

BUSINESS ANGELS AS A FORM OF SUPPORT FOR THE DEVELOPMENT OF NEW BUSINESS START-UPS

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Abstract: *In this paper, the attention of the author shall be focused on the problematic issues of financing new business start-ups. Financing of such enterprises is associated with the great risk of failure. Fledgling entrepreneurs, particularly young people without professional experience have limited opportunities in terms of the acquisition of financial resources for their business activities. A multitude of them have a good idea, enthusiasm and desire, however their projects break down due to a lack of capital. Owing to the brief history of their business activities, the lack of the appropriate collateral and the risk of the lack of profit, banks are generally reluctant to grant credit loans for this type of undertakings. The only possible source of acquiring the funds for the development of business activities is to find an investor from the group of the so-called business angels. The aim of this paper is to carry out analysis of the market of business angels in Poland and define the impact on the development of new business start-ups.*

Keywords: *foreign financing, foreign capital, start-up, business angel, development.*

JEL Classification: *M13, O31, O32*

1. CHARACTERISTICS OF THE MARKET OF VENTURE CAPITAL IN POLAND

Venture capital constitutes the main determinant of the economic development of the country. Its essence involves the possibility of acquiring the financing by means of rather new and prospering enterprises that are incapable of acquiring the funds required for development from the conventional sources. A characteristic feature of venture capital is the acceptance of the high level of risk with the simultaneous expectation of the appropriately large returns on investments.

The market of venture capital is created by business angels (informal market of venture capital) and venture capital funds (formal market of venture capital), frequently operating in symbiosis or complementing each other [1].

The Polish market of venture capital commenced its functioning following the period of the political transformation, or in other words, after 1989. Its beginnings were very difficult. The lack of systemic and legislative support by the government, as well as distrust among entrepreneurs have caused the slow growth in this area. Only after Poland's integration into the European Union did the development of this market pick up. Due to the geographical location, among other aspects, Poland became a place in which large institutions that manage venture funds in Central and Eastern Europe started to build their headquarters. Likewise, the development of the market was supported by the financial resources derived from the EU that were allocated to the creation and development of institutions in the business environment, including the creation of a system to facilitate investing in small and medium-sized enterprises. In effect, a multitude of networks of business angels and seed capital funds emerged.

The Polish market of venture capital is one of the rapidly developing markets. Polish entrepreneurs are not aware of

the opportunities and possibilities that are offered to them by entities of the market of venture capital. The quantitative growth of this market does not provide measureable qualitative effects that would translate to the emergence of a multitude of innovations, patents or successes of firms relating to spectacular effects.

2. ATTEMPT TO DEFINE THE NOTION OF BUSINESS ANGELS

The definition of business angels is derived from the USA. A group of wealthy people invested in the production of theatre productions in Broadway for the first time. Such an investment of capital was contributed to on the one hand, the desire to make a profit, while on the other hand, social elevation that results from the contact with the stars from show-business. This short genesis illustrates the essence of investing equity capital in undertakings that are to be found at a preliminary phase of development.

The definition of business angels relates to entities that provide capital in the form of shares to new enterprises with a large potential for growth, with which there is only a business connection. The principal source of the profits of the investor becomes growth in terms of the value of enterprises, consequently the shares in possession [2].

Business angels are most frequently people of great professional experience, who invest their accumulated savings and knowledge into a prospering economic undertaking either independently or organized in a network. These are people who participated in the management of enterprises themselves in the past (the owners of enterprises, Board members, managers, professional investors) that achieved market success. The possibility of gaining from the experience, knowledge and advice of the business angels increases the possibilities of success for specific undertakings.

Statistically speaking, the European business angel is a man usually aged between 35-65 years old. Most

frequently, a business angel possesses a college level of education in the field of economics, finance or management. The European business angel invests between 25,000 and 250,000 Euro (usually approximately 15% of equity capital in possession) in newly-forming firms [4]. In the case of newly-forming firms that possess insufficient equity capital and a lack of credibility, such a form of support enables their existence on the market.

In subject-related literature, there is an indication of very high differentiation in terms of the motives or preferences of investing in new undertakings. Likewise, there is an indication of a group of investors that invest for purely financial reasons. Such people are capable of skilfully calculating risk and estimating potential profits. Alongside them are to be found hedonists who count on a business adventure and potential profits. Apart from economic aims, some people are guided by the gratuitous desire to help with the mission of making the world better.

Specific features of the business angels are of key significance. Apart from knowledge and education, they are distinguished by their skills of promoting new business undertakings among investors, entrepreneurs and an empathic approach, namely understanding the arguments and emotions of investors and entrepreneurs.

The existence of the market of business angels provides entrepreneurs with a multitude of benefits, including the following, among others [3]:

- better perception of the needs of enterprises;
- investments in *seed* and *start-up* phases,
- investments in almost every area of the activities of an undertaking,
- flexible process of taking decisions,
- contributing to enterprises not only the capital of the experience of *know-how*, but also business contacts,
- initiating financial leverage in the enterprise,
- increasing the trust of the market environment in the firm at hand,
- support of investment in new technologies.

3. CHARACTERISTICS OF CHOSEN ORGANIZATIONAL STRUCTURES OF BUSINESS ANGELS

The intricacy of contemporary economic life and the variety of the forms of financing the investment undertakings has led to the case whereby contemporary business angels function within the framework of various organizational structures very frequently.

