ANGELS ON **BOARDS**

Setting expectations and goals when inviting an angel investor to sit at the boardroom table.

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An angel is to be one of your directors. Is this manna from heaven or manure from hell? How can you predict success? What if it doesn't work out? Start by asking the five key questions listed below. But first, some simple background:

What does a CEO most want from the board? — Useful, timely and informed advice; a critical evaluation and alternatives; positive engagement; money.

What does a CEO least want from the board? — Harsh criticism; micromanagement or interference; indifference; additional work or excessive reporting.

Angel director candidates come from the large ranks of angel investors, who invest much more money than venture capital firms and spread their money over many more deals. The Kauffman Foundation (www.kauffman.org) reports that over a recent 20-year period, VC firms invested under $1 billion annually in start-up and early-stage companies, while angels invested approximately $20 billion. Moreover, about 400,000 angels invested in 50,000 deals annually. For 2007, the National Venture Capital Association reports that 1,400 start-up and early-stage companies were funded by some of the country's 800 VCs

Why the disparity? For starters, VCs accumulate large sums of "OPM" (other people's money) so they seek deals that can utilize lots of money over a matter of several years. An early VC investment may range up to $5 million or more. By comparison, an early angel round may range from $100,000 to $2 million. And the angel round may have a half dozen investors, each of whom might be a director candidate.

Who are these angels and what do they know about being a director? Angels are often retired executives or business owners who have been there and done that, and who have the time and the money to spend. Studies suggest that angels may invest based on a passion for the technology and may be more patient. Some angels may be content with growth at 10 percent per year over 15 years, whereas the VC (and the astute angel) may insist on the so-called "hockey stick" plan for revenue growth. Angels may be content with influence while the VC will seek elements of control — either now or later. For example, an angel deal may have no formal voting agreement, whereas the VC deal may require board approval and VC approval on key decisions.

Information about local angel networks and VC firms is widely available, as is information about directors and well-functioning boards. Good starting places are the Utah Small Business Development Center (www.utahsbdc.org), the NACD Utah (www.nacd-utah.org) and the MountainWest Capital Network (www.mwcn.org).

A word of caution: Success as a sole proprietor, as an entrepreneur or as an investor does not demonstrate suitability or competence as a member of a board of directors. You may want to contact references for a candidate considered for this type of work.

To conclude, here are five key questions when considering addition of an angel to your board of directors:

1. Does everyone agree that the angel director represents all shareholders and that a considerable body of law and literature is available describing duties and best practices for corporate boards?
2. Will the angel director support the success of the company over time and can he/she make additional investments in the company?
3. Will the angel director support the strategic direction of the company, accept the risks and contribute to accomplishing the mission of the company?
4. Will the angel director act as a member of the board, separating the board's role of oversight from management's role of execution?
5. Does everyone agree on the timeline, the period and the terms of the angel director's engagement?

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