TOWARDS A THEORY OF BUSINESS ANGELS’
POST-INVESTMENT INVOLVEMENT: A RESOURCE-BASED
APPROACH

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ABSTRACT
This paper focuses on the lack of theoretical frameworks, which adequately explain the post-
investment involvement of Business Angels (BAs). By drawing upon the basic theoretical concepts of
the “Resource-Based View” (RBV), this paper builds a coherent theoretical framework – the
“Involvement Process” – which addresses this theoretical scarcity. The Involvement Process emerged
from iterations between the RBV and the analysis of multiple, longitudinal and dyadic case studies.
The Involvement Process explains BA involvement with the help of an emerging triple role of
resources: BAs provide resources; investees and their managing directors (MDs) develop resources;
and a relational resource underpins the BA-MD interactions during involvement activities and
subsequent feedback about the involvement.

INTRODUCTION
The academic study of Business Angels (BAs) in the UK started in the 1980s with so-called first-
generation research (Harrison & Mason 1999), where researchers established BAs’ general
characteristics: BAs are private, wealthy individuals, who invest their own financial capital into small,
young, unquoted business ventures (De Noble 2001; Mason & Harrison 1996a). One key feature of
BAs’ investments is their post-investment behaviour as BAs tend to become involved in the investee
business. Such post-investment involvement can add non-financial value to the investee (Mason 2002).

LITERATURE REVIEW
Early research about BAs was mainly descriptive, concluding that BAs: are individual investors, who
invest modest to large amounts of their own money in typically small, young and unquoted businesses
(Mason 2006); tend to be motivated by a combination of return on investment and non-financial
motivators, such as enjoyment of business or opportunities to support entrepreneurs (Paul, Whittam &
Johnston 2003); tend to possess first-hand entrepreneurial and/or small business management
experience, as well as expertise in financial management (Mason & Harrison 1996b); choose investee
businesses in close proximity to their home or work place (Harrison, Mason & Robson 2003); and
often invest in familiar industries or sectors (Mason & Harrison 1996b).

Researchers further established that BAs’ most characteristic behaviour is their involvement in their
investee companies during the post-investment phase, which is the period of time between BAs’
financial investment into and exit from their chosen investee businesses (Landström 1993). Most literature about BAs’ involvement to date is empirical in nature as researchers identified common involvement activities. Often, these activities were placed along a “continuum of involvement” (Ardichvili et al. 2002, p. 57), ranging from passive to active investors. Passive BAs provide hardly any input into the investee business in addition to the financial investment, whereas active BAs provide a lot of non-financial input in the form of various involvement activities (Landström 1990). The most common involvement activities are: being a sounding board; monitoring reports; providing contacts; advising or mentoring the entrepreneurial manager(s); and becoming a member of the board of directors. However, subsequent studies have further identified less common activities – e.g. filling gaps in the management; co-entrepreneur; becoming managing director or board chairman. Hence, it must be acknowledged that any activity is possible (Macht & Robinson 2007; Van Osnabrugge & Robinson 2000).

The first study of BA post-investment involvement in the UK was carried out by Harrison and Mason (1992), who concluded that UK BAs tend to be rather active as only a small minority undertake passive involvement in the form of performance monitoring and being a sounding board. In a later paper, Mason and Harrison (1996a) built upon their early findings: more than 75% of UK BAs claimed to be active investors, and over half indicated that they spend more than one day per week being involved in their investee(s).

Independent from their frequency of involvement, BAs generally display a preference for strategic, rather than operational involvement (Politís & Landström 2002). This means that BAs tend to become involved in decision-making as opposed to operational, day-to-day activities (Sætre 2003). However, involvement does not remain static over time – both frequency of interactions and types of activities are likely to change as the investee business develops (Landström 1992). For instance, during short-term crisis situations, BAs might become involved more operationally to better support the investee (Kelly & Hay 2003).

**THEORETICAL FRAMEWORK**

Since a vast majority of BA studies were descriptive and/or empirical in nature, theoretical research in the BA field is still in its infancy: above all, the discipline lacks theoretical frameworks, which adequately explain BAs’ post-investment involvement (Politís 2008). Early attempts at theorising in the BA field tended to model the concept “involvement” as a collective, mainly by characterising and categorising it and by identifying factors that influence involvement. For instance, Landström (1992) developed a model of interaction strategies, in which he explained that active involvement tends to require informal interaction and high contact frequency, whereas passive involvement is formal and less interactive. This model also included the BA’s attitude towards the investee and the MD’s level of receptivity to involvement as factors, which affect the categories. Harrison and Mason (2004) used a critical incident model to also display factors, which affect the involvement, for instance, the parties’ assessment of each other or their interaction with outside parties. Studies like that have in common that they investigated involvement as a collective concept, as opposed to looking at individual involvement activities. Moreover, they all created their own models without taking into account the potential explanatory power of extant theories.

In order to overcome this criticism, some researchers have started to include prior theorising efforts by attempting to explain involvement with the help of extant theories. This very limited amount of theoretical BA research tended to draw heavily upon ideas and concepts relating to Agency Theory (Jensen & Meckling 1976). The common consensus from those researchers who attempted to apply agency theoretical thinking to the BA context (e.g. Kelly & Hay 2003; Landström 1992; Van Osnabrugge 2000) was that Agency Theory does not possess sufficient explanatory power for the BA post-investment involvement context. The same conclusion came from researchers who explored the applicability of other extant theories, such as Procedural Justice (e.g. Busenitz et al. 1997) or Prisoner’s Dilemma (e.g. Cable & Shane 1997).