They most frequently operate in the form of networks of business angels. In this form they function as non-profit organizations of a regional nature. Their fundamental task is to associate potential investors with initiators. The networks of business angels are featured by the fact that they have a specialized staff of analysts, thanks to which they may render services both for investors, as well as entrepreneurs in search of capital for development. It is worth emphasizing the fact that the regional networks of business angels are frequently domestic or international members of networks of business angels.

In characterizing the networks of business angels, it is not possible to omit the electronic networks of business angels. These are the platforms that serve the acquisition of information and registration of potential investors, as well

as initiators. Initiators are usually required to prepare a brief 1-2 page summary of the business concept and following preliminary verification and approval should prepare a business plan.

Clubs of the business angels constitute aid in creating contacts, as well as areas of the exchange of experience. Most frequently, they operate as associations that also organize training of business angels and initiators.

A more formalized form of cooperation involving the business angels constitutes that of syndicates (consortiums) that involve the creation of groups of investors that are interested in the co-financing of one or several projects, thus creating a joint investment portfolio. This type of structure that associates business angels facilitates the financing of greater investment projects, diversification of risk, strengthening of credibility and the negotiating position. Likewise, it also increases the chances of success of undertakings by means of involving investors that have greater contacts and experience [4].

4. ANALYSIS OF ACTIVITIES OF POLISH BUSINESS ANGELS

Polish business angels are concentrated in networks of business angels, namely organizational ones that fulfil the role of a middleman between the initiator and the investor. They allow the latter to remain anonymous, as well as helping to prepare the appropriate documents, etc.

Polish business angels search for investment within a timescale of 3-5 years, encompassing amounts ranging between 50,000 to over 5 million PLN. With the investment aims in mind, they are first and foremost interested in new enterprises, preferably those that are already functioning on the market in the start-up phase (29%). They have already passed the initial verification of the market, while are simultaneously in the phase where their value grows fastest. To a lesser extent, business angels want to invest in firms that are at the *seed phase* – 23%, *first* and *later stage* – 24% respectively [5].

The first network was established in 2003– PolBAN Business Angels Club, while its mission is to promote and organize investments for wealthy private people in Polish firms at the initial stages of their development. The club of business angels PolBAN is a formal association. It does not avail of EU funds, which provides great flexibility, independence from bureaucratic barriers and consequently greater efficiency. The business activities of PolBAN is financed by its founders, sponsors and revenues from the projects executed [7].

In 2014, 14 networks of business angels functioned in Poland, the majority of which were established in the period of 2007-2010 and were financed by EU funds made available within the framework of the Innovative Economy Operational Program. A real test of the justification of their functioning and effectiveness in terms of operations shall be the period of time when the external non-repayable EU funding ends [4].

The analysis carried out illustrated a rather high level of interest of entrepreneurs in the acquisition of financing by means of this type of institution. Each month the networks receive 97 projects on average, of which one quarter is worthy of closer scrutiny. The result attained indicates the positive change with reference to the previous year when

an average of 83 projects were submitted. Polish networks associate with 30 business angels from various sectors annually that want to first and foremost support projects connected with their own sectors, thus the spectrum of their preferences is very broad and first and foremost encompasses high technologies focused in the following sectors: the Internet, IT, software, media and multimedia, telecommunications, ecology, biotechnology and pharmaceuticals, services based on knowledge, health care, computer industry, automatics and robotics, chemical goods, as well as traditional sectors such as the food industry and fuel and energy [6].

In Poland, online networks also function that serve as platforms for making contacts between investors and initiators. A multitude of these projects were also formed thanks to EU funding.

Furthermore, there is a rather large number of individual investors (business angels), in search of new investment opportunities by means of business incubators, social networking, private websites or competitions of entrepreneurship [4].

It is even difficult to define the magnitude of the Polish market of business angels to approximate levels. In contrast to their Western European or American counterparts, the functioning networks do not publish statistics or annual reports, while the information is published by careful selection. It would seem that the Polish market is also less formalized and less visible [4].

5. SUMMARY

Despite the fact that in Poland the institution of business angels is a relatively new notion and market phenomenon, the growth of interest in this form of investment and

development of the market is impressive. This particularly relates to undertakings that are at the preliminary stages of development. Then firms may count on bank loans or financing from the funds of venture capital. At such a moment, the best solution seems to be a business angel who may support a project not only from a financial viewpoint, but also in substantive terms. Capital that is acquired in this manner facilitates the execution of market research or the creation of a prototype.

Business angels are significantly contributing to the stimulation of activity in the sector of small and medium-sized enterprises. Thanks to the projects supported by them, hundreds, and even thousands of workplaces in the case of developed economies, are created, while unemployment figures are dropping, tax revenue is rising and the commercialization of technologies and the implementation of new technical solutions are all taking place that in a different situation would have difficulty in finding an investor that would want to get involved from a financial and substantive point of view in terms of very risky firms that are only starting their business activities. The success of enterprises that are supported by business angels have an impact on the perception of the country and its economy in the cases of other states as a valuable and modern partner that has a lot to offer, which directly translates to the attraction of foreign investors and the increased level of exports.

The impact of this type of investors on the economic development of the country is extraordinarily significant. The business angels constitute a key element in the development of firms that are to be found in the preliminary phases of their business activities.

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