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Informal investors and value added: The contribution of investors' experientially acquired resources in the entrepreneurial process

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Abstract

This study explores the value added contribution of informal investors in the entrepreneurial process, something that up to date has received very limited attention. By analyzing the life experience and career background of four informal investors the study examines the personal resources these individuals build up and develop during their careers and how these experientially acquired resources facilitate the recognition and exploitation of entrepreneurial investment opportunities. The overall results suggest that their careers can be described as an experiential learning process that has facilitated the development of valuable skills and knowledge that is of critical importance for the entrepreneurial projects they later become engaged in as informal investors. The case analysis also identifies two types of personal resources: skill-specific resources (know-how) and network resources (know-who) that have a significant influence on their ability to contribute with value added in the entrepreneurial process.

Keywords: informal investors, entrepreneurial process, investment opportunity, opportunity recognition, opportunity exploitation, resources.

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1. Introduction

A number of studies have pointed out that long-term investment capital is one of the most important constrains for the formation and development of new and small high-risk ventures, especially for technology based and research-intensive businesses (Mason and Harrison, 2002). One group of investors that has been recognized for their potential value added contribution to new and small ventures are informal investors, that is private individuals who offer their own money as risk capital to unlisted firms in which they have no previous family connections (Landström, 1993). Compared to institutional venture capital firms these private individuals tend to be more willing to invest smaller amounts at the very earlier stages, thus helping to reduce the equity capital gap facing new and small ventures with a growth potential (Freear, Sohl and Wetzel, 1995; Van Osnabrugge, 1998). Informal investors have in this respect been highlighted as an important source of entrepreneurial finance by providing seed and early-stage financing for new and small high-risk ventures that over time have potential to turn into significant economic contributors (Van Osnabrugge, 1998; Mason and Stark, 2004).

The growing number of studies on informal investors has led to a substantial increase in our knowledge of the characteristics of both the market and its actors (Aernoudt, 1999; Freear, Sohl and Wetzel, 1997; Landström, 1998; Mason and Harrison, 1994; Mason and Stark, 2004; Van Osnabrugge, 1998). The typical informal investor can from this stream of research be described as middle-aged and financially well off. They are often experienced entrepreneurs, and many of them have made their fortunes through a cash-in of their own previous ventures (Landström, 1993; Mason and Harrison, 1996). Principally, they invest in young high-tech firms, even if informal investors in Sweden have been found to show a lower propensity to invest in entrepreneurial ventures compared to their counterparts in the UK and US (Landström, 1993). The relationship between the informal investors and the firms in which they invest can moreover be characterized as fairly active, although they are generally not involved in daily operations to any great extent (Freear, Sohl and Wetzel, 1995; Van Osnabrugge, 1998). The most common relationship is by way of active work on the board and provision of consultancy when required (Landström, 1993; Mason and Harrison, 1996; Politis and Landström, 2002). Informal investors have consequently been highly appreciated as they provide long-term equity finance as well as business expertise to aid the exploitation of entrepreneurial opportunities in the very early stages of a venture's development.

By definition, informal investors contribute to the entrepreneurial process by the provision of financial resources with the hope to successfully aid the development of the new venture into an established competitive rent-generating business. In addition, they are also generally considered to be highly involved in the entrepreneurial process by offering their skills, expertise and business networks they have acquired throughout their professional careers (Ehrlich et al., 1994; Landström, 1993; Mason and Harrison, 1996; Politis and Landström, 2002). Several studies point out that most informal investors have a background as practicing businessmen or entrepreneurs. International studies for example suggest that between 67-95% of the informal investors have previous business ownership experience (Gaston, 1989; Landström, 1993; Mason, Harrison and Chaloner, 1991; Short and Riding, 1989; Sørheim and Landström, 2001; Wetzel, 1981). Prior studies also highlight the important role their personal networks play in the entrepreneurial process. Research findings suggest that informal investors primarily identify business opportunities from friends and business associates which belong to their personal networks, and that the importance of trust relationships seems to be particularly evident when informal investors evaluate prospective investments (Landström, 1993; Sørheim, 2003). Informal investors moreover tend to invest in sectors where they have previous experience (Freear et al., 1997; Wright et al., 1998) and that they demonstrate a particularly strong commitment to early stage investments (Erlich et al., 1994; Freear et al., 1997; Van Osnabrugge, 1998). These findings indicate that informal investors are close to the entrepreneurial process, much closer than for example institutional venture capital firms. Based on these findings, it can be expected that informal investors has the potential to contribute with significant value added by providing their experientially acquired resources in the firms in which they invest.

However, despite the widespread recognition that informal investors bring added value by their active involvement in the entrepreneurial process there is very limited knowledge about exactly what kind of value added they provide throughout this process. For example, what kind of resources do informal investors contribute with besides finance, and how are their personal resources developed during their careers? How do these experientially acquired resources lead to added value in the entrepreneurial process? Are some personal resources more important than others? An explanation for that these questions have remained largely unanswered could be that most previous studies on informal investors have relied on questionnaire surveys with the primary focus to describe their characteristics (Mason and Harrison, 2000). While postal questionnaires can be considered appropriate when the focus is on gaining overview knowledge of the characteristics of the market and its actors, this methodology may be less suited for developing an understanding of how these actors actually operate in this market (Mason and Harrison, 2000). Questionnaire surveys also provide limited insights into processes, such as how these individuals build up and develop personal resources during their careers (Politis and Landström, 2002). Hence, in line with these arguments we believe that a more qualitative-oriented methodological approach can help enrich facts and figures produced by previous research on informal investors, and help to explore issues that are hidden or have received little attention despite its relevance for both theory and practice.

