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Value Added by Informal Investors: Findings from a Preliminary Study

SME FDI

SME financing data initiative

Prepared on behalf of
Small Business Policy Branch
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Value Added by Informal Investors: Findings from a Preliminary Study

Executive Summary

This report documents the types of contributions, beyond the monetary investment itself, made by private investors to businesses in which they invest. It also presents a preliminary investigation of business owners' perceptions of the value of these contributions.

All but one of the 33 angel-financed companies studied in this work reported that private investors make contributions beyond their financial investments. Most CEOs specified multiple ways in which private investors had helped with the development of their respective enterprises. CEOs found these contributions to be of substantial value in most (but not all) cases.

Six categories of non-financial contributions were identified:

1. **Contacts** with a broad range of individuals who were able to assist, in a variety of ways with the development of the business;
2. **Advice**, on both financial matters and on guidance to management with respect to a range of issues;
3. **Involvement** with, and on, the Boards of Directors/Advisors, including the identification of other members of the Board;
4. **Hands-on involvement** in the firm, often at a very basic level;
5. Market and business **intelligence**; and,
6. **Credibility**.

In addition, a high proportion of private investors also report that they make contributions to the firms in which they invest, contributions that go beyond their financial commitments. The study showed a strong degree of congruence between investors' point of view and those of the CEOs with respect to the nature, type, and frequency of these non-financial contributions.

Business owners without angel financing were found to have three categories of providers that may be alternative sources for the non-financial contributions and information such as those associated with private investors:

1. Do-it-yourself;

2. Pay for advice (e.g., by hiring staff or purchasing services from business professionals or consultants); and,

3. Making use of their Boards of Directors / Advisors.

The first two of these alternatives involve explicit financial costs or diversion of managerial time. In addition, some organizations were unable to find anyone to provide the angel-type contributions and some felt that some of these contributions were not needed.

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Value Added by Informal Investors: Findings from a Preliminary Study

Background and Objectives

Private investors are known to be important sources of financing for early-stage growth-oriented new businesses. The first attempt to comprehensively study informal investors in Canada (Riding et al., 1993)[1] included research on the characteristics of informal investors. This section of that report concluded (p. 70):

> *"… entrepreneurs who are seeking capital should present the investment as a challenge [to the informal investor]. Make it known that the angel will be encouraged to take an active role in the running of the organization and that their actions will have a direct bearing on the ultimate success or failure of the organization. Angels have high levels of confidence in their own abilities to succeed and a high need to equate successes with their own efforts. Investments that offer them the opportunity to satisfy these needs will be more likely to attract them than ones who do not.*
>
> *Second, informal investors must be offered some formal type of leadership position in the organization. Spell out their level of control over how the investment money is to be employed … and formally include the informal investor in the decision-making process.*
>
> *Third, make sure that investors are offered non-monetary incentives to invest (i.e., learning opportunity, media attention, etc.) These types of incentives should appeal to their internal locus of control, high levels of work involvement, and intrinsic motivation.*
>
> *Finally, informal investors must be kept advised on an ongoing basis of the progress of the investment and provide opportunities for the angel to give more than money. Stress levels increase for angels who do not feel that they have enough control over their informal investments and many cope by decreasing the amount of money they invest. Involving these investors, on the other hand, might encourage them to work harder to make the investment a success …"*

However, little has been documented about the nature or impact of non-financial contributions that informal investors provide to businesses. The purpose of this study is to report on a

[1] Riding, A., DalCin, P., Duxbury, L., Haines, G., and Safrata, R., Informal Investors in Canada: The Identification of Salient Characteristics. Report submitted to the federal department of Industry, Science, and Technology Canada and to the Ministry of Economic Development and Trade of the Province of Ontario.

preliminary investigation of the types of contributions made by private investors and to document business owners' perceptions of the value of these contributions.