Nevertheless, researchers argue that individual components of extant theories could potentially be used to develop theories, which adequately explain BAs’ post-investment involvement. However, theorising efforts in the BA discipline have so far neglected this opportunity to draw upon only individual concepts in order to create suitable theoretical frameworks (Politís 2008). This study draws upon the basic concepts of the “Resource-Based View,” short RBV (Barney 1991; Barney, Wright & Ketchen 2001), in order to create a theoretical framework, which can explain BAs’ post-investment involvement. The RBV was chosen as a starting point for theorising BA involvement because its components, the “resources,” are important and often-mentioned concepts in the entrepreneurship literature generally and were therefore deemed to possibly display explanatory potential in the BA involvement context; for instance, Hill and McGowan (1999) argued that entrepreneurs’ jobs are to obtain and manage resources required to exploit opportunities.
Barney (1991) developed the RBV in the context of competitive advantage in strategic management. He defined resource as anything that a firm can control, which shows that this definition was limited to only firms’ resources.

Over time, the RBV was adopted in various other areas of business and economics (Barney, Wright & Ketchen 2001). In order to make the RBV adequately suitable for their respective disciplines, researchers had to further develop and refine the definition of resources. This resulted in “resource” becoming a very broad concept, which includes many subject-specific resource types and inconsistent definitions. In order to make the concept most suitable for the BA post-investment context, this study draws upon various researchers’ definitions and conceptualises resource as: anything that can be owned, controlled, and/or transacted by a person or company (Barney 1991; Barney, Wright & Ketchen 2001).

Although research has established the applicability of the RBV to investor-related disciplines such as BA and Venture Capital (VC), researchers have previously merely applied the concept resource, but without attempting to use it to explain the investors’ involvement. In the VC context, Wijbenga et al. (2003) interpreted that investee businesses can acquire strategic resources through the interaction with their investors. Furthermore, Baeyens and Manigart (2006) and Ardichvili et al. (2002) argued that investors present their investees with resources when they perform involvement activities. Steier and Greenwood (1999) furthered this discussion by expanding from the one-sided provision of resources to the mutual exchange of resources in the BA-investee interaction. According to Politis (2008), only a BAs’ sounding board/strategic roles are relevant for the RBV, as they are the ones where BAs can directly input their resources.

While the initial form of the RBV features a number of assumptions, which are not applicable to the BA (and VC) context, the theory evolved over time and scholars have amended these assumptions to make them more appropriate to the BA context. First, Alvarez and Busenitz (2001) amended the traditional focus of the RBV on firm resources to an emphasis on individuals’ resources. Second, the traditional RBV has looked at only those resources relating to the creation of competitive advantage for the company (Barney 1999). Although Politis (2008) claimed that BAs’ resources can be a possible source of competitive advantage for the investee, the creation of competitive advantage is not of interest to this study. Finally, an implicit assumption of the RBV, which was amended by Sorheim (2005) is the fact that the RBV has been developed with a focus on large, established organisations, which are already in possession of bundles of resources (Rangone 1999). However, for most small, young businesses – i.e. the typical BA investment targets – this assumption does not hold true because they most often control no or only very few resources, so that they have to first obtain access to resources, before being able to use or control them (Ardichvili et al. 2002; Jarillo 1988).

While Financial Capital (Cassar 2004) is immediately relevant for BAs’ initial investments and follow-on investments (Macht & Robinson 2007), Ardichvili et al.’s (2002) study relating to BAs’ involvement focused on Reputation as well as Human, Social and Organisational Capital. This study follows Ardichvili et al.’s (2002) lead and also draws upon these resources types, which are further explained below:

**Human Capital (HC)** is an intangible resource, which is incorporated in the knowledge, skills, experiences and abilities possessed by people, i.e. know-what (Maula, Autio & Murray 2005). Individual HC is the know-what of individuals (Davidsson & Honig 2003) and it can be changed when people develop new skills and capabilities, e.g. through education (Coleman 1988). Everybody in the investee business has their own set of HC – the accumulation of the HC of all members of the investee is called collective HC (Davidsson & Honig 2003). Also BAs possess HC, e.g. their previous entrepreneurial experience, which they can provide to their investees (Landström 1990; Sætre 2003). This in turn can rub off on investee managers or entrepreneurs and thus further enhance their HC (Macht & Robinson 2007).

**Organisational Capital (OC)** is mainly tacit knowledge relating to culture and structure of the business, which can be codified and stored for example in the form of: databases; patents; manuals; technology; software; business model, idea and plan; supply chains and distribution networks (Petty & Guthrie 2000). OC is a collective resource and as such can not be attributed to individuals (Kogut & Zander 1992); hence, BAs cannot provide or assemble OC. BAs can, however, be involved in facilitating its development as they can provide “organizational resources” (Ardichvili et al. 2002, p. 44), which consist of individuals’ HC relating to organisational business aspects, such as culture or structure.

**Social Capital (SC)** is inherent within the relationships between people, i.e. know-whom (Maula, Autio & Murray 2005). If HC of one party is to be turned into HC of another party, it needs to be complemented by SC (Coleman 1988). Two types of SC can be distinguished: Bridging and Bonding.
SC Bridging (SC-Br) is a means of accessing the relationship partner’s resources as the partner introduces external network contacts, to which direct contact is not (yet) possible (Adler & Kwon 2002; Davidsson & Honig 2003). Since this is also a collective resource, BAs cannot provide SC Bridging as such; they can, however, provide the contacts, which make up SC Bridging (Ardichvili et al. 2002). This is very common for BAs as they often possess extensive contact networks in their industry or region, which they can introduce to their investee companies (Sørheim 2003). This opens up a wide array of potential other resources for the investee (Jarillo 1989; Sætre 2003), for instance, if BAs introduce sources of further finance (Sørheim 2005).