Based on the discussion above, the overall aim of this study is to explore informal investors' value added contribution in the entrepreneurial process. More specifically we will examine the personal resources informal investors build up and develop during their careers, and how these experientially acquired resources facilitate their recognition and exploitation of entrepreneurial investment opportunities. To meet this aim, the rest of the paper is structured as follows. In the next section we provide a framework for understanding the involvement of informal investor in the entrepreneurial process and we discuss existing research in light of this framework. Thereafter follows the method section where we present the details of the cases that were undertaken to meet the overall aim of the study, followed by a discussion of the findings from the analysis of the cases. Finally we include some implications for further studies.

2. Informal investors and the entrepreneurial process

2.1 Informal investors

The importance of informal investors as providers of long-term equity finance to new and small growing firms has long been recognized in entrepreneurship research. The majority of previous studies have for some reason treated the role of informal investors within a financial framework - assuming that they are opportunistic and economic-maximizing individuals (Freear et al., 1997; Mason and Harrison, 2000). The limited explanatory power of these models in the context of new and small growing firms (e.g., Landström, 1992) has however led to calls for the need to apply complementary theoretical perspectives to better understand these investors. Several studies have for example pointed out that informal investors do not consider the monetary rewards as the most essential criteria for success and often regard their investments as an extension of their own entrepreneurship rather than as a pure financial placement (Aernoudt, 1999; Landström, 1998; Mason and Harrison, 1994; Van Osnabrugge, 1998). Moreover, it seems that informal investors are highly involved in the exploitation of entrepreneurial opportunities by offering their skills, expertise and business networks they have acquired throughout their professional careers (Ehrlich et al., 1994; Landström, 1993; Mason and Harrison, 1996). These and similar findings have led scholars to suggest that informal investors in many cases can be seen as entrepreneurs rather than pure financiers as they often take an active “hands-on” role in the entrepreneurial ventures and projects they become involved in (Landström, 1998; Lindsay, 2004; Mason and Harrison, 1996; Politis and Landström, 2002). This point of view is in accordance with the arguments put forward by Carter, Tagg and Dimitratos (2004) who suggest a broader view of the individual entrepreneur that goes beyond the idea that business ownership is the entrepreneur’s sole expression of economic action. Instead they propose to take into account the wide range of economic activities that entrepreneurs may engage in, and where the informal investment activity is one of these activities (see also Wright, Westhead and Sohl, 1998 for similar reasoning). Based on these arguments, it seems reasonable to consider informal investors as entrepreneurs who are involved in concurrent entrepreneurial projects that are in different stages of development. There consequently seems to be a great potential for applying concepts and theories that address the more entrepreneurial aspects of their involvement to better understand the individuals that operate in the informal venture capital market.

2.2 The entrepreneurial process

Entrepreneurship has been subject for a growing body of studies within several disciplines and research fields during the last decades and as in other multidisciplinary fields there have been ambiguities about how to define the concept of entrepreneurship and the entrepreneur (Landström, 2005). Recently, entrepreneurship has been delineated as an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing markets, processes and raw materials through organizing methods that previously have not existed (Shane, 2003; Shane and Venkataraman, 2000). Based on this definition, entrepreneurship can be demarcated as the study of the characteristics of opportunities, the individuals who recognize and exploit them, the processes of resource acquisition and organizing, and the strategies used to exploit and protect the profit from these efforts. Entrepreneurial opportunities can here be referred to as situations in which it is believed that new goods, services, raw materials, and organising methods can be introduced and sold at greater than the cost of their production (Shane and Venkataraman, 2000). This means that an entrepreneurial opportunity requires potentialities for profit making by the creation of new means-ends relationships, rather than just optimising known ways of doing things within already existing frameworks. Entrepreneurial opportunities are however not necessarily profitable, for example in cases where conjectures about the profit from recombining resources turn out to be wrong (Shane, 2003). Hence, we do not take any consideration of whether any particular set of actions to take advantage of an entrepreneurial opportunity actually results in positive economic value or not. We only contend that ideas for new means-ends frameworks with a potential to create positive economic value constitute the notion of an entrepreneurial opportunity.

Based on the view on entrepreneurship proposed by Shane and Venkataraman (2000; see also Shane, 2003), the entrepreneurial process can be described as passing from opportunity recognition where the opportunity is discovered and evaluated, to opportunity exploitation where a new venture is formed and established around the opportunity. The entrepreneurial process is described in Figure 1 below.

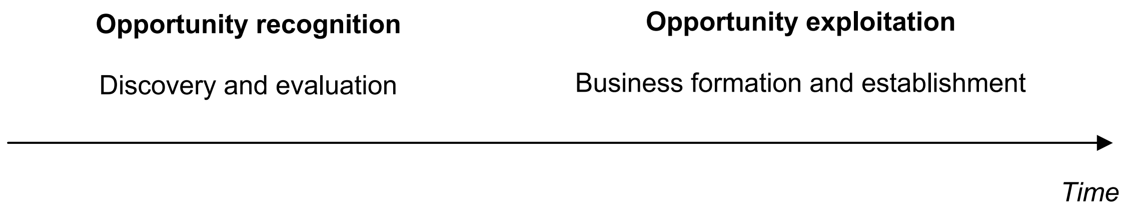

Figure 1. The entrepreneurial process

As can be seen in Figure 1, the entrepreneurial process is depicted as a linear sequential process. We acknowledge that in reality individuals may engage in both activities simultaneously, for example if they are involved in several concurrent projects that are in different stages of development (see e.g., Rosa and Scott, 1999; Westhead and Wright, 1998). However, the initial organizing and development of a new venture centers on an entrepreneurial investment opportunity that must have been recognized and evaluated at some earlier point in time. Thus, from a theoretical point of view, investment opportunity exploitation cannot take place without prior investment opportunity recognition.