Research Goals and Objectives

The overall goal of this research study is to add further to understanding about the role that private investors play in the evolution of Canadian small- and medium-sized enterprises (SMEs). This preliminary study seeks to examine the impacts of informal investments on the development and growth trajectories of firms in which they have invested.

Even under ideal conditions, this goal is difficult to accomplish. As David Storey (1998)[2] points out, severe methodological challenges confront attempts to assess the value of various types of interventions. While Storey was referring to interventions and programs traditionally offered by governments, private investment in a firm by a third party can also be viewed as an intervention, the incremental effects of which can be challenging to measure.[3]

Accordingly, this report presents the findings of a four-stage preliminary study that takes an inferential approach. In the first stage, owners of firms that were known to have received informal investment were queried to identify the nature and value of the financial and non-financial contributions associated with their respective private investors. The queries sought to identify specific types of non-financial contributions that respondents identified with the private investors. In the subsequent stages, owners of businesses that had not reported informal investment and angels themselves were canvassed with the objective of discerning how, or if, businesses had accessed the types of non-financial contributions that are associated with private investors.

Scope, Methodology, and Data

Scope of the Work

The work described here built upon ongoing work being conducted by the research team. Specifically, the members of the research team are involved in a large scale longitudinal study of the origins and development of the Ottawa technology cluster. A part of this research project is a

[2] Storey, David (1999), *Six Steps to Heaven*, Working Paper, University of Warwick.
[3] For example, one methodology that is frequently employed to examine the impact of a program or intervention is one in which growth and survival rates of firms in a sample group are compared with those of firms in a control group. In the context of private investment, such a comparison would entail longitudinally tracking a group of firms in which private investors had participated (the "sample group") with a set of firms that had not received private investment (the "control group"). However, the likely effects of selection bias flaw this approach. Selection bias arises because firms that had not received informal investment (and that would be candidates for the control group) arguably have different growth potential and may be inherently less viable than firms that private investors selected for investment. That is, attribution of differences in viability and growth patterns is not unambiguous. While one explanation for any differences discovered might lie with the contributions of private investors, the premise that firms in the control group were in some sense different to begin with is equally arguable else they may have qualified for informal investment!

fax-based questionnaire administered to more than 500 technology-based businesses in the Ottawa region. Currently, responses have been received from 191 of these businesses, providing considerable baseline data for these firms. Of these respondents, approximately 23 percent (43 businesses) reported that their businesses had, at some point, received informal investment capital.

Under this study, the principals of the 43 businesses that had reported receipt of informal investment were contacted by fax and e-mail to identify the nature and perceived value of non-financial contributions that angel investors had provided. Once the taxonomy and relative frequency of the various types of contributions was completed, the principals of 90 firms that had not received angel capital were contacted, by fax, and asked whether and how these firms had accessed the types of contributions that the first set of owners had associated with angel investors. All study participants were owners of technology-based firms, for two reasons. First, use of a common sector eliminates (to the extent possible) sectoral impacts in terms of the nature and value of potential contributions. Second, previous research has shown that the technology sector is one in which substantial private investment occurs.

In order to learn about the contributions of informal investors to small businesses, a 4-phase study design was employed. These 4 stages are briefly described below:

Phase 1 Self-completion questionnaires were sent to a sample of 454 companies in the technology cluster in the Ottawa area in the summer of 2000. The contractors received a total of 191 responses at this stage of the research. During December 2000, after coding and analysis of this data, the contractors identified 43 companies that reported having received investment from angels.

Phase 2 The principals of the 43 technology-based companies (who had received early stage financing from informal investors) were asked about the non-financial contributions (if any) that the angels had provided to them in addition to the financial contributions made through investment in the company. As well, these principals were asked whether they experienced any difficulties in working with the informal investors that had contributed financially to their firms. This stage of the research was carried out in January and February 2001. Responses were received from 33 of these businesses. The research team coded and analyzed the verbatim responses, resulting in the devlopment of a typology of the non-financial contributions mentioned in this phase of the study.

