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Procedia - Social and Behavioral Sciences 235 (2016) 630 – 637

Procedia
Social and Behavioral Sciences

12th International Strategic Management Conference, ISMC 2016, 28-30 October 2016, Antalya, Turkey

Venture Capital and Business Angels: Turkish Case

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Abstract

Venture capital (VC) may be defined as a support to entrepreneurial talents and appetite by turning ideas and basic science into products and services which are expected to envy the world. Although venture capitalists and business angels supply external funding for risky investments, the aspects of venture capitalists and business angels are different approaching the investment candidates.Business angels in the last decade have become undispansible players providing external capital for risky start-ups and contributing technological advancements and economic growth. Business angels could be either private wealth individuals or institutional venture capitalists. Private angels invest their own money that's why their invested capacity are limited while venture capitalists invest others'money with an extensive source. This research examines the the way of doing business for venture capitalists and business angels. Furthermore, venture capital market and business angels are reviewed for the Turkish case.

Peer-review under responsibility of the organizing committee of ISMC 2016.

Keywords: Venture captal, angel investors, startup companies, technology advancements, entrepreneurship.

1. Introduction

Venture capital (VC) may be defined as a support to entrepreneurial talents and appetite by turning ideas and basic science into products and services which are expected to envy the world. Venture capital funds are able to build companies from the simplest form to mature organizations (Teker et al (2016). Businss angels play an important role in the economy and in many countries substitute the largest source of external funding in newly established ventures. This has put angel investors in the center of attention for policy makers, who acknowlege their increasing improtance providng risk capital as well as contributing to economic growth and technological advances (Murray, 2007). Business angel investment activities are actually not a recent phenomenon. Private individuals have always had a tendency to invest in high-risk projects. One famous example is the decision by Queen Isabella of Spain to finance the voyage of Christopher Columbus. This turned out to be a highly profitable investment for Spain. Moreover, it may be argued that the investments made by the private individuals affected the industrial revoluition during the 19th and early 20th centuries. The business angel market first attracted the attention of US policy makers and in the late 1950s the Ferderal

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Peer-review under responsibility of the organizing committee of ISMC 2016.
doi:10.1016/j.sbspro.2016.11.041

Reserve investigated initial financing of new technology-based firms and preceeded the Small Business Act in 1958. The interest in early financing of technology-based firms pointed the focus on angels as an important external source of finance for entrepreneurial ventures.

This reserach is organized as follows. The next section reviews the related literature. The following section examines the characteristics of business angels. The later section covers the Turkish case of angel investors. The final part presents the concluding remarks.

2.Literature Review

The first pioneering academic work conducted by Wetzel's study (1983) "Angels and informals risk capital" published in Sloan Management Review. He proposed that new technology-besed firms encountered problems when raising small amounts of early stage financing. The evidence indicated that business angels played a role in solving this problem. Wetzel put forward the common traits of business angels; wealthy, self-made, male, highly active investors who invested in close geographic proximity to their home and relied heavily on their network of friends and business associates.

The issue of angel investors is characterized by a growing number of research questions of interest, hence limiting the issue to one definition. Initially, a distinction between investments made by institutional venture capital investors and investments made by business angels. Wright and Robbie (1998) defines institutional venture capital as "Professional investors of long-term, unquoted, risk equity finance in new firms where the primary reward is eventual capital gain supplemented by dividends". Mason and Harrison (1999) states that "the institutional venture capital industry companies full-time professionals who raise finance from pension funds, insurance companies, banks and other financial institutions to invest in entrepreneurial ventures. Instştutional venture capital firms take various forms: publicly traded companies, 'captive' subsidiaries of large banks and other financial institutions, and independent limited partnerships."

Lerner (2000) defines a business angels as "a wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional or other individual investors"

Mason and Harrison (1994) describes business angels as "a high net worth individual, acting alone or in a forma lor informal sydicate who invests his or her own Money directly in an unquoted business in which there is no family connection and who , after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors".

Mason et al. (2004) emphasizes the business plan as the first step for the decision of angel investors. They point out that business plans should be prepared under different perpectives since bankers, venture capitalists and business angels consider different investment criteria. Bankers consider financial aspects as more important while giving less weight on entrepreneurs, amrket and other issues. Venture capitalists and business angels put a balanced weight on financial and market issues. Furthermore, business angels emphise entreprenurs and "investor-fit" more comparing to venture capitalists. Finally, they suggest that entreprenurs must prepare a business plan taking into account of seeking financing from business angels, venture capitalists or bankers.

Mitteness et al. (2012) investigate whether angel investors perceived passion play a significant role in investor funding decision making. They screened 64 angel investors in California region in the period of 2006- 2010. The angel investors examined 241 companies and made 3502 evaluations within the period. Angel investors deciden to fund 41 companies (17% of 241 companies). Out of 64 angels, 3 were femaile with a masters of PhD, and 42 had some startup experience, and more than half of angels held a graduate degree. The reserachers find a strong relationship and further state that the relationship is even stronger if angel investors are older, more intuitive, have open personality, those who are motivated to mentor.

Ding et al. (2014) try to explain why angel investors may have different selection criteria under different institutional environment. The work on Denmark and China to examine the comparetive institutional environment. They find that the relationship-based institutions are more common in China while rule-based intitutions are more common in Denmark. Angel investors in China give risks less wieght compared to those in Denmark and they tend to keep strong ties with the startup teams.

Aernoudt (2005) states that government policy to stimulate growth, innovation and creation of new companies/employment is mainly related to Access to finance through increasing suplly of capital. Hence, business angels play an important role in financing of seed and early stage of startups. The author suggests that government find out innovative ways to stimulate angel financing, and propeses seven ways for it; investor readiness, corporate