By using this sequential view of the entrepreneurial process, it may be possible to identify relevant types of knowledge and skills that informal investors need to successfully develop and pursue an identified investment opportunity through the different phases. First, an individual must be capable of recognising new investment opportunities. Research consistently suggests that successful opportunity recognition can be fuelled by the prior career experience of an individual (Ronstadt, 1988; Westhead, Ucbasaran and Wright, 2005; Wright et al., 1998). For example, the knowledge and skills gained from prior business ownership experience can provide investors with a stock of human capital that influence their information search and business opportunity recognition behaviour (Ucbasaran, Wright and Westhead, 2003). Entrepreneurship research moreover describe individuals with the ability to spot and act on opportunities as an alert person who is aware of (or alert to) information about market imperfections (Kirzner, 1973; Shane and Venkataraman, 2000). This means that alert individuals actively searches for imbalances in the economic system for resources that are not coordinated in an effective way. A well developed personal network in an area or industry may in this respect be particularly helpful as it may expand boundaries of imagination and offer access to knowledge and information about new venture ideas and opportunities (Singh, Hills, Hybels and Lumpkin, 1999).

Second, in order to add value in the entrepreneurial process when acting on an entrepreneurial investment opportunity informal investors must be capable of coping with traditional problems and obstacles that new ventures face. These problems or obstacles are generally referred to as the ‘liability of newness’ (Shepherd, Douglas and Shanley, 2000; Stinchombe, 1965). The term was originally coined by Stinchcombe (1965) who observed that the risk of business closure is highest at the point of founding of an organization and decreases with growing age of the organization. The main reasons for business closure was the new ventures’ lack of stable relationships with stakeholders, the time of learning new organizational roles to be performed by their members, and the lack of trust among organizational members. Investors with relevant work experience could in this respect contribute to a customized set of benefits, such as relevant business skills and a business reputation that can be leveraged into subsequent ventures, resulting in a greater likelihood of survival (Shane and Khurana, 2003; Shepherd et al., 2000; Wright, Robbie and Ennew, 1997).

2.3 Summary

Judging from the studies reviewed above, it seems reasonable to assume that the personal resources developed from prior work experience can prepare informal investors to recognize entrepreneurial investment opportunities, as well as aiding in the subsequent exploitation of the investment opportunity. However, what kinds of personal resources informal investors build up and develop and how these experientially acquired resources facilitate the successful recognition and exploitation of entrepreneurial investment opportunities seems to be largely understudied. In the rest of this article, we will present the cases from which we will analyse the role of informal investors in the entrepreneurial process and what kind of value added they provide throughout this process.

3. Method

3.1 A case study approach

The empirical part of this study is based on a case study approach (Eisenhardt, 1989; Yin, 2003). This methodological approach was selected as the case study approach can be particularly useful for building theories in new topic areas. To focus our efforts on theoretically useful cases we employed theoretical sampling rather than random sampling (Eisenhardt, 1989). This choice was considered appropriate as our goal has been to expand and generalize theories and make analytic generalizations rather than making inference about a population on the basis of the empirical findings (Yin, 2003).

In accordance with our frame of reference we wanted to select experienced respondents as it can be expected that they have developed personal resources that have facilitated their value added contribution in the entrepreneurial process. In addition, we wanted to include respondents that vary along relevant experience dimensions. The logic for selecting respondents with varying degree of experience was to cover a larger spectrum of possible career events and learning situations that could be considered as conducive to the development of personal resources beneficial in the entrepreneurial process. If we can spot similarities concerning what kinds of personal resources they build up and develop during their professional careers, we can be more certain that these similarities can be applied on other kind of investors (Eisenhardt, 1998; Yin, 2003). Hence, the aim of including informal investors that vary along important experience dimensions was to expose variance in our investor profile.

Both prior investment experience and prior start-up (or entrepreneurial) experience have been highlighted as important sources for the development of skills and knowledge that facilitates iinformnal investors' involvement in entrepreneurial processes (see e.g. Landström, 1998; MacMillan, 1986; Rosa, 1998; Sørheim and Landström, 2001; Van Osnabrugge, 1998; Wright et al., 1998). Investment experience was measured as the number of informal investments they have made and the average amount of these investments. Entrepreneurial experience was measured as the number of new ventures they have been involved in and the number of years they have operated as business owners. Based on these two experience dimensions we created a 2x2 matrix with four possible theoretical categories, reflecting the degree of investment and entrepreneurial experience. The amount of experience was categorized as high or low.

3.2 Identification of cases

A common problem with studies of informal investors is the difficulties of identification due to the private and unreported nature of their investment activity and the desire of most informal investors to preserve their privacy (Landström, 1993; Mason and Harrison, 2000). In order to overcome this problem the selection of respondents for this research was based on a register of informal investors from a previous survey conducted by Landström (1998). To select cases that correspond to the four theoretical categories, a mapping of these investors was made on the basis of their investment experience as well as their entrepreneurial experience. Based on these two measures, we selected respondents that corresponded to each theoretical category. The first respondent, Andrew, has considerable entrepreneurial experience while his financial investment experience is relatively low. The second respondent, Brian, represents the opposite case. He has considerable experience of making informal investments, while the start-up of his own businesses rather has been a part-time activity. The third respondent, Charles, has a great deal of both entrepreneurial and informal investment experience. The fourth respondent, Douglas, has limited experience both of starting up and managing new ventures, as well as making informal investments in new and small ventures.