Phase 3 The principals of 90 technology-based companies (who had not received early stage financing from informal investors) were asked if and how they sourced the contributions received by some of their sister firms from informal investors. Responses were received from 26 of these businesses.

Phase 4 In conducting the discussion groups with informal investors from across Canada (a parallel project undertaken by the contractors for Industry Canada), the contractors asked these investors to report on the non-financial contributions that they provided to the companies in with they had invested. It must be emphasized that the angels interviewed in the group discussions were not the angels that provided financing to the Ottawa technology firms. However, given the goals of this exploratory study, it was deemed valuable to garner as much information as possible to inform our understanding of the nature and type of non-financial contributions made by informal investors. Tapping into the point of view of angels themselves provides an additional useful perspective to the present study and is therefore reported here.

While much speculation exists about the non financial contributions that informal investors make to the companies in which they invest financially, the contractors are aware of no previous research that seeks to document the nature and type of these contributions. Accordingly, respondents were asked to respond in their own words with no prompting nor with any predetermined categories provided by the researchers. This approach was used because the research described here is very exploratory. All responses were coded verbatim using NUD*IST software. Further, basic demographic information was gathered by means of the Phase 1 questionnaire and is reported for descriptive purposes and to provide a context in which to interpret the results.

Empirical Findings

Background Data

Questionnaire data were gathered on both the (a) angel-financed firms, and (b) firms that had not been financed by private equity investors. Key background data included the location of the firm, the age of the firm, information about the founders, the size of the firms, and sources of financing received. Table 1 compares the two groups in terms of these background dimensions. Table 1 shows that both groups of firms (angel-financed and not angel-financed) are well-matched. The majority of firms in both groups were formed in the Ottawa area, most firms in both groups remain independent, most have founders who remain with the firms, and the knowledge sources upon which the firms were built are very similar. Differences between the groups of angel-financed and non-angel-financed firms were evident in terms of size and age. The average size of angel-financed firms was significantly smaller ($p<0.05$). Also, angel-financed firms were younger ($p<0.05$). Yet, firms that had been financed by angels were significantly more likely to have obtained institutional venture capital than those that had not received angel financing ($p<0.05$).

Table 1: Attributes of Firms in Sampling Frame

	Firms that had been angel-financed:	**Firms that had not been angel-financed:**
Location	86 percent were formed in the Ottawa region.	89 percent were formed in the Ottawa region.
Independence	All but one enterprise were formed as independent firms and 78 percent of the businesses remain independently-owned.	All but seven enterprises were formed as independent firms and 79 percent of the businesses remain independently-owned.
Age	One-third of the firms were founded within the last three years and 62 percent of the firms were less than seven years old. Four of the angel-financed firms had been established for more than 20 years.	Nine percent of the firms were founded within the last three years and 37 percent of the firms were less than seven years old. Twenty-two percent of the firms had been established for more than 20 years.
Founders	Eighty-three percent of firms were founded by 3 or fewer founders and 75 percent of founders still remain with the respective enterprises. In every instance, all or some of the founders had worked together prior to starting the new firms.	Eighty-three percent of firms were founded by 3 or fewer founders and 70 percent of founders still remain with the respective enterprises. In every instance, all or some of the founders had worked together prior to starting the new firms.
Sources of knowledge upon which firms were built	University 30.2% Government 11.6% Previous Employer 41.9% Personal R&D Activity 48.8% Another Company 18.6% Other 4.7%	University 34.0% Government 29.9% Previous Employer 47.2% Personal R&D Activity 45.8% Another Company 19.4% Other 2.1%
Size	The *average* size of the angel-financed firms was smaller, with a mean of 70 employees (compares with a mean of 380 employees for firms not financed by angels). However, both distributions were highly positively skewed. The *median* numbers of employees was 40 and 35 for angel-financed firms and other firms, respectively. The distribution of angel-financed firms tended to be more uniform.	
Other Sources of Financing	Fifty-seven percent of angel-financed firms had also obtained financing from institutional venture capital companies. This is an extraordinarily high percentage: institutional venture capital had been reported by less than 10 percent of the firms that had not received angel financing even though these firms tended to be older. This suggests that angel-financing may be a precursor to institutional venture capital. An alternative explanation is that firms financed by angels may differ in terms of their willingness to use external equity capital or to cede the control often necessary to raise such financing.	

