The Role of „Business Angels“ in the Financial Market

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Abstract. „Business angels“, as financial investors in the field of economy, have in the past few years become an increasingly important factor in global terms, as well as in Europe in particular. They carry out the most developed activities in the international capital market; and in this market there has been strong growth in supply and demand. Their activities complement the lack of financial arrangements of large investors, and they are introduced and developed among family, personal, and venture capital in the world market in the segment of financial investments in small and medium-sized enterprises.

The paper provides a unique overview of how the „business angel“ network and organisational structure function, and in which stage of company's development „business angels“ step in as a driving force. Realistic creation of a business angel network essentially depends on the development of venture capital markets in a country. This condition is crucial for successful operation of the entire network system. Creation of the entire organisational structure that should trigger the activities of the respective network is dependent on this development. The objective of this paper is to analyse the default hypotheses and thus determine the importance of business angels in economic circles, as financial support is considered an important factor that limits or develops free enterprise, in particular small and medium-sized enterprises. It affects entrepreneurship development through two important factors: financing of start-up entrepreneurs and administrative barriers in obtaining all the necessary documents, and later, credit insurance. Realistic funding of start-up entrepreneurs essentially depends on the amount of capital in the market and economic situation in the domestic market.

Keywords: „business angels“, financial investments, international capital market, entrepreneurship start-up

1 Introduction

Investments of „business angels“ appear in various forms of financial arrangements in the original investment that needs to develop some kind of a new production, but also in further production development of some activities for which the necessary funding could not be collected otherwise. Such activities of „business angels“ can significantly affect the stimulation of other sources of financing, such as bank loans or various forms of venture capital, which should be directed towards an active project. The main hypothesis: Although various types of investments encouraged by „business angels“ can, like anything else in life, have positive or negative connotations, it is generally accepted that good characteristics or benefits achieve far better effects than disadvantages. PH1: One of the biggest problems that stand in the way of successful development of entrepreneurship is means of financing, especially lack of alternative means of financing in small and medium-sized enterprises. This kind of business activities creates in practice active informal financial capital market which is in turn a precondition for stronger development of small and medium-sized enterprises. PH2: Many companies have problems, not only with the use of financial capital; they are less-known in non-professional social circles, because they tend to keep their business activities away from the public and the media, because they do not want to be disturbed with various offers for future investments. The objective of this paper is to show that business activities of a business angel network enable the
meeting point of capital and good ideas in one place, and effective exchange of all information related to the promotion and development of innovative entrepreneurship. The methods used in the paper are quantitative and qualitative methods as well as methods of comparison of spatial and temporal features. The scientific contribution is reflected in the development of scientific thought about the importance of realistic expectations about group performance of business angels; although in practice there is no ideal model of investment activities of business angels, their activities range from individual investments to joint ventures in the form of different companies such as limited liability companies and the like, which are in practice established for investing in a particular project. This organisational structure is generally an extremely organised activity of business angels, because their financial activity mainly takes place between final marginal values of entrepreneurial projects.

2 The Concept and Development of „Business Angels”

The term „business angels“ conceptually indicates former successful entrepreneurs or former successful leaders of certain companies – corporations which finance start-up projects occurring as high-risk projects (Business Angels Pty Ltd-Private Venture Capital 2014). They exercise their financial investments in the way that they either personally or through their representatives enter the ownership structure of the project and financially support further development of a particular project. In legal terms, they are informal individuals - investors who use their previously acquired business experience and their financial arrangement to help and advise young entrepreneurs and their small enterprises that prepare a promising product for the market. The most important element in this process is business value of „business angels“ oriented on the so-called „smart financing“ which includes expertise, skills and a network of new business contacts. Based on the above, it can be concluded that „business angels“ primarily invest in segments of economy they are well-acquainted with and regions in which they previously worked. The main reason for their economic activities is making profit, but also a certain personal satisfaction in the creation of a new social value in an engagement in which large investors showed no interest. „Business angels“ are typically individuals who possess certain capital from previous business activities, and who are willing to invest in a small business owner who tries to place a new product or service on the market, provided that they themselves get a share in the future profit. As a rule, „business angels“ are individual financial investors who previously dealt with some entrepreneurial or managerial business activities and acquired a certain expertise and experience, while their investment, along with financial investment, also involves a certain level of personal counselling in the future work of the new small or medium-sized enterprise (Business Angels Pty Ltd-Private Venture Capital 2014).