Despite the differences between the selected cases in terms of their investment and entrepreneurial experience, all cases can be considered as relatively experienced and active informal investors. Hence, they correspond to the general characteristics of business angels, which are a particular group of informal investors that often add considerable value to the firms in which they invest (Sørheim and Landström, 2001). The choice of experienced investors was considered appropriate due to the aim of this study. Generalizations to other types of investors should however be made with caution. Future studies comparing different type of informal investors (e.g. novice, serial and portfolio investors) with respect to their involvement in the entrepreneurial process are consequently warranted.

3.3 Data gathering

The data gathering phase consisted of personal interviews with each of the four respondents. The interviews were semi-structured in the sense that the respondents were only informed at the beginning of the interview that the focus of the study was on their personal recollections of how they have progressed through their professional lives and how their personal resources have facilitated the recognition and exploitation of entrepreneurial investment opportunities. A major reason for using a semi-structured approach was to ensure that the discussion was driven by what the respondents felt was important in order to stay as close as possible to their lived experience. As a result, the respondents were asked to tell us about their working life and the sequence of career experiences they have acquired during their course of life, with a particular focus on the personal resources that facilitated their involvement in the entrepreneurial process. This have allowed us to identify a wide range of career events and learning situations that have been conducive to their development of personal resources. The personal interviews were conducted during a six-month period between autumn 1999 and spring 2000. The interviews, in total 16 interviews (four interviews with each respondent), were tape recorded and transcribed verbally to capture the respondents own words and conceptions about the career experiences they have acquired during their professional lives. Each interview lasted from 1½ to 2 ½ hours, and, in total, the interviews covered approximately 35 hours.

3.4 Method of analysis

The procedure for analysing the empirical data can be described as a systematic process of theory building, where we have moved from specific observations to detect patterns and regularities with the aim to finally end up in some general conclusions and tentative propositions (Eisenhardt, 1989). The analysis process was carried out by dividing the data into several conceptual categories related to the respondents' involvement in the entrepreneurial process, with a particular focus on the development of personal resources that facilitated this involvement. These categories could be described as recurrent themes that emerged from the stories told by the informal investors. Based on the categories, the recorded transcripts from the interviews were manually subdivided into themes, where each theme consisted of a number of recurrent phrases expressed by the respondents. Then, in the next step of the analysis, the conceptual categories were compared among the four respondents in order to find patterns (both similarities and differences) regarding the kinds of personal resources they have built up and developed during their careers, and how these resources have facilitated the recognition and exploitation of entrepreneurial investment opportunities. A cross-case analysis was then performed to establish if these personal resources were unique to the individuals concerned, or if they represented a trend across the entire sample (Miles and Huberman, 1994). To provide consistency in the coding procedure we use the method of "inter-rater agreement" (Silverman, 2001). This means that each author first carried out the data analysis separately. The data analyses were then compared and discussed between the two of us in order to come up with an agreed set of categories. In the third step, we made a theoretical analysis by matching the empirical findings against our frame of reference.

3.5 Methodological reflections

There are two major aspects that make our research approach both interesting and valuable for the aim of this study. First, we have chosen to rely on longitudinal data based on the personal stories of four informal investors. This has provided a wider theoretical understanding of the informal investors' role in the entrepreneurial process, and at the same time allowed us to capture processes such as experiences, impressions and evolving patterns over time. Empirical data gained from longitudinal studies can be regarded as important as it gives a picture of the respondents' temporal and contextual frames of reference and the career events leading up to their present situations (Miles and Huberman, 1994; Van de Ven, 1992). Hence, the method gives us possibilities to generate extensive and contextualized data that may contribute with valuable insights of what kinds of personal resources the informal investors have developed that facilitate their involvement in the entrepreneurial process.

Second, as we want to explore how these personal resources facilitate their involvement in the entrepreneurial process, we have considered it to be of importance to get a close examination of the experienced events and learning situations that these investors have acquired during their working lives without too much interference. We have tried to achieve this by highlighting the respondents' own stories, using their own words, in which they have been free to describe their personal impressions of significant career events and learning situations in appropriate detail. The use of personal interviews have the potential to create a retrospective dimension that captures the respondents' evolving sequences of career experiences they have acquired throughout life and work. The practice of asking the respondents to tell us about their career development is moreover concrete in the sense that it has a beginning (i.e. how it all started), and an end (i.e. the present). Thus, within our area of inquiry it has been the respondents that primarily have determined what may be important to focus on and not the authors.

However, there are also some problems associated with studies relying on retrospective data. Retrospective data is for example perceived to suffer from significant degrees of inaccuracy due to recall bias (Cherry and Rodgers, 1979). Recall can for example be seen as being particularly prone to bias when the period of recall is especially long, as respondents can reassess their memories in light of their current life situation. Even though the study relies on the informal investors' recollection of career events and learning situations that have occurred over a longer time period, retrospective sense making should not be seen as a significant problem in this case. In order to encourage the respondents to recall and link career events we asked them at the initial interview to provide their history of their professional lives from a chronological driven perspective. After the first round of interviews we constructed a chronologic summary of the various career paths the respondents have been discussed during the initial interview. A copy of these summaries were brought back to the respondents at the second interview in order to verify if these could be considered as an adequate representation of the career paths undertaken by the respondents. The respondents were at the same time asked if they had any additions or corrections they would like to see. These summaries functioned then as sort of memory-aid for the respondents. At the same time the use of these summaries provided an opportunity to control for inconsistency in statements by coming back to things that seemed ambiguous or unclear. Although the respondents' approached their career events chronologically, it was made clear which events and learning situations the respondents perceived as being most important to them. Hence, there is no reason to suspect that the chronological driven approach did inhibit the respondents' ability to express their stories, but rather functioned as a memory-aid encouraging them to address their involvement and contribution in the entrepreneurial process.