Key Contributions Provided by Informal Investors to Small Businesses: The CEO Perspective

The thirty-three CEOs from companies that had received angel financing mentioned 66 specific non-financial examples of contributions that angels had brought to their companies. The verbatim transcripts of these examples were analyzed using NUD*IST, a recently-developed tool that permits computer-assisted analysis of qualitative data. By coding the and comparing statements it the researchers were able to discern six themes or patterns that captured the essence of the various ways in which private investors had provided non-financial assistance. The six themes identified by the research team on the basis of the 66 examples provided by the 33 CEO respondents were:

1. **Advice**, often on financial matters but also including guidance to management on a range of issues;

2. **Contacts** with a broad range of individuals who were able to assist in a variety of ways with the development of the businesses;

3. **Hands-on Involvement**, often at a very basic level;

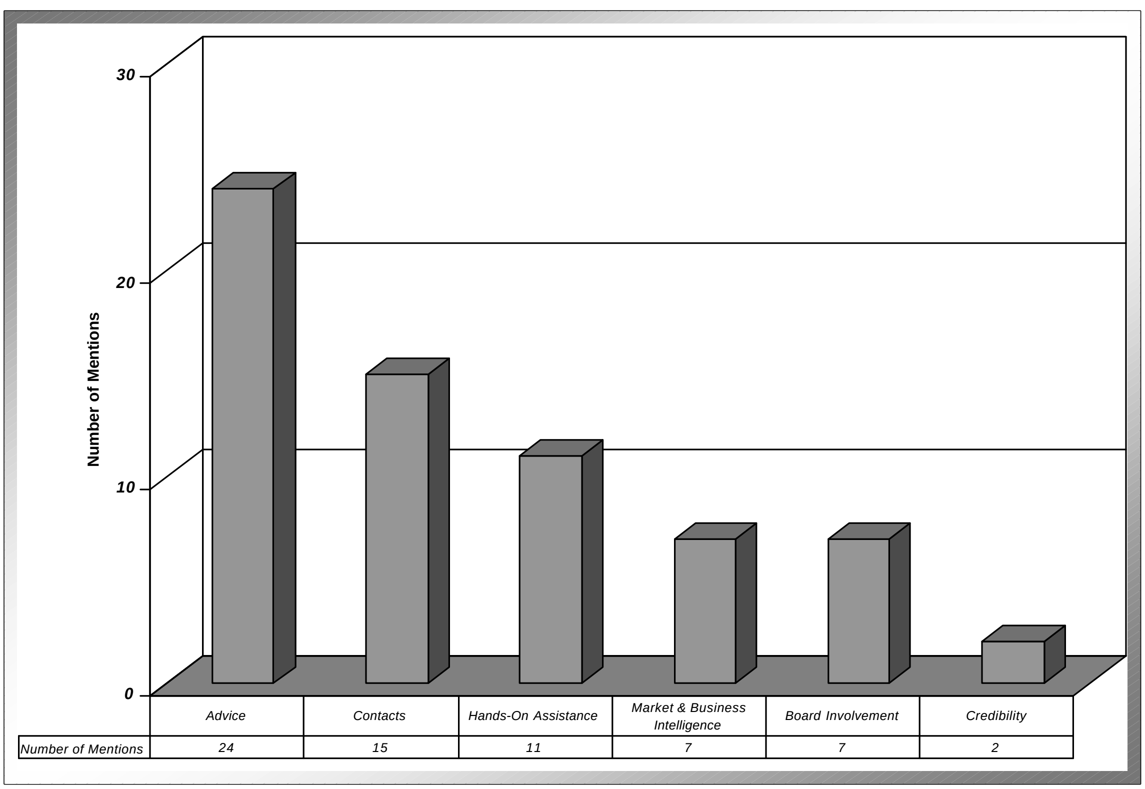
4. **Involvement with, and on, Boards of Directors/Advisors** including the identification of additional members of the Board;

5. Market and Business **Intelligence**; and,

6. **Credibility**.