The predominant form of a „business angel“ investment is equity deal investment type, or, in other words, in exchange for the investment, a „business angel“ gets a share in the enterprise invested in. In this way, investors share business risk with entrepreneurs, and are often personally involved in the management and operational activities of the company in which they invested their funds. Such an investment is eventually formed into a financial investment – a convertible loan which is transformable, and in which the „business angel“ invests in the form of a credit or loan. In case the agreed conditions are fulfilled, the loan need not be returned, but is rather converted into equity. On the other hand, in the first phase of activities, when the entrepreneur does not own anything except an elaborated project, „business angels“, except for financial investment, also invest their experience, their own work and knowledge in the project. In this way, a „business angel“ can very successfully help the entrepreneur in the elaboration of his/her business plan, production strategy, product definition, business model of market approach, as well as facilitate contact with some potential partners in the market and future clients or users of the product or service. In everyday business activities, there are four types of „business angels“ (Bushrod 2002, 12):
a) Guardian angels, who share with the entrepreneur, along with their financial investment, their business experience in a certain branch of industry. These people have already been successful entrepreneurs in a particular industry, and after a while, they want to continue investing in the same industry.

b) Entrepreneur angels are entrepreneurs who have prior experience in launching a similar business venture in a sector of economy that was different or similar to that they now seek to invest in.

c) Operating angels possess some experience as well as knowledge gained in a particular industry, working in a big company, but they lack important experience they seek to obtain in a small, newly-established enterprise.

d) Financial angels invest exclusively to make profit that they expect after they have invested their funds in a particular project.

All of these types of „business angels“ are present in contemporary economic trends and are organised in clubs, networks, and the like, and they mainly gather around similar types of investments. Some groups of „business angels“ come from some of the industrial groups, while others started their activities by being established by professionals linked by common interests. Before they make an investment, „business angels“ define their relations and determine: which values will a „business angel“ bring into the respective enterprise, in what period of time, at which value and cost, and in what way will they later leave or stay in the project. „Business angels“ actively operate in the new enterprise where they have seats in the supervisory board or administrative bodies so that they personally take over specific business or other tasks. „Business angels“ can leave an enterprise or a business project in the following way (Business Angels Pty Ltd, Private Venture Capital 2014):

a) the founding entrepreneur can buy the investment share off each „business angel“;

b) „business angel“ can offer his share in the company to some of the venture funds such as venture capital fund1;

c) writing off their financial claims against the entrepreneur in case the investment has not resulted in the desired financial effect.

It should be noted that in practice, interest rate, fees and similar charges on the invested financial capital of „business angels“ are not paid for their activities in the enterprise, and they can be charged by selling their equity only at the end of business activities of the enterprise. As noted before, „business angels“ are in practice organised in various associations or networks in order to be more flexible and able to jointly invest much greater funds in certain projects and gather respectable knowledge and experience in specific branches of industry, that can be used in the elaboration of a new business project in a new enterprise (Benjamin & Margulis 2005, 45).

Every entrepreneur aims to develop his enterprise, list it on the stock exchange someday, or reach a particular size so that he and his family could live decently from the fruits of their labour. On the other hand, „business angels“ aim to invest taking into account the following factors: source of funding, evaluation of candidates, determining the value of their investment, arranging their relations with the owner of the enterprise or entrepreneur, trying to lead successful negotiations with the owner of the enterprise, providing quality assistance to the entrepreneur in project development, and choosing an appropriate exit strategy in case of leaving the project. Entrepreneurs and „business angels“ should establish good co-operation and mutual trust, because they are the most responsible in this co-operation for further development of the project.

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1 Venture capital is a source of funding for enterprises with growth potential; investors invest their funds in such an enterprise in exchange for equity share and a certain level of control over this enterprise.
3 Historical Development of "Business Angel" Activities

The present term „business angels“ has not always had the same meaning. It changed over time and adapted to economic activities of its time. This term was originally used for wealthy individual investors who invested their financial resources in various theatrical or other „show“ performances. The first scientifically-based research of this subject matter were conducted by William Wetzel, a professor at the University of New Hampshire in 1978. The aim of the research was to demonstrate how the USA collected initial capital for individual projects. The term „angel“ was used for the first time in this research, and personified various investors who financially helped or endorsed various production projects developed by small enterprises. After this research, the activities of „business angels“ came under the attention of the public. According to some informal studies of American venture capital associations, capital investments of „business angels“ amounted in the past 30 years almost twice as much as those by venture capital funds whose job it really is (Benchmarking Business Angels 2012). Research carried out in Europe on this subject showed that „business angels“ in Europe invest in various projects in the financial value of ten to twenty million EUR per year. A world-famous brand „Skype“ also started its activities with the support of „business angels“ through a theatrical humorous. In the circles of theatre employees, it is well known that during the 1920s, the leading Broadway managers sought financial support from „business angels“ to finance their new, but financially insecure theatre projects, and in turn, the investors were given the opportunity to appear at various receptions with the then-famous film or theatre stars. Although these shows rarely managed to recover the invested funds, all investors who participated in such a project were satisfied; producers and actors managed to get their wages, utilities were paid, and investors could show their friends and family that they spent time with the world-famous stars (Business Angels 2012). Over time, the activities of „business angels“ moved from the theatre to the economy and became much more professional. This form of activity was taken up by many successful entrepreneurs, well-paid managers and other professionals who have acquired the necessary knowledge or expanded their expertise. „Business angels“, like most wealthy individuals from the Western civilisation, appreciate anonymity and talk as little as possible about their business activities in public, and even less about the amount of their wealth (Poslovni andeli neslužbeno tržište kapitala 2009).

