a more active role – including mentoring – if they were the lead investor. If someone else was the lead investor, they would act as a more passive investor.

*If I am lead investor, I will take this active role towards the venture, working closely with them from my position on the board.* (Ben)

However, the majority of the business angels interviewed stated that they will always try to be lead investors and thus take a mentor role in their investments, and that they will not invest if they perceive that they will not be able to develop a mentor relationship.

*I believe that everyone making this kind of investment is aware of the fact that the personal chemistry must exist, because at the end of the day it is a question of coaching the entrepreneur.* (Colin)
Not only was the personal chemistry central, but several remarked that they would abstain from investing if they felt that it was lacking.

*For me, the relationship with the founder is so important that I will not invest if I suspect that I will not be able to form such a close relationship. We phone, mail and sometimes even meet if necessary out-of-office hours.* (Ben)

*To me it is essential to have a close and trusting relationship to the entrepreneur. If I realize that I am unable to have that relationship, I am not the right person to invest, and someone else should invest.* (Iggy)

A second factor was the age of the venture. One of the investors described the difference between different ventures where he was currently involved. In those ventures where he was a minor shareholder, and did not possess any of the unique expert knowledge requisite for being a role model, there was no reason for developing a mentoring relationship. The passive role included taking part in general discussions among the different stakeholders (board members and the owner group), or a limited active involvement during particular circumstances, where his unique capabilities or some kind of expert knowledge was temporarily needed.

*I became a business angel aiming at being a passive investor. But then problems start appearing in these companies.* (Elric)

In another venture, where he was chairman of the board and major shareholder, he would act as mentor. However, even in those companies where he tried to stay passive, the needs of the ventures would sometimes force him to intervene in a more active way.
More mentoring is necessary in these early stages but in a mature company the CEO does not need that mentoring… The CEO is close, a working partner. You have very tight contact generally, and spend a lot of time. Board work in these early stages is time consuming. In large companies you do not hear a lot from the company, as a board member, between meetings. In a startup you are active all the time, other owners and investors call you and ask how things are proceeding and want your opinion as chairman on various matters. (Gerald)

It was clear from the interviews that early-stage ventures demanded more mentoring.

Psychosocial support and role modeling

Just like normal mentoring, business angel mentoring contains psychosocial support. The mentor and protégé keep in touch at all times, and talk of many things that are unrelated to work.

We talk of everything. (Friedrich)

The mentor focuses on the personal development of the protégé and keeps his/her best interest in mind. The mentor supports the protégé politically, in the venture organization.

To me the concept of coaching means helping a person forward in daily life. In all matters. I believe that is typical for this kind of relationship. You engage in coaching, and sometimes it is marketing and sometimes pure accounting. Other times it will be recruitment, growth, and of course you also have these fundamental questions; where are we going, and how will we get there. (Colin)
The mentor also supports the protégé politically, in the venture organization. There are examples of tensions that arise because of the rapid change that startups go through.

*So you have the founder and the CEO both in the organization, and you have all these problems with people who are still loyal to him. You have to manage the tension in that this person may still feel that he’s largely in charge.* (Angmar)

All investors reported that being a mentor entailed maintaining frequent communication way beyond office hours.

*Well, as you say, a lot of email, responding to email – ‘what is your opinion of this’ – back and forth, and then a few lunches in different constellations, and at times maybe even booked meetings.* (Elric)

Another very important part of psychosocial support is the element where the mentor is a role model. In the present context, this means the entrepreneurial experience of the business angel.

*If you are an investor who did that same [entrepreneurial] journey it will be natural that they ask you all the time; what to do next, what’s the next step, what would you do, or when you bumped into this, what did you do? [...] If you haven’t done it before, there is not much mentoring to exercise.* (Angmar)

In this way, according to this business angel, experience was necessary to function as a mentor. An example of experience-based operative issues dealt with was the management of personnel.
You can say that an area that often surfaces is how to manage personnel. [...] And you might think that an investor would not have that as a specialist skill, but if you have been a CEO you have been in these situations a lot of times. So that is something that I spend a lot of time talking about with my protégés. [...] I have a case where there are three founders but one of them is CEO [...] ‘I shouldn’t have more than the others’, how they all should have the same salary, but I tell him that is out of the question. If you’re the CEO, you must have a higher salary than the others. [...] So the basic question is that all these people who started with equal shares and worked equal time, if they want to stay in the company, they need to take off the founder hat and put on the employee hat instead, and enter a more regulated salary structure. (Angmar)

Another part of mentoring was to prepare for role transitions and changes in the venture by providing a context for the role of the founder.