4. Analysis of the four cases

In this section, we present the analysis of the four cases from which we have examined the role of informal investors in the entrepreneurial process. First, we provide a general description of the four informal investors. Thereafter, we focus on what kind of personal resources these individuals have developed during their careers that facilitates their value added involvement in the entrepreneurial process. This is followed by an analysis of how these experientially acquired resources facilitate their recognition and exploitation of entrepreneurial investment opportunities. We will throughout the case analysis discuss existing research in relation to these findings.

4.1 General description of the four cases

Previous studies of informal investors have provided a general picture of the 'typical' investor as being middle-aged, financially well off, and with considerable experience from working as a self-employed entrepreneur or somehow in relation to new venture activities (Landström, 1993; Mason and Harrison, 1996; Sørheim and Landström, 2001). The four respondents match these descriptions. All investors are about the same age, between 64-70 years. They have all worked as managers in their early careers, where they have developed a wide network of contacts. All of them have moreover experience from leaving their managerial positions and starting up their own businesses as a mid-career alternative (Weinrauch, 1980), which in turn have given them opportunities for making informal investments. A general overview of the investor profiles for the four cases is described in Table 1.

Table 1. Investor profiles

	Andrew	Brian	Charles	Douglas
Age	70	66	64	70
Education (field)	University studies (engineering)	University studies (compulsory school teacher)	University studies (law)	University studies (business administration)
Employments	R&D/data technology CEO positions Board involvement	Compulsory teacher Insurance agent Divisional insurance manager	Company lawyer	Marketing manager CEO positions Board involvement
Competence profile	Specialist	Generalist	Specialist	Generalist
Entrepreneurial experience	High	Low	High	Low
Investment experience	Low	High	High	Low
Type of involvement in the portfolio firms	CEO Board of directors	Board of directors	Legal adviser Board of directors	CEO Board of directors
Life cycle stages of the portfolio firms	Early start-up phase Established firms	Established firms	Early start-up phase	Established firms
Main contribution to the portfolio firms	Managerial competence Technical competence	Managerial competence Network contacts	Legitimacy Networks contacts	Managerial competence Board competence

4.2 Personal resources developed during the informal investors' careers

This section will present the findings that emerged from the case analysis regarding what kind of personal resources the respondents have developed during their careers that facilitate their involvement in the entrepreneurial process. Based on the empirical cases, it seems that the respondents can be characterized as highly opportunity seeking individuals that search for challenging working tasks that require individual skill and effort. However, they do not seem to reflect on the alternative to pursue an entrepreneurial career in their early ages, but rather use their energy and creativity to seek positions in existing organizational hierarchies. All respondents start to work as employees in large established companies in their early careers, and soon they become promoted to leading management positions. This career path may partly be explained by the context in which the respondents lived at the time. When the respondents entered working age, about 1950-1955, Sweden was experiencing the beginning of a growth period where the economy advanced rapidly. Many Swedish firms benefited from the worldwide demand for industrial products in the post war period. There were consequently opportunities for enterprising individuals to use their energy and creativity to make successful careers in existing organizations.

Skill-specific resources. The importance of learning how to organize and manage people and resources was something that was revealed in the case analysis. In their careers they have all worked in leading management positions, or as CEOs, and from these experiences they have acquired and developed personal resources that later on have facilitated their involvement in the entrepreneurial process. In particular they have developed what can be called 'skill-specific resources, something which we refer to as experience-related 'know-how' located extensively in the individual that can be used in his or her action (Johannisson, 1991). Studies have found that general management experience seems to provide individuals with information about many of the basic aspects of business that are relevant to recognize and act on entrepreneurial opportunities, such as finance, sales, technology, logistics, marketing and organization (Romanelli and Schoonhoven, 2001; Shepherd et al., 2000). All respondents expressed this as knowledge needed in all kinds of firms irrespective of size or industry. One of the respondents, Brian, described this type of knowledge as follows:

> You need [managerial] knowledge and competence in every situation. It is just that it sometimes can be general and other times more specific…This more general [kind of knowledge] about how you build and run an organization… that is the same irrespective of size and industry.

The case analysis moreover suggests that their experiences from managing organizations of different sizes and in different industries have resulted in knowledge about how to solve problems in relation to new venture projects. Management experience from different firm contexts provide exposure to a wider variety of situations and problems, and it is often through surviving and understanding such novel situations that learning takes place (Fiol and Lyles, 1985; Reuber, 1997). One of the respondents, Andrew described this problem-solving ability as follows:

> …you must have a certain ability to understand [connections], and above all you have to be receptive. And you must be able to see a pattern in situations… combine different ways of looking at things, and decide what you have to do… and explain why you think it is in a certain way…

Another of the respondents, Douglas, gave a similar description of this ability:

> …the main competence I have contributed with [to the firms I invest in] has been that I come from the outside… and I can spot the biggest problems, that will say infuse a structure [to the problem situation]… and… maybe this is an exaggeration, but you can say that when you spot the problem you have also always found the solution to the problem…

Apart from this problem-solving ability, their experience from managing organizations in different situations have moreover lead to an ability to build up an organization by delegating responsibility and allowing people to make mistakes and learn in their organization. One of the respondents, Brian, expressed it as follows:

> If you cannot delegate responsibilities… your will be stuck with everything on your own, and then you cannot achieve much. The key word is that you delegate.