SC Bonding (SC-Bo) is a resource in itself as the internal relationship between actors within a certain group creates common goals, trust and cohesiveness. SC-Bo is essential for interaction and manifests in interactions (Adler and Kwon 2002; Davidsson and Honig 2003). De Clercq and Sapienza (2006) identified the relevance of this resource for BAs as they argued that BA-investee interactions require the establishment of a trusting bond and common goals early on in the relationship. Reputation is concerned with the mere presence of an actor and the information about the actor’s past performance (Ardichvili et al. 2002; Rangone 1999; Shane and Cable 2002). It is often included as an element of SC. Davila, Foster and Gupta (2003) showed that this resource is applicable in the BA context as BAs’ reputation, e.g. in their industry or financial community (Sætre 2003; Sørheim 2005), can facilitate the assembly of additional support from external parties for their investee companies (Ardichvili et al. 2002). The BA’s reputation can then also be transferred to the investee by creating credibility in the business (Fried & Hisrich 1995; Sætre 2003).

By building upon these resources, this study draws upon the core components of the RBV (an extant theory) in order to develop a theoretical framework suitable for explaining BAs’ post-investment involvement. The next section details how the study was conducted.

METHODOLOGY

The purpose of this paper is to build a theoretical model capable of explaining the BA involvement in order to address the current lack of theoretical underpinnings in the BA discipline (Politis 2008). In order to achieve this aim, using an inductive, qualitative approach to data collection, which could result in rich, in-depth data, was imperative (Eisenhardt & Graebner 2007). Eisenhardt’s (1989) approach to theory-building with the use of case studies was most suitable: it not only allows for in-depth data collection, but also enables drawing upon preconceived theoretical ideas to help loosely guide both data analysis and theory-development (Meyer 2001). For this study, analysis and theorising were guided by drawing upon the basic components of the RBV. According to Curran and Blackburn (2001), such an approach is a viable alternative to the creation of completely new theories as it takes account of and builds on preceding theorising efforts.

Theory building through case study research is best done by conducting multiple, in-depth, longitudinal case studies, which enable the collection of rich, contextual data (Eisenhardt 1989; Welman, Kruger & Mitchell 2005; Yin 2003). Case studies are particularly useful to examine BAs’ post-investment involvement as they enable the inclusion of multiple viewpoints. This is important for this study, as any investigation of BA involvement should explore the perspectives of investors and investees (Harrison & Mason 2004).

In order to accommodate this requirement for dyadic data, loosely-structured interviews with both BA investor and Managing Director (MD) of the investee in each case were chosen as the most appropriate method (Easterby-Smith, Thorpe & Lowe 2002). The MD was selected as one observation unit, because s/he is the most senior executive, the decision-maker, and deemed most likely to play a role in BA involvement (Fuller & Lewis 2002).

Following Eisenhardt’s (1989) view that the ideal sample size for case study research is between four and ten cases, six matched BA-MD dyads were purposefully selected to diverge according to the amount of the BAs’ involvement (Neergaard 2007); hence, the participating BAs would range from active over medium-active to passive (Ardichvili et al. 2002). BAs’ level of involvement was chosen as the selection criterion because it enables the exploration of potential cross-case commonalities despite varied degrees of involvement (Chetty 1996). Since two of the case companies went out of business shortly after the start of data collection, the number of cases was unfortunately reduced to four. Nevertheless, case study researchers have emphasised that this sample size is sufficient for thorough analysis of dyadic data, rigorous cross-case comparison and the development of theoretical frameworks (Verschuren 2003).

In order to include a longitudinal element into the data collection, both BAs and MDs of the chosen dyads were interviewed separately from each other on four occasions between February 2007 and May 2008 (Creswell 2003). Questions were only loosely structured around the broad topic area of BA involvement (cf. Sætre 2003). This resulted in detailed, qualitative data, which was sufficiently...
consistent as to enable comparison across participants and dyads, while at the same time leaving ample room for extensive probing (Miles & Huberman 1994).

Following each interview round, verbatim transcripts were produced, which were subjected to qualitative data analysis techniques in order to organise the large amounts of rich data into meaningful categories (Saunders, Lewis & Thornhill 2007). Operationally, analysis started with the allocation of codes to appropriate parts of each transcript: a combination of a priori codes, developed from extant literature and the RBV (Ryan & Bernard 2003), and open codes, which emerged from the data without a clear a priori relation to extant literature (Shaw 1999), was used. After each interview round, the list of codes was iteratively revised and amended. By treating early transcripts with the same codes as later transcripts, the longitudinal element was addressed (Johnson et al. 2007) and the overlapping nature of data collection and analysis in inductive studies was achieved (McLellan, MacQueen & Neidig 2003). Following the final round of interviews, substantial iterations and revision of codes resulted in the emergence of a list of codes (again including a priori and open codes). After all interviews had been subjected to the same list of codes, individual codes could be pulled together into fewer and broader internally homogeneous themes (Shaw 1999). Table 1 displays these themes and their underlying codes and explicates the thought processes leading from the raw data to the emergence of each theme.