Only one CEO among the 33 angel-financed companies that responded reported that private investors had not made any contributions - beyond their financial investment. The vast majority of CEOs identified multiple ways in which private investors had helped with the development of their respective enterprises. Chart 1 presents the relative frequencies with which CEO respondents mentioned each of these six categories of non-financial contribution. Each response category will now be described in more detail.

Chart 1: Relative Frequency of Private Investors' Non-financial Contributions



Advice

Most respondents note that private investors provide useful and on-going advice with respect to the management of the businesses in which they invest. The types of advice relate to:

- Company financial matters;
- Choosing professional service providers
- Advice on corporate strategy and strategic planning
- Managerial and general business advice; and,
- Marketing.

Included among these categories of advice is a role that relates to acting as a sounding board, assisting with the choice of professionals (accountants, lawyers, etc.), and providing information on government programs.

To provide a richer sense of the nature of these forms of assistance, the following statements illustrate both the natures of the advice and the CEOs' perspectives on the value of the advice.

> *"They [private investors] assisted by providing guidance to management, and … they also provided guidance in the development of a corporate governance process and reporting discipline."*

> *"[He] was available for questions and assistance without trying to impose his will on us."*

Not surprisingly, advice frequently relates to financing, as represented by the following excerpts from the qualitative data.

> *"In addition to making cash available, [the] investor provided assistance preparing our business plan to present to potential investors, provided legal opinions, helped map strategy when dealing with difficult situations encountered with customers, provided assistance in accessing government programs, [and] assisted in dealing with banks during negotiations concerning lines of credit."*

> *"Advice on financing - timing and contacts within the VC and investment bank community."*

> *"Our experience involved both an established VC investment and angel investment occurring at the same time. While our day to day activities involved the VC in terms of fine print, corporate finance and sound approach, our angel investor was valuable to the organization in providing sounding board and clarification to our day to day dealings and, as this individual is US-based, a senior executive in our target market industry, provided good "grass-roots" advice in terms of corporate presentation and strategy."*

While private investors' advice is usually referred to in a positive sense, it is not universally regarded as helpful. The CEO of one software firm, for example, states that:

> *"The advice on the practical topics of which professionals to use, etc. was rather general and, therefore, less useful."*

Contacts

Private investors are also valued for the contacts they provide. These contacts include, but are not limited to, purely financial relationships. To be sure, they include introductions to other investors and liaisons with other providers of capital. They also embrace working relationships with related firms and industry contacts, contacts with potential clients and customers, and contacts with governments. The following statements illustrate the variety of contacts provided by angels.

> *"Both our significant angel investors … assisted by providing guidance to management, and through their networks of … contacts they assisted in finding individuals interested in providing additional financing."*

> *"Recommendations for persons to approach to co-invest with the identified angel were useful."*

> *"[They] introduced us to professional advisors [and] to professional "networks". Provided "lobbying"-type assistance …"*

> *"[He] assisted with accountants, lawyers, hosting our website … got us meetings with his contacts that we would have had to work a lot harder to get otherwise."*

Hands-On Assistance

CEOs also identified several ways in which angel investors participate in a basic "hands-on" sense. Forms of participation include help with hiring and recruiting, negotiations, provision of 'free' business services, etc. Again, these are best illustrated by means of the words of the CEO respondents.

