'MAKING A DIFFERENCE': SMART MONEY, BUSINESS ANGELS AND CRITICAL INCIDENTS IN BUSINESS DEVELOPMENT (INTERACTIVE PAPER)

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Principal Topic

Research into the post-investment relationship between informal investors (business angels) and the businesses in which they invest concludes that investors make a contribution by acting as a sounding board/mentor for the entrepreneur and in strategy development and execution, and that this contribution is generally valued by the entrepreneur. However, there has been no research into the specific circumstances in which this contribution has been made, the processes and relationships involved in the delivery of and acting on that advice, and the direct evaluation of the impact of this contribution in specific situations.

Method

We adopt a critical incident analysis perspective to assess the value-added impact of hands-on investors. First, the nature of the critical incident itself is re-examined in the context of critical periods or episodes that are deeply grounded in and inextricably linked to a complex set of circumstances and actions. Second, we respond to the problems of retrospection and introspection in CIT research by adopting Vermersch’s explication data collection technique to manage the collection and use of retrospective data. Third, we reassess the criticality of “critical” as a contextually defined relational phenomenon which depends on the various actors involved, the interaction and the surrounding relationship infrastructure.

Results and Implications

There are three outcomes from this research. First, we provide detailed analyses of the value added contribution of informal investors grounded in specific incidents in the development of the business. Second, in combining case-based research and a dyadic research design with a critical incident theory approach, we provide an illustration of a methodological procedure that has great potential in the entrepreneurship domain. Third, in understanding in greater detail the nature of the contribution made by investors to entrepreneurial ventures, the processes through which that contribution is made and the impact of that contribution, we provide guidance for investors and entrepreneurs on the effective management of the investment relationship.

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