Table 1. Emerging Themes

<table>
<thead>
<tr>
<th>Emerging Theme</th>
<th>Description of Theme</th>
<th>Underlying Codes</th>
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<tbody>
<tr>
<td>Involvement Activities</td>
<td>This theme includes all data relating to any type of activity that the BA did for, with or on behalf of his investee company. The commonly applied passive-active continuum of involvement activities (e.g. Ardichvili et al. 2002) was used to characterise the involvement activities. Moreover, all involvement activities were found to require interaction between BA and MD.</td>
<td>Passive Involvement, Active Involvement, No involvement, Interaction</td>
</tr>
<tr>
<td>BA’s Resources</td>
<td>This theme refers to the BA’s resources that he provides into the business during his involvement activities. Resources characterise the nature of the input that BAs are providing to their investees during their involvement activities (Baeyens &amp; Manigart 2006).</td>
<td>Financial Capital, Human Capital, Contacts, Reputation</td>
</tr>
<tr>
<td>Resources within MD and/or Investee</td>
<td>This theme relates to the resources within the recipient of the involvement, i.e. the investee company as a whole and the MD as the key individual. The “resources developed” refer to those resources, which are being created or enhanced within the investee business and/or MD because of the BA’s involvement. In order to be able to explain what resources have been developed or enhanced, there is a need to also acknowledge the current state of the investee’s and MD’s resource base, so that indications to the latter are also part of this theme.</td>
<td>Current resources: MD’s resources, Investee’s resources, Resources developed: Investee’s: Financial Capital, Organisational Capital, Social Capital Bridging, Reputation, MD’s Human Capital</td>
</tr>
<tr>
<td>MD’s Reactions to Involvement</td>
<td>This theme discusses the way in which the MD reacts to the involvement of the BA, with regard to responses to actual involvement activities, communication of such responses and which dyadic party initiated any involvement.</td>
<td>Initiation of Involvement, Responsiveness, Communication of Responses to Involvement</td>
</tr>
</tbody>
</table>

Concurrently to the coding process, Miles and Huberman’s (1994) “data display and analysis” method was used extensively as codes and emerging themes were displayed in a graphical manner. Theory-developers (e.g. Langley 1999) advocate this approach as visual displays of the data allow the representation of large amounts of data, while at the same time enabling the illustration of relationships between concepts or themes. The latter was of particular use for this study as theorising includes a synthesis of concepts or themes and a plausible explanation of their interrelationships (Silverman 2000; Yin 2003). Various forms of displays were tried for this study, which attempted to incorporate all elements of the emerging list of themes (Miles & Huberman 1994; Shaw 1999). Eventually, it emerged that matrices, i.e. the usage of two lists crossing each other in a table form with rows and columns, were the most appropriate way of exhibiting the data (Miles & Huberman 1994). Memos and a reflective research
diary were used to explicitly record thought processes and decisions with regard to theory-building (Shaw 1999).

Since this study’s theory was built on the basic premises of the RBV, the concepts and components of this theory were kept in mind throughout the entire analysis process. Operationally, this means that these theoretical considerations were included into the extensive iterations during coding, the development of themes and even more so during the creation of the framework and the explanation of the interrelationships between themes.

Once a theoretical framework had emerged, which could coherently and logically explain involvement and which included all emerging themes from the data, the theory was introduced to the research participants. They were asked to attempt to apply it without the researchers’ help and to provide additional feedback on it, for instance, by commenting on its usefulness, understandability and appropriateness (Mellor 2001). Scholars like Hendry, Arthur and Jones (1995) and Silverman (2000) advocate such a validation exercise as a useful way of increasing a study’s quality and of confirming interpretations and emerging theories. In this study, all participants confirmed the theory’s applicability and understandability and their comments resulted in only minor changes to the theory.

The next section will present the case study findings, which led to the matrix that was ultimately used as the basis for the emerging theory. This will be followed by a section detailing in a logical manner how this basic matrix was further developed into the actual theoretical model, which this paper sets out to develop.

PRESENTATION OF THE FOUR CASE STUDIES

This section presents the four case studies by briefly summarising the key empirical findings, which led to the development of the theory. Each case starts with an introduction to the BA, MD and investee company, which is followed by a brief description of the BA’s main involvement activities and their context. Names of companies and individuals are fictitious in order to guarantee anonymity to the participants.

Case A “AccoMode”
The BA Gregg is a cashed-out entrepreneur who possesses Human Capital (HC) in the form of extensive experience of organising, structuring and selling companies, but lacks technological understanding. Gregg invested in AccoMode, which is a young internet-based hotel booking company founded and run by Joe. The latter was a young entrepreneur with a technology background, who concurrently ran a leisure business (called “Funjoyment”) but displayed a limited ability to produce accurate reports and plans for his businesses.

Immediately after the investment, Gregg’s involvement was very active: in his role as non-executive director on the board and informal mentor to Joe, Gregg initiated the development of Organisational Capital in the form of business procedures, structures, disciplines and systems in AccoMode. All of this involvement required Gregg to interact with Joe and enabled Joe to improve on his reporting abilities; Joe’s planning skills however did not seem to change despite Gregg’s involvement. At a later point, when AccoMode faced a liquidity crisis, Joe decided to sell Funjoyment and to inject the proceeds into AccoMode. Drawing upon his previous experience relating to company sales, Gregg offered a personal bridge loan to Joe until Funjoyment was sold. After having agreed this deal verbally, Gregg formulated the exact terms and conditions of the loan. Since Joe believed some of these written conditions to be overly onerous, he ended up rejecting the loan by refusing to even acknowledge its offer. This led Gregg to resign from the board of directors. After having resigned, Gregg still received shareholder information and claimed that he wanted to remain supportive to Joe also in the future.

Joe’s responsiveness to Gregg’s involvement was highly selective: he implemented Gregg’s input only if it was formalised in the minutes or if he believed it to be appropriate (e.g. systems development), which was often not the case because of Gregg’s lack of HC in AccoMode’s technology. When input was not accepted, Joe only provided a limited amount of feedback and on some occasions (e.g. when Gregg offered the loan) Joe ignored the BA’s involvement or only provided feedback when specifically probed. The more active and unique involvement activities were instigated by the BA, whereas ongoing input, such as advice, was MD-initiated.