> *"[They provided a] consignment of electron microscopes by the UK supplier for demonstration purposes [and a] consignment of electronic and vacuum equipment for use in our R and D Department."*

> *"[They provided] legal advice, financial negotiations and seeks business opportunities … Also brought to company rights to exploit several new technologies which he uncovered."*

> *"[They provided] office space and office furniture …"*

> *"[They] provided advice in structuring our PowerPoint business plan."*

> *"[They] helped us find a new location when we started growing and gave advice on how to set it up. Was very thorough when doing research and gave us the results when applicable, i.e. office furniture, marketing firms."*

Perhaps the most striking example of hands-on assistance, however, is described by an experienced angel investor interviewed in Phase 4 of this research project:

> *"Initially the thirty-two shareholders got rather a large estimate from the demolition company [to demolish a building to make way for a new facility]. So the shareholders said 'lets bring in a couple cases of beer and come down there with axes and shovels and we'll dismantle it ourselves. We may not be able to build it, but we can sure as hell tear it down.' So the shareholders got together and we tore the place apart and we got to know each other and the camaraderie and the friendship that evolved there is more important to me at that stage than the ten years or five years it's going to take to see any money. And I thoroughly enjoyed the grouping and the idea that we could go in and work together like that and it has been a constant source of enjoyment to me to think back on how the thing was built. That's all part of it. It is not all money. … It is a way to become part of something and you get to ride along with it, and down with it as the case may be, but its beyond money. Obviously you would love to have a huge pay-off, [but] there are very few of those running around. So you have to rationalize part of the charge that you get comes from the people that are involved that you have had some role to play in the development of it, even if it craters at the end. I think adding on to that some of the investments, I was going to say the ten to twenty thousand dollar investments are almost recreational investments."*

Board of Directors & Advisors

While previous studies on informal investor practices show that a majority of angel investors seek representation on firms' Boards of Directors and Advisors, such involvement is mentioned by only seven CEO respondents. Invariably, the presence of angels on the Board of Directors or Advisors is mentioned in conjunction with some other form of non-financial contribution. This suggests that Board membership provides private investors with the means to monitor the needs of the firm and to identify ways in which they can bring their own 'value-added' to the firm. The following representative quotations provide a richer flavour for this observation.

> *"Served as Directors and provided bank guarantees for the company line of credit. Also provided personal loans."*

> *"Sits on the Board of Directors, acts as a reseller of products, provides input for development, marketing, growth opportunities."*

> *"Both our significant angel investors took an active role on the Board of Directors. They assisted by providing guidance to management, and through their networks of professional and potential client contacts. They assisted in finding individuals interested in providing additional financing as well as putting forward individuals for consideration as potential key employees."*

> *"[They] provided introduction to our original part-time CFO, original introductions to VCs, and some customers, introduction to our first executive recruit – VP Marketing, and [they] sat on Board of Directors."*

Market and Business Intelligence

Private investors provide several forms of market and business intelligence. These include industry information, identification of potential customers, market feedback, product development, and the identification of potential acquisition targets. Examples include, in addition to those identified in previous quotations (above):

> *"[Non financial contributions included] identification of possible customers, identification of technical partners or competitors… payroll benefits, handling employees."*

> *"[Investor provides] close working relationship with key angels - consultancy, re: takeover targets, financing."*

Credibility

Private investors play an important accreditation role, especially with respect to further financing. As noted previously, the incidence of subsequent financing from institutional venture capital sources is substantially higher for firms that are angel-financed than for firms that have not been financed by private investors. This preference is clearly articulated by a Halifax-region venture capital account manager:

> *"Angels are good [and] are welcomed by venture capitalists."*

In addition, this role is also acknowledged by a CEO respondent:

> *"My company's ability to brag about a marquis investor opened doors to other investors, and potential strategic allies, and even a CEO."*

This accreditation role is not limited to other forms of risk financing, but also relates to banking relationships as well:

> *"[Private investor(s)] … provided bank guarantees for the company line of credit."*

Key Contributions Provided by Informal Investors to Small Businesses: The Investors' Perspective

To further explore the nature of private investors' contributions, private equity investors were asked to describe their roles with the firms in which they invest. This was undertaken in a series of roundtable discussions held with Canadian angels, details of these meetings are described more fully in a report entitled *Practices and Patterns of Informal Investment*. For the majority of respondents, being able to provide the benefit of their experience and knowledge is crucial to making their investment decisions. The following is a sampling of statements to this effect made by discussion participants.