Brian continues:

> …[but].. if you want to succeed with anything you must follow things up… you really must follow things up… Proud declarations are not worth a penny if you do not follow things up … and it is a very important thing because you have to be able to create enthusiasm among people so that they think it is funny to work and be useful for the company. You must follow things up so that things are actually happening.

Taken together, from the case analysis we can identify a set of skill-specific resources the respondents have developed during their professional lives. Their extensive work experience has in this respect functioned as a kind of "in-house training" and provided them with wide-ranging knowledge of how to manage people and organizations in different markets and lines of business. This discussion leads to the following proposition:

Proposition 1: As a result of prior managerial work experience, informal investors have the opportunity to build up skill-specific resources in terms of problem-solving skills and knowledge of how to manage people and resources.

Network resources. In addition to the skill-specific resources described above the case analysis also suggest that the respondents have developed what can be called 'network resources', something which we refer to as knowledge about actors and activities in different kind of networks (know-who). These personal networks include friends and business colleagues as well as membership in different network organizations that have been valuable for advancing in their careers. Experienced entrepreneurs can be expected to be better equipped for effectively handling obstacles and uncertainties in the entrepreneurial process, such as finding financial start-up capital, legitimacy building and having access to social and business networks (Aldrich and Auster, 1986; Starr and Bygrave, 1992; Shepherd et al., 2000; Shane and Khurana, 2003). This can be manifested through the "power" they possess by exploiting their personal networks and the "legitimacy" they have acquired by developing a business reputation, which help them to secure financial resources and develop a market for its products or services (Starr and Bygrave, 1992). A particular issue that appeared in the case analysis was the informal investors' ability to find and match people with different knowledge and competencies when being involved in new ventures. One of the respondents, Charles, expressed this ability as follows:

> That is part of my role, to find the right persons, to use my knowledge and network of contacts.

This ability to identify what kind of knowledge that is needed in particular situations and to locate and recruit individuals with this kind of competence through their personal networks was something that was appreciated as a much valued resource when being involved in the entrepreneurial process. Their network of contacts also brings valuable knowledge about potential customers and reliable suppliers. Their managerial career have in this respect given them the possibility to establish well-developed networks that enable them to bring together various competencies and expertise, as well as fostering legitimacy in the business community (Johannisson, 2000; Shane and Khurana, 2003). This observation leads to the following proposition:

Proposition 2: As a result of prior managerial work experience, informal investors have the opportunity to build up network resources, in terms of knowledge about actors and activities in different networks.

The case analysis moreover shows that these network resources were valuable when the respondents start their own businesses as consultants and become entrepreneurs. Their involvement in consulting projects enabled the respondents to practice their management skills in entrepreneurial contexts and also provided them with an opportunity to learn the logic behind entrepreneurial processes. Such an entrepreneurial logic, or what Johannisson (2000) calls 'entrepreneurialism', is characterized by the organic organizing of internal and external resources as well as networking relationships based on trust. The respondents were thus able to develop their understanding of the entrepreneurial process by simultaneously applying their managerial competence in varying entrepreneurial projects, as well as extending the use of their personal networks as a source of continued business venturing. This discussion suggests the following proposition:

Proposition 3: As a result of prior experience from starting up and managing their own businesses, informal investors have the opportunity to learn the logic behind entrepreneurial processes and extend their personal networks.

4.3 Informal investors' value added contribution in the entrepreneurial process

This section will present the findings that emerged from the case analysis regarding how the personal resources developed during their careers contribute to value added in the entrepreneurial process. Based on the empirical cases, it seems that the informal investors' ability to recognise and exploit entrepreneurial investment opportunities is a result of their experientially acquired resources they have built up and developed throughout their careers. This development of personal resources have allowed them to build a "resource base" (Brush, Green and Hart, 2001) that later is used to yield distinctive capabilities in the firms in which they invest. The rest of this section will present the results from the case analysis with a focus on how skill-specific resources (know-how) and network resources (know-who) influence their ability to contribute with value added in the entrepreneurial process, from opportunity recognition where the investment opportunity is discovered and evaluated

(Shane and Venkataraman, 2000) to opportunity exploitation where a new venture is formed and established around the opportunity (Gartner, 1985).

Skill-specific resources and opportunity recognition. The case analysis shows that informal investors' skill-specific resources influence their ability to recognize entrepreneurial opportunities. All cases suggest for example that their problem-solving ability to combine existing concepts and information into new ideas play a central role in the entrepreneurial process. Their knowledge about customer and markets moreover helps them to conduct the due diligence necessary to evaluate merits and potential risks of prospective entrepreneurial opportunities. Together these skill-specific resources contributes to a 'knowledge corridor' (Ronstadt, 1988) that enable them to assess the potential benefit in an entrepreneurial opportunity. One of the respondents, Charles, expressed it as follows:

> It is part of this thing to be alert on new ideas, explore them and make things happen. It is about being customer oriented and to have an eye on the market…You have to be customer oriented - that is the most important thing.