Case B “V-Touch”
Paul, the BA, is a trained lawyer and accountant, who works with SMEs and entrepreneurs in his accountancy firm and has a vast contact network in legal circles. However, he has no first-hand entrepreneurial experience and does not understand technology well. Paul’s first BA investment was in a high-tech company called V-Touch, the major product of which is a virtual reality training software for the medical industry. V-Touch’s founder and MD, Gabriel, also owns a web development company, but he believes that his own knowledge and understanding of business is still limited.

Paul’s attitude during the entire post-investment period was that investors should be supportive, but not distract the management from their task to run the business. This, in combination with his lack of
technological understanding, led him to deliberately remain very passive: he attended shareholder meetings and provided moral support. Only occasionally did he become more involved: he introduced a politician to V-Touch, who campaigned for them; he provided legal advice when other shareholders requested a contractual change to the shareholder agreements; and he offered to invest further capital on a preference share basis.

Gabriel proactively sought advice from investors, but he did not implement all input received. The reason for this is Gabriel’s attitude that it is polite to be responsive and that it is his job to explain reasons for rejecting involvement. While Gabriel invited Paul to regular update meetings, Paul himself initiated the more active involvement activities.

Case C “TubeTech”

After having started an academic career in a technological field, the BA Alex soon moved into the energy and utilities industry, where he held executive positions in various university spin-offs and intrapreneurial businesses. While TubeTech was Alex’s first BA investment, his day job at that time was to invest in innovative research and development in oil, gas and nuclear sectors on behalf of his employer, a large energy company. TubeTech is also a university spin-off, operating in the energy and utilities sector. It was founded by an academic, who took the role of Technical Director, whereas Neil, a financial controller by profession, was made MD. Neil, while having good understanding of finances, displayed a lack of strategic and commercial thinking.

At the time of his financial investment, Alex had assembled a syndicate of other private investors and two co-investment funds; all of this finance was injected into TubeTech and the co-investors required Alex to join the board. Alex’s involvement remained rather active throughout the post-investment period: as a non-executive director, and based on his previous experiences, Alex offered involvement relating to strategic thinking, commercialisation of technology, branding and a negative view on inventors in controlling positions. Moreover, Alex was given even more active responsibilities, as he was asked to establish an operational team for the water side of TubeTech and to use his contact network to build relationships within the water industry. He provided many contacts in TubeTech’s industry (i.e. clients and potential partners) and the investment community (e.g. funds). In addition, Alex attempted to change the culture of the business towards a more strategic outlook, mainly by coaching and mentoring Neil on an informal, one-to-one basis; this effort, however, fell on deaf ears.

With regard to Neil’s reactions to involvement, the two parties provided inconclusive accounts: according to Alex, Neil was only responsive to involvement, which he believed to be of value, but displayed selectivity on resource constraints, but claimed that he listened to all input he could get. On many occasions when involvement was rejected, rejection was only communicated reactively, while Neil claimed to simply mention rejection or to not discuss it at all. Most involvement activities were BA-initiated or derived from a consensus within the venture.

Case D “GemStar”

In this case, the BA Mel has extensive experience in both the academic study of physics and electronics and the practical application of these sciences as he had started and run a business operating in the vision systems and imaging industry, serving the defence and security markets. From this background and his day job as a technology transfer advisor at a university, he had also gathered a detailed understanding of patenting and intellectual property (IP). Mel found a dormant patent relating to semiconductor material for use in x-ray scanners. Subsequently, Mel himself started GemStar by investing and looking for an MD. Ajit was appointed MD as he had some technological and executive experience, as well as an understanding of small ventures based on working for a family business.

Mel was a highly active investor all throughout the post-investment period: early on, he structured and co-managed the business and also later on, he remained central to all activities at all times. Being mentored informally enabled Ajit to develop further as an MD of an entrepreneurial technology venture. Mel also created patents, contributed to presentations and meetings with internal (e.g. board) and external parties (e.g. stockbrokers). Moreover, he wrote and updated business plans, tender documents and competition applications. Once the business was more established, Mel became a paid consultant for GemStar; as a part of his consultancy role, he initiated a project, which changed the focus of the business from producing materials towards developing full systems. Having been made project director, he became even more active than during his early involvement, for instance, by introducing contacts from the security industry and a senior scientist in the government defence department.

Both MD and BA also had a very rational approach to how MDs should react to investor involvement: it is an MD’s job to act according to the investors’ wishes and thus, Ajit was always responsive if the board consensus decided to implement Mel’s suggestions (which happened most of the time). Also, Ajit provided detailed and proactive communication of his responses. Apart from the start-up and the
systems project (which were BA-initiated), most activities seemed to be instigated by common consensus.

**CROSS-CASE ANALYSIS AND DISCUSSION**

As previously explained, this study made use of visual displays (in particular matrix displays) of data, in order to analyse the emerging themes and their inter-relationships. The data has shown that Ardichvili et al.’s (2002) idea of investigating BAs from a resource-based perspective is valid. However, while Ardichvili et al. (2002) argued that BAs assemble resources for their investees, this study shows that BAs possess their own individual resources (i.e. Financial and Human Capital, Contacts and Reputation), which they can bring to their investee businesses.