Another aspect on mentoring is to gently make the CEO-founder realize that his/her time as CEO in the company might be limited. In the initial phase, they are indispensable as CEOs. Subsequently they might become responsible for R&D or similar. I think it is very good to air this fact early on in order to avoid controversy later on. (Gerald)

As one investor spoke with his protégé, they would on a daily basis speak of the vision and mission for the venture. In this investor’s opinion, mentoring circled around infusing the protégé with a sense of higher purpose. In his words, their venture did not exist in order to make a handsome profit, but rather to provide a meaningful technology for the betterment of mankind. As they spoke of such things, personal matters would surface, such as family relations or health issues. However, the relationship must remain professional.

But there can be no relationship where you hang around and have drinks at the pub. Friendship must never take over the professional relationship, characterized by integrity.
You must be able to express when something is good or bad, and you must have respect for each other’s opinions, and be able to discuss things in a nuanced way, matter-of-factly and professionally. (Iggy)

Finally, there must be a professional relationship as foundation. Thus, psychosocial support transcends a mere business logic in both time (communication outside business hours) and in content (as it frequently includes private personal matters). Mentorship discussions focus on strategic and operative business matters, but the matters where most psychosocial support is extended seems to be in providing guidance and support in HRM matters. It seems that management of personnel is something that the CEOs lack experience of, and therefore turn to the mentor for experience-based counsel.

Avoiding overdependence

Psychosocial support focuses on the development of the CEO, as an individual. From the interviews, one strong element emerges in the mentoring relationships. The expressed goal of the business angel is to help the CEO become a self-confident, self-reliant leader. This is a logic of independence, where the CEO is the one performing operative work, while the business angel takes on a role of supporting the CEO. According to this logic, there is an intrinsic value to such a division of labor, in that the position of the CEO is strengthened by the show of confidence on the part of the business angel. The business angel signals a belief in the capacity of the entrepreneur.

There is an important distinction that can be discussed, between being a judge, or simply the one adding value? What is the difference? Well, the judge, if I make you feel that I am the judge, you will ask me about precisely everything, because that is the whole point of a
judge. And in my opinion, that is unfortunate. Because then you are left with a paralyzed CEO, a person who tries to do what he/she believes I want. (Colin)

The idea of a judge meant that the CEO would over time fall into a habit of seeking the approval of the mentor for all his ideas before doing anything on his own. Instead of becoming a judge, the mentor should aim at becoming someone who provides continuous confirmation. The judge will gradually produce a weak and dependent CEO, always seeking blessing for ideas no matter how small, while the confirming mentor will provide encouragement and in the end an independent CEO.

In regular mentoring, the factor career development is where the mentor influences the protégé in achieving their career advancement. Thus, in normal mentoring research, the career development of the protégé can be fundamentally separated from the overall goals of the protégé’s organization. However, in the present context, the career development of the CEO is closely connected to the development of the venture: in the interview material, there was never any mention of developing the CEO unrelated to the venture. Instead, career development meant helping the CEO grow by managing different problems in the venture development. A major question is in what way such influence should be undertaken.

I believe in dialogue. In a suitable manner, here, there or in client meetings. That your protégé calls you up and asks you ‘I have this, what should I do?’. […] And once you have a dialogue, questions will not really emerge suddenly, but rather through talks of success, failure, possibilities and you see that the dialogue is alive. I believe this is fundamental. (Drew)

Several business angels underlined that they try to challenge the views of the venture team, while still maintaining a supportive mentoring stance.
I believe that you should be involved and interested. And then they should not be force-fed my view of life, reality and the market, but they should be challenged. It sounds quite negative to challenge, but in a positive way. To ensure that there is a broad view of things. (Drew)

In their view, mentoring would consist of posing relevant but hard questions, being somewhat uncomfortable for the CEO, playing the devil’s advocate in a way. Taking such a role was a way of counter-balancing the over optimism of the CEO. However, this type of mentoring was very contingent on the current performance of the venture: during good times, this scepticism was not very effective or understood (since everything was going so well), whereas during times of crisis, his questions would be much more influential.