The findings from the case analysis is in line with research that suggests that prior commercial experience plays a prominent role for successful opportunity recognition (Shane, 2000; Shepherd and De Tienne, 2001; Parks, 2005). Considering that new venture activities often are faced with uncertainty about the value of the goods and services they plan to produce, it seems fair to assume that prior commercial experience can have a strong influence on the ability to find and combine resources in relation to business opportunities (Shane, 2003). This implies that individuals with prior experience as a customer or supplier in an industry often have a better understanding of how to meet demand conditions in that market place. Hence, the knowledge of commercialisation processes seems in this respect to help informal investors to see new means-ends relationships and recognise and evaluate new potential entrepreneurial opportunities. This discussion suggests the following proposition:

Proposition 4: Informal investors' skill-specific resources are critical for their ability to recognise entrepreneurial opportunities as it helps them to see new means-ends relationships.

Skill-specific resources and opportunity exploitation. In all four cases it seems as skill-specific resources play an important role also in the opportunity exploitation phase. The case analysis suggests that informal investors play a critical role in supporting the development and growth of the new ventures by infusing leadership and strategic direction in the new ventures they become involved in. Their experience of managing people and resources seem for example to be particularly important as it gives them the ability to create a stimulating business climate with shared beliefs. The informal investors seem moreover to utilize their experiences gained from previous projects they have been involved in to enhance the survival chance of the businesses in which they invest. Knowledge about marketing seems to be of critical importance. One of the respondents, Charles, describes the value of knowledge about customers and markets in relation to their involvement in the opportunity exploitation phase as follows:

> … they [the founding entrepreneurs] can never see things through a larger perspective. They think they will inherit the world market. They forget a whole range of problems that lies behind the establishment of a new company, a new trademark, a new product… to adjust the product to the market… making it known.

The findings from the case analysis are consistent with previous studies that have found that management experience provides training in many of the skills needed for coping with liabilities of newness, such as selling, negotiating, leading, planning, decision-making, problem solving, organizing and communicating (Lorrain and Dussault, 1988; Shane, 2003). This ability to pursue additional resources and design appropriate mechanisms of exploitation seem consequently to facilitate the extension of personal skill-specific resources into organisational resources, something that over time can result in the development of unique competitive advantages (Brush et al., 2001). This discussion leads to the following proposition:

Proposition 5: The development of skill-specific resources is critical for informal investors' ability to exploit entrepreneurial opportunities as it helps them to develop routines and shared beliefs in the organisation.

Network resources and opportunity recognition. In line with findings in previous studies of informal investors (Haar, Starr and Macmillan, 1988; Landström, 1993; Sørheim, 2003), the recognition of entrepreneurial opportunities among the respondents seems to be an activity that is highly embedded in their personal networks. All respondents seem to rely very much on referrals from trustworthy contacts known to them personally, or at least by other investors known to them. The network resources they have developed seem to provide them with legitimacy in the business community as well as encouraging the circulation of information about prospective investment opportunities. The case analysis moreover reveals that most of their investments were the result of their ability to establish their networks of supportive relationships before any investments opportunities were spotted. One of the respondents, Andrew expressed it as follows when speaking about the role of his personal network in finding new entrepreneurial opportunities:

> Yes… [it has been] contacts in my personal network. Somehow you get a certain reputation. Have you done something, and it turns out to be successful…and if something new comes up, then they will be back and ask again.

The case analysis also shows that their network resources were important for evaluating potential entrepreneurial opportunities. This suggests that their personal networks can be used as an efficient means of information evaluation which encourage a more reliable circulation of information between network members. Andrew expressed the importance of trust relationships as follows:

> You must have an understanding about their intentions, if they are honest, or what… Irrespective of your status [as entrepreneur or investor] you must put down energy on this if you are interested to work with it.

Taken together, based on the findings from the case analysis, the respondents' knowledge about actors and activities in networks, i.e. their 'know-who' (Johannisson, 1991), seem to have a profound influence on their ability to recognise and evaluate entrepreneurial opportunities to invest in. The major sources of investment opportunities for all responders were close friends, business associates and investor colleagues, which are similar to findings in Haar et al. (1988) and Landström (1993). Their personal network can thus be described as an 'opportunity set' that can be used to provide relevant needed information (Aldrich and Whetten, 1981; Butler and Hansen, 1991). This discussion suggests the following proposition:

Proposition 6: Informal investors' network resources are critical for their ability to recognise and evaluate entrepreneurial opportunities, as it gives them access to timely information that is shared within these networks.

Network resources and opportunity exploitation. The network resources they have developed were furthermore also found to be beneficial in the opportunity exploitation phase. Their knowledge about actors and activities in personal networks have been critical for maximising potential firm specific advantages, something which suggests that the key to competitiveness in informal venture capital backed ventures can be regarded much as a network-embedded capability. The use of network resources have provided the new ventures with enhanced access to information and increased co-operation and trust from others, allowing the firm to gain additional resources and to develop the organisational infrastructure. Their personal networks seem consequently to function as a source of value creation as they mediate trust between individuals as well as facilitate access to information and resources. On of the respondents, Douglas, describes the value of his network resources as follows:

> Most CEOs have a very small network… it is amazing (he sounds surprised). You believe that they are part of a lot of different associations and networks, but they are not. Maybe they do, but that have very weakly developed network of contacts.

He continues:

> … a main contribution [to the firms which I invest in] is that I can help them create contacts with other people that can come in when some competence is lacking that we need to get quick…It has been very easy [to find people through my network], and one of the most important things has been to make changes in the board of directors so that it consists of as different competences as possible in order to create a mosaic of different opinions …

The empirical cases all point to their ability to manage and recombine their network relationships in the ventures they become involved in. It is often pointed out that the success of a new entrepreneurial venture is dependent on the ability to establish a network of supportive relationships already in the early start-up phase as the firm seldom has any loyal customer base and cannot point to its reputation for performance (Aldrich, 1999; Steier and Greenwood, 2000; Stinchcombe, 1965). The network resources of informal investors could in his respect lead to a customized set of benefits, such as a well-developed business reputation, that can be leveraged into subsequent ventures (Starr and Bygrave, 1992). This discussion leads to the following proposition:

Proposition 7: Informal investors' network resources are critical for their ability to exploit entrepreneurial opportunities, as it helps them create and foster stable relationship with key stakeholders.