However, both data and the RBV itself pointed towards an even wider role of resources in the area of BA involvement: theoretical considerations revealed additional resource types, such as Social and Organisational Capital or an organisation’s collective Human Capital (Stewart 1998). These additional types of resources reside within organisations or relationships and therefore cannot be attributed to individual BAs (Kogut & Zander 1992; Maula, Autio & Murray 2005). Empirical investigation of the data came to a similar conclusion, as an emerging theme referred to the resources within the investee businesses. Based upon that emerging theme, the investees’ FC, OC, SC and Reputation were part of this study’s analysis. Due to the level of access the researcher obtained in the investee companies (i.e. only the MDs were interviewed), this study did not investigate collective HC, but only the MD’s individual HC. A combination of these theoretical and empirical reflections resulted in the realisation that resources play a dual role in BAs’ involvement: both investors and investees (including their MDs) possess their own resources. BA literature has not explicitly acknowledged the dual role of resources, but some authors hinted at it, e.g. Murray (1996, p. 54) argued that investors possess “a portfolio of complementary skills that could augment the existing resources of the founder manager(s).”

Since one of the key themes refers to the BAs’ involvement activities, the data has shown (as briefly summarised in the case descriptions above) that BAs provide their resources into the business through involvement activities. In the same line of thought, the MDs/investees develop resources through involvement activities. Therefore, the data suggests that involvement links the two parties’ resources. This understanding led to the development of a basic matrix, which displays involvement as a combination of three of the emerging key themes: BAs’ resources and MDs’/investees’ resources as headers for columns and rows respectively, and involvement activities as contents of the matrix. Table 2 shows this basic matrix in a generic way, together with some examples from GemStar (Case D) to illustrate how the data fits into the matrix (in red).

Table 2. Basic analysis matrix with examples from the data

<table>
<thead>
<tr>
<th>Resources that BA inputs into the activity</th>
<th>BAs’ Financial Capital</th>
<th>BAs’ Human Capital</th>
<th>BAs’ Contacts</th>
<th>BAs’ Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Capital</td>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD’s Human Capital</td>
<td>Mel mentored Ajit in entre-preneurial matters</td>
<td></td>
<td>Involvement Activity</td>
<td></td>
</tr>
<tr>
<td>Organisational Capital</td>
<td>Mel created patents for GemStar</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Capital (Bridging)</td>
<td>Involvement Activity</td>
<td>Mel introduced contacts from the Home Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
<td>Mel contributed to presentations</td>
</tr>
</tbody>
</table>

Although this matrix was developed because of its empirical closeness to the data, there is also a conceptual logic behind why it is being used as the basis of the new theory: Ardichvili et al.’s (2002, p. 43) study, which discussed that “angels do participate in the assembly of non-financial resources,” gave rise to the understanding that involvement activities might link BAs’ resources and investees’/MDs’ resources. Furthermore, Ardichvili et al. (2002) did not explicitly mention that BAs’ involvement develops resources in their investee businesses. However, they (*ibid*, p. 52) discussed...
various involvement activities, such as “angels help entrepreneurs shape their business concepts or business models, [or] assist in finding additional sources of capital,” which indicated that BAs’ resource provision through involvement might be able to create or enhance resources within the investee/MD. Using the example from Case D again, this study’s data showed that BAs, for instance, provide HC (e.g. Mel mentored Ajit in relation to running an entrepreneurial technology business) and that MDs learn from that and develop their own HC (e.g. Ajit developed as an MD of an entrepreneurial company).

This understanding that the involvement activities link the dual role of resources in the involvement forms the foundation of further theorising based on the empirical data, which will be presented next.

**THEORISING THE BA POST-INVESTMENT INVOLVEMENT**

Table 2 showed the dual role of resources and the understanding that they are linked by the involvement activities. While this already incorporates three of this study’s emerging key themes, the remaining theme can also be logically and coherently incorporated into the emerging theory. This section presents the further development of the emerging theory.

As the case descriptions have shown, interaction between BA and MD happens at some point if the BA is to undertake any involvement activity for, with or on behalf of the investee company. Since the BA-MD interaction has emerged as an important part of the Involvement Activities theme, it can be explicitly included into the basic model and the dual role of resources. Thus, it becomes clear that there is a need for interaction between BA and MD in order for the resources to be transferred from BA to investee/MD. Since theoretical exploration of the RBV has shown that interactions of any kind inevitably develop SC Bonding (SC-Bo) within the dyadic relationship (Adler & Kwon 2002), a third role of resources can be added into BAs’ involvement: SC-Bo is needed for interactions to take place and it manifests in interaction (De Clercq & Sapienza 2006). Therefore, SC-Bo is needed in order to enable resources to move from BA to MD/investee. A similar line of reasoning has already led researchers from other disciplines to conclude that SC-Bo is needed to move HC from one person to another (Coleman 1988; Foa & Foa 1980). Figure 1 displays a summary of the theoretical understandings relating to this emerging triple role of resources in BA involvement.

Figure 1. Triple Role of Resources in BA Involvement

However, the process, as displayed in Figure 1, is more complex than a simple “resource transfer” as it also includes a “resource transformation.” A mere transfer would only be possible in the case of FC, where money was simply handed over from BA to investee. However, all other resources cannot be transferred; they also have to be transformed on the way. The following example (from AccoMode Case A) illustrates such a transformation of HC: Gregg’s expertise in working with detailed business disciplines allowed him to impart knowledge on to Joe, who then developed his own knowledge based on Gregg’s involvement. However, Joe did not develop the exact same expertise as Gregg, just because Gregg provided his HC in that area. The idea of adding transformation to the simple transfer becomes even clearer when looking at the development of OC in the business. OC cannot be provided by an individual as it relates to the structural resources within a company (Kogut & Zander 1992). Instead, it is possible for individuals (i.e. BAs) to input HC of organisational relevance into the business, which is then transformed into OC of the investee (Ardichvili et al. 2002). For example, Mel (Case D) used his own knowledge and scientific understanding of the investee’s product and processes (i.e. part of his HC) to write a patent application. This resulted in the creation of Intellectual Property for GemStar,
which constitutes OC. This example shows that the BA’s HC is being transformed (red arrow in Figure 1) during the involvement activity into OC of the investee company.

