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Angel Investing Principles: Doing Good While Doing Well

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Recently, I attended an exploratory meeting for a possible new Wisconsin Angel fund. Typical of these kinds of events, and gratifying as well, was the number of folks who seemed genuinely interested in participating in a fund that would promote regional economic development. Also typical, if less satisfying, was the confusion about what “giving something back” and promoting economical development meant in terms of running an Angel fund. Too many people seemed to think that public spirited Angel investing was about doing deals that didn’t have the growth and profitability metrics – and ultimately investment returns – offered by deals that might interest professional investors. And that’s just silly.

Now it is true that Angel investors may be willing to pay somewhat higher prices for deals than professional investors – but even there, paying too high a price can actually kill a company if it needs subsequent funding from professional investors. But beyond that, Angel’s are not only not helping entrepreneurs – or regional economies – when they in effect lower the performance bar for the entrepreneurs they invest in, they are hurting them. High impact businesses – as opposed to more traditional small and lifestyle businesses – by definition compete far beyond the region (think nationally and even internationally) for people, technologies, markets and ultimately capital and exits. Being Angel-backed doesn’t get an entrepreneur some sort of “extra credit” with customers, employees or, ultimately, with potential exit partners. The bottom line is that Angels who tell entrepreneurs that it’s somehow ok to pretend that what’s counts is being the best of breed in the region, rather than in the relevant market space, do themselves, the entrepreneurs they invest in and their regional economies serious damage.

Now, I am not saying that good Angel investing doesn’t involve giving back to the community and promoting regional economic development. But the giving back is not about lowering investment standards, it’s about providing more active assistance than most VCs can provide in terms of helping entrepreneurs meet those standards. It’s about working with entrepreneurs that combine world-class ideas with the rough edges typical of high impact entrepreneurs that are new to the game and/or otherwise do not have the polish and experience – yet – to pass muster with more seasoned professional investors. Put differently, good Angel investing is about doing good – helping raw entrepreneurs become seasoned and capable, ultimately, of being the best of breed in their market space – and doing well – by doing the same thing.

In conclusion, public-spirited Angel investing is a wonderful thing, so long as being public spirited is about helping entrepreneurs be the best – something that takes as much elbow grease as money –

and not about throwing dollars and good wishes at deals that shouldn’t get done because it makes you feel good.

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