

EBAN Workshop on: Ethics in Angel Investing

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Plan of Workshop

- Preliminaries
- Ethics and Angel Investing
- Summary and Q & A.

Preliminaries on Ethics

- Definition of Ethics (from Oxford Dictionary):
 1. **Moral principles** that govern a person's **behaviour** or the conducting of an **activity**.
 2. The **moral correctness** of specified **conduct**.
 3. The branch of knowledge that deals with moral principles.

i.e. Connection between morals and behavior
- No right answers (respectfully), but
 - Involved in everything we do and meriting far more attention than usually accorded
- Goals: Clarify decision-making, allow better interaction & collaboration, increase success!

Ethical Issues in Angel Investing

- Generally accepted Moral Purposes:
 - Financial profit (to investors & entrepreneurs)
 - Support of coolness & creativity (by entrepreneurs)
 - Economic development (of societies).
- Less universally agreed or understood:
 - “Giving back” from position of privilege
 - “Impact Investing”
 - Unintended consequences (“Anti-Impact”)
 - Recruiting for and promotion of Angel Investing
 - Illegal, wrongful or foolish deal mechanics/behavior.

Good vs Bad (and Legal vs. Illegal) in Actual Deals (1/2)

- Investment (→ “Unethical”? Behavior) → Legitimate Goals
 - More common in Angel deals than generally recognized; >2/3 of my \$ lost in 6 washouts, f/ ~40 cos.; also in 6 positive exits
 - Less regulation in private cf. public companies → greater opportunity for unethical behavior
 - Answers/protections: disclosure, transparency, law & education!

Good vs Bad (and Legal vs. Illegal) in Actual Deals (2/2)

- Examples f/ (international) case studies: “Golden Rule”, “Dry Powder”, “Conflict of Interest” & “Self-Dealing”, “Waterfalls”
 - Convertible debt without valuation cap, later terms
 - Rights for later equity rounds
 - Anti-dilution
 - Pro-rata
 - Misrepresentation/fraud (Diligence, Liability, ...)
- Initial negotiation and decision, oversight, exit!
- Investing vs. Naïve Gambling (w/ tilted table!)?

In Conclusion

- Moral issues have practical consequences re:
 - Personal/professional/institutional responsibilities, advocacy, etc. Decisions and regulation will occur, by whom?
 - Investment choices, conduct, success
- No unilateral or universal right answers
- Discussion too uncommon but urgently needed, among us, and between us and host societies!

Q & A

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“Impact Investing”

- Investment → “Social Good”
 - Widely understood but selectively practiced
 - Ethical basis and justification range from:
 - Simultaneously achieve separate but equal goals of financial return and social good
 - Sacrifice some degree of financial return and/or social good
 - Achieve financial return (and sustainability) via social good
 - “Social Good” inherently value laden and morally defined:
 - Ecological sustainability, social justice, economic access, connectivity, communication, creativity, health, education, entertainment, competitive sports, recreational drugs, security & defence, cryptocurrency, ...
 - Therefore, practical significance/meaning of “Impact Investing”??

“Anti-Impact”, or Unintended Consequences

- Investment → Legitimate Goals (→ Unintended Consequences)
- Examples:
 - Bioengineering
 - “Artificial Intelligence” (AI)
 - “Internet of Things” (IoT)
 - “Social/Gamification” cultures
- Value choices about human lives & lifestyles, risk altering our basic humanity?
- Does being possible, new/cool/powerful or profitable, mean that it should be done?
- Growing understanding that (Silicon Valley) unicorns not necessarily our friends (profit → desirable impact??)

“Truth in Advertising” about Angel Investing

- Clear positive impacts from Angel Investing, for:
 - (Parts of/whole) societies, entrepreneurs, investors, ...
- But, unpleasant realities as well:
 - Golden Rule & later/larger investors, long time frames, general illiquidity, under-regulation, widespread naivete, need for deep experience/education, etc.
 - => Most individual Angels do & probably always will lose \$
 - => Networks need to constantly recruit/replenish/seek support
 - => Benefits to govt’s & host societies often mixed/overstated
- Therefore, substantial care & caution in recruiting/managing/representing Angel Investing and early-stage (entrepreneurial) asset class very much called for, to avoid overselling/disappointment/consequences??