**FURTHER DEVELOPMENT OF THE THEORY: THE “INvolVEMENT PROCESS”**

Even though the theoretical ideas, which have been summarised in Figure 1 above, explain involvement with the help of a triple role of resources, there is an additional theme, which has emerged from the data, but which has not been taken into consideration in the framework yet. This theme refers to the MDs’ Reactions to BA Involvement (i.e. Responsiveness, Communication of Responses and Initiation of Involvement). This section shows how the triple role of resources can be further developed to also include this theme. To do so, this section explains the thought processes behind and logical reasons for including the theme. Subsequently, this section ultimately results in a coherent framework, which derived from extensive iterations between empirical data and RBV and which is capable of explaining involvement from a resource lens.

If involvement was as simple as the arrow in Figure 1 indicates, every resource a BA possesses, which can be provided through involvement, would also reach its target (i.e. the MD/investee) and be accepted there in the form of developed or enhanced resources. The data clearly showed that this is not the case, for instance, in Case C, where Alex attempted to change TubeTech’s culture, but the intended development of this OC did not happen. Such examples from the data thus point towards the possibility of factors interrupting this flow of resources at different points. The first point, where the flow can be interrupted, is within the BA: just because a BA possesses certain resources, it does not mean that s/he will provide them to the investee. For instance, some BAs are entirely passive and have no aspiration to become involved (Ardichvili et al. 2002); also this study found instances where BAs refused to provide certain resources, e.g. Gregg (Case A) was in possession of a network of contacts, but he was not willing to make introductions to Joe. This shows that BAs need to be willing to provide their resources; this study refers to that as “Involvement Readiness.” While some BAs are not immediately involvement ready, a majority of BAs seem to be involvement ready from the moment they invest, which is evidenced by the large amount of BAs whose investment motivation is at least partially to contribute to the business or who become involved immediately after their investment (Paul, Whittam & Johnston 2003).

Moreover, even if a BA is generally willing to contribute involvement, it does not mean that the BA becomes involved; for instance, Paul (Case B) had some resources to contribute and was generally willing to contribute them, but did not become involved at all during the first six months of his post-investment period. This shows that a BA’s involvement readiness needs to be activated in order for the BA to become involved. This happens if the involvement is instigated. For the purpose of theorising, such instigation is referred to as “Involvement Trigger,” which elicits action from the BA. Such an involvement trigger can take many forms, for instance, an MD asking for support or a BA identifying an involvement opportunity. This shows that Initiation of Involvement, a component of the emerging theme MD’s Reactions to Involvement can be incorporated into the framework.

The next point, where an interruption can possibly happen, is the involvement activity itself, where the flow of resources might stop if, for instance, the parties had a severe argument and fell out – however, no instances of this possible interruption was found in the data. Since the involvement activities can develop resources in the investee business and/or MD, the next potential point of interruption is within the remit of the MD within the investee company. MD’s Responsiveness, which is also a component of the emerging theme MD’s Reactions to Involvement, proposed a reason for this: the MD, who is the key figure in the business and also usually the most direct point of contact for the BA, can be seen as a “gatekeeper” who has the power to stop resources from being developed in the business. Responsiveness was previously advanced under the name receptivity by Landström (1992). If the MD is responsive, this phase completes the resource transformation.

So far, two components of the emerging theme MD’s Reactions to BA’s Involvement have been incorporated into the model: Initiation of Involvement and MD’s Responsiveness to Involvement. This means, however, that a further component is not included yet: MD’s Communication of Responses. This part of the theme can be incorporated into the theory by adding a “Feedback” stage, which leads from the MD back to the BA. This stage includes communication about the involvement and the MD’s degree of responsiveness and resource adoption. Feedback can happen in a variety of interactive and non-interactive ways, for instance, formally during meetings or implicitly through continuous usage of the resource.

Although the idea of feedback from MD to BA derived from the empirical data, the feedback stage of the emerging theory can also be explained by drawing upon the RBV: the provision of feedback from the MD to the BA also constitutes a flow of resources (i.e. knowledge about resource provision,
resource adoption and involvement). When the BA receives this feedback, it can in turn increase his/her own HC, which can be used for a future involvement activity.

Adding feedback into the model further suggests that interruptions to the flow of resources can also happen at this stage, for instance, if the MD does not provide the type or detail of feedback the BA would like to see. An example from the data (Case A) shows this: Gregg claimed that his resignation from the board was partly due to the fact that Joe had ignored, rather than rejected, his loan offer. In addition to interpreting feedback as a flow of resources, the feedback phase can be further explained by drawing upon SC-Bo once more: the existence of SC-Bo increases the flow of information between parties (Davidsson & Honig 2003) and can thus facilitate the feedback from MD to BA.

As the previous paragraphs pointed out, the emerging theory explains involvement as a flow of resources. This flow starts with the BA providing his resources to the MD/investee and eventually ends with the BA obtaining feedback on the resource provision and involvement. This suggests that involvement is more than just an activity – it is a process, which involves both parties, as well as the involvement activity and the flows of resources between the parties. Therefore, the emerging theory is called “Involvement Process.”