> *"… an investment criteria for me is to be able to determine what value I can add and if I see no value that I can add to an investment then I tend to walk away."*

> *"We tell everybody who comes in to us that 'you're not just looking for a cheque, what you're also looking for is that ability, the skill level that the investor brings to the table as well, they don't have money for no reason, they have money because they have a business and a business acumen or an entrepreneurial ability that you need to tie into as well.'"*

> *"When I want to be passive I go to the NASDAQ or the New York Stock Exchange."*

> *"I definitely want my hands on the steering wheel and they [business owners] know that up front."*

> *"What I like about investing in small companies is that as opposed to investing in a public company one's capacity to be able to contribute is much more limited and the ability to be able to guide and assist and cajole a smaller company is part of the reason I enjoy my association with them."*

> *"When I assume angel investment I'm talking about angel where I can add value."*

The forms of investment that private investors mentioned mirror many of those identified by CEOs. These include contacts, guidance, and hands-on assistance with the development of the firms.

> *"I think networking is so important. If you bring someone in and bring in five or six other people, there is a good chance that those people will have connections, whether it be accounting, legal or within that particular business. All the doors fly open."*

> *"Whether it is a network of contacts and the leverage that comes from that or personal skill and ability that can be applied to a situation; the whole aspect of value added is absolutely necessary to move those things forward."*

> *"A lot of times you become a mentor to the individual because they don t have the business experience, that is why they came to you in the first place."*

> *"In an investing company, I always take a board position and insist that proper board governance be put into place. I insist on the development of a board of directors as a breadth of ability and experience in governance … to hold management's feet to the fire constantly."*

> *"I'm in a deal with somebody now and he's got a business in Bangkok and he's limited to the Asian circle just because of his experience but now he's got somebody in North America and I've got European roots as well so I'm able to help him expand that way where he may not have been able to without me."*

> *"… we do a whole service and we can actually … help build the business plan and raise the capital and bring in managers who do the operating."*

The excerpts from the roundtable discussions with angels illustrate that the provision of contacts, guidance, involvement, and governance is not accidental or serendipitous. Rather, this is intentional, and a valued part of most private investors' ways of doing business. However, it is by no means universal:

> *"We have no involvement - we are equity lenders and we do not monitor the businesses."*

> *"We are the same, no involvement."*

Others are involved on a selective basis:

> *"My background is engineering and project management so I tend to get involved. [but] only at the procedural level, not at the operating level."*

In summary, the majority of Canadian informal investors see their role as mentors -- providers of contacts, guidance, and hands-on assistance. To be sure, there is a minority who does not take that view. However, most angels view these non-financial contributions as a critical aspect (perhaps the most critical element) of their investments in small businesses.

Alternative Sources of Angels' Contributions

As a point of comparison, the CEOs of 90 technology-based firms that were not financed by private investors were canvassed to learn about ways in which they availed themselves of contacts, guidance, and other contributions associated with so-called angel investors. Each CEO was provided with the form shown in Table 2. The form was developed based on the responses already described . Therefore, the categories represent a qualitative summary of the results from the angel-financed organizations. The form allowed respondents to show how, or if, they had obtained the contributions associated with private investors. Responses were obtained from 26 of these companies. Table 2 maps, for each form of contribution, the proportion of CEOs who identified each possible source.