Taken together, the empirical analysis suggest that the four informal investors have developed particular types of personal resources throughout their careers that facilitate the recognition and exploitation of entrepreneurial opportunities in their role as informal investors. These resources consists of both skill-specific resources (know-how) and network resources (know-who). The skill-specific resources refer to the different kinds of knowledge that the informal investors have acquired throughout their professional lives. These resources seem to play an important role for their ability to solve problems and manage people and resources. The network resources refer to their knowledge about actors and activities in personal networks that mediate trust, as well as facilitate access to information and timely resources. Having access to personal resources makes them powerful agents of entrepreneurial processes that leads to business creation and venture formation, and provides a critical foundation from which capabilities can be developed through effective opportunity exploitation (Brush et al, 2001).

To summarize our analysis of the role of informal investors in the entrepreneurial process we have mapped out how the personal resources developed during their career influence their ability to recognize and exploit entrepreneurial investment opportunities. This is illustrated in Table 2 below.

Table 2. Resources facilitating informal investors' involvement in the entrepreneurial process

	THE ENTREPRENEURIAL PROCESS	
EXPERIENTIALLY ACQUIRED RESOURCES	**Recognition:** Discovery and evaluation	**Exploitation:** Business formation and new venture development
Skill-specific resources (know-how) - Problem-solving skills - Knowledge of how to manage people and resources	*Knowledge corridor*; ability to see new means-ends relationships.	*Leadership and strategic direction*; developing organisational routines and shared beliefs.
Network resources (know-who) - Knowledge about actors and activities in networks	*Access* to timely information shared within networks	*Trust and legitimacy*; creating and fostering relationships with key stakeholders

5. Conclusions

In this study we have explored the value added contribution of informal investors in the entrepreneurial process. By analysing the life experience and career background of four informal investors, this study has contributed with an insight into the personal resources these individuals build up and develop during their careers, and how these experientially acquired resources facilitate their recognition and exploitation of entrepreneurial investment opportunities. The study has used the framework developed by Shane and Venkataraman (2000) in order to explore their value added contribution in the entrepreneurial process. Our main focus has been on the individuals behind the informal investments in terms of the skills, resources and expertise that informal investors can provide to new and small entrepreneurial ventures. Although the entrepreneurship literature recognizes the crucial importance of individual specific resources and capabilities that facilitate the recognition and exploitation of entrepreneurial opportunities (Aspelund, Berg-Utby and Skjevdal, 2005; Brush et al., 2001), empirical research on how informal investors build up and develop their personal resources is comparatively limited (Politis and Landström, 2002). The case analysis suggests that the informal investors have developed two distinctive types of personal resources throughout their careers: skill-specific resources (know-how) and network resources (know-who) (Johannisson, 1991). Together, these experientially acquired resources seem to enhance their ability to recognize entrepreneurial opportunities, as well as coping with liabilities of newness when exploiting these opportunities. Their career can in this respect be described as an experiential learning process that has facilitated the development of valuable resources that is of critical importance for the entrepreneurial projects they become involved in. These findings open up for a better understanding of how informal investors can take advantage of their experientially acquired resources.

The findings in this study suggest that the personal resources that the informal investors possess can reduce some of the traditional obstacles that new entrepreneurial ventures traditionally are faced with. For example, new ventures do not enjoy the benefits of well-established routines and administrative procedures, lack industry specific know-how, and have low if any credibility with suppliers and customers (Stinchombe, 1965; Aldrich, 1999). Based on these arguments, it seems that the personal resources that informal investors can provide the new venture with can facilitate organisational learning and development as well as reducing the potential "resistance to change" that often limit the competitiveness and performance of new and small firms (Minguzzi and Passaro, 2001). A stream of research within the entrepreneurship area has highlighted that available resources at founding can imprint an organisation's strategy, and thus influence its subsequent development (e.g., Boeker, 1989; Cooper and Gimeno Gascon, 1992; Cooper, Gimeno Gascon and Woo, 1994). The availability of the entrepreneurial knowledge base that the informal investor has developed may consequently be one of the most central and critical resources of these new ventures, as it seems to directly influence the new venture's ability to withstand unfavourable shocks and undertake corrective actions. However, even if it is likely that their personal resources may directly bear upon the range of alternatives that can be considered in the new firm, this conclusion is open to further empirical investigation. There are up to date very few studies that have systematically investigated how the involvement of informal investors influences the subsequent development and performance of the firm (Boussara and Deakins, 2000; Deakins, O'Neill and Mileham, 2000). A promising avenue for future research could hence be to investigate how the highly personal resource base of informal investors may function as a source of value creation and competitive advantage during the development of the new venture.

Taken together, this study has contributed with an insight into the value added contribution of informal investors in the entrepreneurial process, something that up to date has received very limited attention in literature and research. However, even if we have explored the personal resources that informal investors build up and develop during their careers that facilitate their recognition and exploitation of entrepreneurial investment opportunities, the discussions above also pose additional questions that call for future studies. It is our hope that the findings presented in this paper will stimulate future research in this area to further develop our understanding of the role of informal investors in the entrepreneurial process.

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