### SUMMARY AND DISCUSSION OF THE THEORETICAL FRAMEWORK

The preceding section demonstrated how this study used the basic premises of the RBV to create a model of BA involvement, which is capable of explaining involvement through a resource lens. By presenting the development of this model in a logical manner, the previous section transparently explained how all emerging themes were incorporated into the model in a coherent way. Due to the emerging understanding that involvement is more than a mere activity, the model was called “Involvement Process.” This section summarises the entire model and displays it graphically.

Since the theory is built upon the triple role of resources, which has emerged from this study’s data, the graphical display of the Involvement Process was developed from the display of the triple role of resources (see Figure 1 above), including BA’s resources, MD’s/investee’s resources and the interactive involvement activities (SC-Bo) linking the dyadic parties.

The model depicts the involvement process by displaying the flows of resources (in red) as a circle. The model starts with the BA and his resources, which are provided into the business if the BA is sufficiently involvement ready and faces a trigger that elicits his action. Involvement readiness and trigger are displayed as a dotted line, which the resources need to penetrate if they are to be input into the business. Subsequently, the resources are being transformed into a suitable form for the MD/investee during the actual involvement activity, which requires interaction between BA and MD. If the MD as the gatekeeper is responsive to the involvement, the resource transformation is completed. MD-responsiveness is also represented as a line, which the resources have to penetrate in order to enter the business. In that case, the resources are being adopted into the MD/investee, where they enhance existing resources or develop new ones. In order to close the circle, the MD then provides feedback to the BA about the involvement. Underlying the feedback is SC-Bo once more as it facilitates the flow of information. Considering that SC-Bo is relevant for the interaction during involvement, as well as for the flow of information and resources as part of the entire involvement process, the model suggests that SC-Bo implicitly underpins the entire involvement process.

**Figure 2. The Involvement Process**

The “Involvement Process” theory proposed in this study is a novel way of investigating and explaining involvement through a resource lens. Despite this originality, not all of the theory’s components are fully new. For instance, Landström’s (1992) model of interaction strategies includes similar components to this study’s theory, e.g. active and passive involvement, interaction and MD’s receptivity. Also Harrison and Mason’s (2004) model of critical involvement incidents contains
various concepts, which can also be found in the Involvement Process, e.g. involvement activity and interaction. Nonetheless, the way, in which this study’s model brings together all of its emerging themes, is a novel approach to theorising BA involvement.

A further characteristic of the Involvement Process, which distinguishes it from prior theorising efforts in the BA discipline, refers to the fact that the involvement process was developed based on each individual involvement activity, as opposed to the collective involvement in the entire post-investment period. Such an approach allowed for a better insight into the BA involvement, as it moved away from the traditional research approach of either asking participants to generalise their involvement experiences over the entire post-investment period (Harrison & Mason 2004) or of attempting to explain involvement as a collective (e.g. Landström 1992). The analysis of this study’s data and the resulting model suggest that each interactive involvement activity that a BA undertakes starts to go through the same general process and thus can be explained by the model. Furthermore, the model enables the extension of its explanatory power to also include involvement activities other than only the one that is being examined at any point in time. This shows that the involvement process can be used to explain both the individual activities and the collective post-investment involvement: various involvement circles can happen concurrently and consecutively, as BAs can be involved in several activities at once and start new activities during or after other involvement. This shows that individual involvement processes are not fully independent from each other, but can be seen as mutually influencing each other.

CONCLUSION
This paper aimed at addressing the current lack of theoretical underpinnings in the area of BA post-investment involvement (Politis 2008) by building a theoretical model capable of explaining BA involvement in a logical and coherent manner. This aim was achieved as the paper used iterations between the basic premises of an extant theory (the RBV) and the empirical data collected from multiple case studies to create a model, which explains the involvement through a resource lens. This paper adds to the current theoretical literature in the BA discipline in two main ways: first and foremost, the paper extends the theoretical sophistication of the BA field by presenting a coherent framework, which is not only empirically grounded, but also based upon extant theorising efforts. Secondly, this paper also offers additional and novel theoretical understandings, which are embedded in the framework:

- The basic understanding that resources play a triple role in BA involvement constitutes an addition to current knowledge: BAs provide their own resources into their involvement activities, which ideally develop resources in the investee and/or MD. Based upon the fact that involvement activities require interaction between BA and MD, the third role of resources comes into play: interactions create Social Capital Bonding (SC-Bo), which also underpins the feedback from MD back to BA. This insight has not previously been presented in the context of BA post-investment involvement.
- The understanding that involvement should not be seen as an activity, but as a process, which is stretched in time and includes a number of phases, is a further novel insight into BA involvement.
- The inclusion of the recipient of the involvement into the involvement process constitutes a further contribution as this study showed that involvement is not a purely BA-centred concept. Instead, it should also include the investee and its MD as they were found to be of crucial relevance in the process.

Moreover, since the Involvement Process framework was developed upon the basic premises of the RBV (Resource-Based View), this study also contributes original insights into the RBV literature and demonstrates that the RBV can be used as a suitable and appropriate theoretical framework to investigate and explain BA involvement. Therefore, this study showed that the BA field, which has hitherto been overly reliant upon Agency Theory to attempt to explain involvement, can learn a lot from additional theoretical frameworks outside of the agency theoretical ideas.

Future research should make use of the model developed in this paper by turning it into testable hypotheses in order to establish whether the model is applicable also beyond the four case studies, from which it was developed. Moreover, the model was developed based on a very small sample of companies within the UK, so that an exploration of its applicability in other countries should also follow. Additionally, the Involvement Process could be further developed by also drawing upon other theoretical lenses, such as Social Embeddedness Theory (Granovetter 1985), in order to improve its explanatory power regarding BA involvement.

REFERENCES