Table 2: Alternative Sources of non-Financial Contributions

	Not needed	Self	Hired staff	Business Professionals (Lawyers, Accountants etc.)	Consultants, contractors etc.	Board of Directors/ Advisors	Trade Associations / Public Service Agencies	Nobody
Contacts with financial providers	8	52	16	40	4	40	4	4
Contacts with others in the industry		76	52	16	28	32	24	4
Contacts with government	8	75	38	4	12	21	4	
Contacts with customers		88	64	12	16	20	24	
Advice on financial matters	4	20	32	88		44	4	
Professional advice	4	29	29	67	17	33		
Advice on corporate strategy and strategic planning	4	56	36	20	20	64		4
Management/general business advice	8	60	28	40	20	52		4
Advice on marketing	12	52	56		12	12	8	8
Hands-0n Management (help where your firm has had a gap, e.g. hiring and recruiting, site locations, etc.)	8	56	48	20	40	20	4	
Identifying candidates for Board of Directors / Advisors	33	37.5	8	29		33		4
Business / Market Intelligence		75	67	12	29	25	29	4

Table 2 shows that business owners have three categories of providers that may serve as alternative sources of the types of non-financial contributions associated with private investors.

One alternative is for business owners to acquire the contacts, guidance, etc. by doing it themselves. As Table 2 shows, this alternative is one that owners rely on most extensively for contacts with others in the industry, contacts with government, contacts with customers and for business and market intelligence. This "do-it-yourself" approach, however, adds to the burdens already faced by the owner-entrepreneurs or diverts the principals from other aspects of enterprise development. The mapping also shows that this approach does not appear to be effective as a means of dealing with financial or professional matters.

A second alternative is to pay for the advice, etc., by hiring staff or from purchasing the services of business professionals or consultants. This approach appears to be a favoured means of acquiring financial advice. However, the use of hired staff, consultants or professionals appears to be less often used as a means of helping the firm expand its network of contacts or of obtaining business and marketing intelligence. Obviously, the alternative of purchasing access to contacts and guidance is costly. Moreover, private investors are arguably likely to be more conversant with the business and its challenges than an external professional advisor.

Finally, firms can make use of their Boards of Directors. This source of assistance seems to be most frequently employed for procurement of strategic and general business advice and secondarily as a source of financial contacts and information. Not all firms, however, had effective Boards of Directors or Boards of Advisors. Furthermore, a financial stake in the firm, such as that held by private investors, helps ensure that the nature of advice, contacts, etc. are appropriate and helpful. As noted by one private investor:

> *"When you're invested in something and giving advice, I think the character of the relationship changes in a positive way … you want to work with people that want advice and are going to benefit from it."*

Conclusions

All but one of the 33 angel-financed companies studied in this study reported that private investors make contributions beyond their financial investments. Most CEOs specified multiple ways in which private investors had helped with the development of their respective enterprises. It may be seen, from the verbal statements made by the business owners, that they found these contributions to be of substantial value in most (but not all) cases.

In addition, a high proportion of private investors also report that they make contributions to the firms in which they invest, contributions that go beyond their financial commitments. There appears to be a high degree of congruence between investors' points of view and those of the CEOs with respect to the nature, type, and frequency of these non-financial contributions.

Six categories of non-financial contributions were developed:

1. **Advice**, often on financial matters but also including guidance to management on a range of managerial issues;

2. **Contacts** with a broad range of individuals who were able to assist, in a variety of ways, with the development of the business;

3. **Hands-on involvement** in the firm, often at a very basic level;
4. **Involvement** with, and on, the Boards of Directors/Advisors including the identification of other members of the Board;
5. Market and business **intelligence**; and,
6. **Credibility**.

Business owners without angel financing were found to have three categories of providers that may serve as alternative sources for the type of non-financial contribution associated with private investors:

1. Do-it-yourself;
2. Pay for advice etc. by hiring staff or purchasing services from business professionals or consultants; and,
3. Making use of their Boards of Directors / Advisors.

A small proportion of respondents replied that nobody was a source of a category of non-financial contribution associated with angels. This percentage varied, of course, across the type of contribution. Further, some CEOs of a small proportion of firms felt that the non-financial contributions associated with angels were not needed within their organizations. Again, the percentage varied across categories.