To me there is always a – of course departing from your own frame of reference – a realistic view of the world. And to me, this consists of being able to connect your own business idea, put it in a societal perspective, or what to call it, put it in a market, and arrive at a realistic ‘what does this mean’. To not be blinded by your own opportunities. And do things in a realistic way. (Elric)

From the interviews, the business angels expressed a strong belief in that this kind of influence must be undertaken through open discussions of alternatives. The mentor will demand that the protégé defend the way his/her reasoning has been carried out, but will not question the result per se.

Good coaching is to support a person in her well-conceived hypothesis. And therefore you support this person in how to carry out the hypothesis. I have never set targets, that is not the role of the coach. My role is to support. But to demand that a hypothesis is formulated,
that I must demand. What do you think, how do you think, how did you arrive at these ideas? (Colin)

Another way of influencing the venture without telling the CEO explicitly what to do, is through storytelling.

Yes, I always bring up examples of things that went wrong. I bring it up but I try to visualize, for example when talking to the CEO. If I have a story, I will use it. By doing so, I have not told the CEO that she’s an idiot, merely stated that once upon a time, things happened in a certain way. And maybe the CEO says that ‘Aha, well let’s not do that then’. It usually works out fine [using storytelling]. (Herbert)

As evidenced from the quotations above, the process of mentoring in these informal investment contexts is not in the form of directing action (telling the protégé what to do). Instead, there is a discussion of alternatives or stories of similar situations from the experience of the mentor. This can be understood in terms of the form of advice giving known as information.

Advice giving in the form of information

It has been suggested that mentoring is closely related to advice taking and decision-making (Dalal and Bonaccio 2010). In the mentorships described in this paper, the form of advice giving most frequently referred to is in the form of information, the form of advice most positively received by the advice taker (Dalal & Bonaccio, 2010). The mentor abstains from advising for or against, and instead simply provides information from his/her previous experience.

Mentoring through advice in the form of information is remarkably similar to the transformational leadership component “intellectual stimulation”. Intellectual stimulation encourages followers to question both established problem
definitions and methods (Avolio, Bass and Jung 1999). Looking at the way the business angels interviewed used information and solicited the CEO for his/her own opinions on matters ranging from business strategy, operative work, and personal matters, these mentors exhibited behavior very similar to intellectual stimulation. Several of the mentors expressed that one of the greatest pitfalls in the mentorship was overdependence, which has been defined by practitioners as one of the most common fatal pitfalls of mentoring (Heller and Sindelar 1991). In their ambition to avoid overdependence, the business angels would engage in intellectual stimulation through advice in the form of information and questioning, while providing full psychosocial support.

This attitude towards the protégé was mirrored in how the business angel refrains from performing operative work – which would imply overriding and undermining the credibility of the CEO – and lets the CEO perform his/her work, while the business angel stands back and simply provides support. However, in the words of one of the investors, there were limits.

The limits of the mentor role: when focus turns from the CEO to ROI

In the interviews, the investors have expressed how they provide full psychosocial support and focus on the CEO. In order to allow the CEO room for personal development, the mentor must be ready to risk his/her invested capital, but there is a limit to the amount of capital that can be jeopardized in this way.

When I see that the founder is about to embark on a course which I am convinced almost always fails, I do the math: how expensive will it be if it fails again, and is it reversible? I weigh this against the cost of undermining the confidence of the founder. I would rather bear some costs in the short run and have an independent and self-confident founder for the long run, than saving some money in the immediate future, but losing all initiative and energy in the venture in the long run. (Ben)
The key to understanding the above discussion lies in the perceived magnitude of the bad decisions. The mentor role prevents the business angel from taking direct operative action in order to avoid overdependence and foster independence in the CEO. There is a cost associated with an overdependent CEO. However, some situations may include a downside risk that can lead to such negative outcomes that the cost is larger than the cost of overdependence. In such a situation, the business angel must weigh the two risks against each other.

This dilemma can be explained by borrowing a concept from entrepreneurship theory, called “affordable loss” (Sarasvathy 2001; Dew et al 2009; Read et al 2009). Affordable loss is the sum that is acceptable for an entrepreneur to lose in a venture. In an analogue manner, we could expect the business angel to have a similar idea about his/her affordable loss in each venture. This is illustrated in how one investor stated that if the cost of the bad decision is too high, the investor will step in and override the CEO. For that specific investor, the limit for intervention was when there were irreversible large costs threatening the venture: the trade-off between losing money and the development of the entrepreneur is decided by how much money that particular decision would entail. Thus, a decision that would cost a lot in delays or money, should be stopped by the mentor.

Yes, of course, in particular if it is someone you have a relatively close contact with. You just cannot come running and say that I would’ve done this or that. Instead they have to do their own thing and you have to decide how bad the consequences will be if this fails. So you have to make your mind up that sometimes things go wrong and that constitutes learning money. And then sometimes there can be a situation where you simply feel that this cannot work: in this situation I must tell them that this will not work. Because this will have such consequences if it fails. So it is a question of judging the risks. (Angmar)
This is echoed by another of the business angels, who also focused on the risk of a particular decision.

If the risk is not important, you [let the CEO make his own decisions] and thankfully sometimes you are wrong yourself. And in those instances you’re especially happy. (Gerald)

Once again, this short-term cost of allowing the venture to take a bad decision must be traded against the cost of undermining the position of the CEO: the long-term erosion of self-confidence and esteem among the others in the venture. As stated in the last quotation, the business angel is not always right: although the situation may be very risky, the outcome can be positive against all odds.

Conclusions

This study has contributed to earlier studies of business angels as mentors by analyzing the potential mentor-investor role conflict. First, the results here suggest that mentoring is perceived as an important mechanism for coordination in the business angel – venture relationship. Many of the interviewees stressed how they would abstain from investing if they thought they would be unable to form a mentoring relationship with the entrepreneur.

It seems that business angel mentoring is very much similar to normal mentoring, in spite of the potential role conflict. Business angel mentoring focuses on providing the protégé with full psychosocial support. This support logic overrides the financial logic in that short-term financial losses are acceptable in a tradeoff against long-term protégé development. The tradeoff involves an assumption that in the long run, an investment in the CEO in the form of support will pay off more than any short-term financial gains from bypassing/overriding the CEO.
It was suggested that influence was exercised in the form of advice-giving through information, very much similar to intellectual stimulation as it is defined in the transformational leadership literature. By using this form of influence, the business angel was able to problematize and discuss the development of the venture without compromising full psychosocial support. However, by linking to the idea of affordable loss, this study helps in explaining the limits to the mentoring role. Because of the negative perceptions associated with leaving the mentor role, the business angel will stay in the mentor role, as long as the perceived costs do not exceed affordable loss. If the actions of the CEO become too costly, beyond the limits of affordable loss, the business angel will try to override or at least argue openly against the CEO, as a last resort.

The implication for ventures is that mentoring, to a certain degree, is subject to budgetary constraints. Any business angel has a financial limit and this limit also constrains the mentor role. The affordable loss for each business angel is probably subject to both real (the actual amount of money) as well as perceived (how the amount is valued relative to the actual amount) constraints.

Trust is an important factor for decreasing the costs in a relationship (Ring and Van de Ven 1994). The large element of trust in mentoring serves to decrease costs in the same way. However, explaining mentoring in business angel – venture relationships solely by cost reduction may not capture the full range of reasons. The decision making situations where the business angel is forced to choose between CEO or ROI are characterized by high degree of uncertainty and influence to a large number of unknown parameters. Decision outcomes can turn out fine although they initially have gloomy perspectives. Investors sometimes consciously choose to support the CEO even in situations where the experience of the business angel strongly suggests that alternative strategies seem to have a better impact on firm value, in the hope that the decision will turn out alright this time. It can be argued that helping the protégé is just a means to reach the end of developing the venture and creating a better profit at exit, but the low return on
business angel investments in general reported by Shane (2008) suggests that in some instances, investors have gone along a little longer with the CEO, even when they should have pulled the plug. Some business angels help their protégés realize their personal potential, even at personal cost. This could suggest that for some business angels, mentoring is not the means for realizing your investment, but a business angel investment could be the means for being able to engage in mentoring. If that were the case, it is not the investment that is the primary goal, but the mentor relationship with a younger entrepreneur (cf. Sullivan and Miller 1996).


References