All such investors expect from their investments a certain level of success in the near future, when their entrepreneurial or business activities will be significantly under-represented in the industry they operate in, while on the other hand, they expect that their financial assistance could be helpful to anyone who needs it to develop an entrepreneurial idea. It is evident that business activities have diversified in highly developed countries that have developed successful economic systems, such as the USA, Great Britain, etc. Afterwards, „business angel“ activities were harmonised with modern trends of world market liberalisation under the influence of globalisation changes, and eventually, they went through deregulation systems within the transition process. Development of „business angel“ activities in the international economy from 2000 to 2009 is presented below (EBAN 2009).
The chart clearly shows gradual development and growth of the analysed „business angel“ networks from 2000 to 2009, which shows a constant increase in the number of business networks of „business angels“ that increases from the initial sixty to 230 in 2005, and after several oscillations, by 2009, they reached the level of 300 recorded business networks in which they operated successfully.

4 Finding Funds for the Activities of Small and Medium-Sized Enterprises

In the economic milieu, financial support is considered an important factor that limits free enterprise, especially small or medium-sized. It affects entrepreneurship development through two important factors (Financijski anđeli 2014):

a) funding of business start-ups;

b) administrative slowness in obtaining the necessary documents and subsequent insurance credit support. Real financing of start-up entrepreneurs essentially depends on the amount of capital on the market and economic situation in the domestic market. Business-wise, it is entirely realistic that banking institutions are reluctant to invest in a project that is by its nature unrealistic and unprofitable, and in this regard do not like to risk their owners and depositors' money. Banks try to avoid joining small and medium-sized enterprises and replacing their equity with their credit arrangements. On the other hand, the state does not have sufficient financial resources to engage in the development needs and activities of small and medium-sized enterprises, although, according to the latest economic research, it is proven that small and medium-sized enterprises are the basis of development of any successful economic system. Development of entrepreneurship is each country's primary need, and for such a development, certain preconditions need to be created and various problems that stand in the way of successful development should be solved. One of the biggest problems that stand in the way of successful development of entrepreneurship is means of financing, especially lack of alternative means of financing in small and medium-sized enterprises. For a long time, there has been an active source of capital in financial markets called venture capital, that appeared on the financial market in the past couple of decades and has been growing as a result of development needs of small and medium-sized enterprises and entrepreneurs, in order to implement their entrepreneurial projects (Banka 2008).

In order to provide financial assistance to small and medium-sized enterprises, there are the following operational financial arrangements in the financial market: bank loans, venture capital, and business angels, and each will be briefly presented in the text below.
4.1 The Use of Bank Loans

Rapid development of any company should be controlled and it should not threaten its stability and balanced development. With this in mind, an appropriate funding strategy should be selected for its further development, which is one of the most important factors for further successful development. Therefore, an appropriate bank should be selected. The implementation plan of the respective project should be presented to the bank, after which starts the loan approval procedure. This procedure includes collection of various data, documentation, communication with bank clerks, credit analysis, assessment of project risk, making the final decision, etc. These are all parts of the procedure for obtaining bank loans, and the level of certain procedures highly depends on the size of the enterprise and strength of the project. The only case when entering credit business with a small or medium-sized entrepreneur pays off to the bank is in case it brings profit. On the other hand, if banks offer loans to entrepreneurs, their profit decreases, and thus their interest in crediting. There are some other problems with this way of crediting, and these are ways and criteria through which loans are approved. For example, if loans are granted to the population, bank clerks do not conduct extensive analyses of their clients’ financial situations. Appropriate business criteria are elaborated for such activities in advance, and if clients meet the criteria, their loan will soon be approved (UK Business Angels Association 2013). When it comes to small and medium-sized entrepreneurs, the loan approval procedure is much different. Bank clerks try to get to know and assess entrepreneurs and their projects and personally assess the viability of the proposed project. After many assessments, they either bring a positive or a negative decision on the requested loan.

4.2 The Use of Venture Capital

Venture capital or risk capital are financial resources invested in a business venture that contains a high level of risk. If this term is examined from a broader aspect, it is any investment in the economy made by a small or medium-sized entrepreneur, whose business success is uncertain (Andrijašević et al. 1997, 57). Venture capital market started developing 50 years ago and reached its peak in the 1980s. Nowadays, it is a very important source of financing for small and medium-sized enterprises and their projects that promise a steady economic growth. The system of using venture capital functions as follows: the investor invests his funds in a small or medium-sized enterprise, and in return acquires voting rights in business decision-making and equity share in the company. Investors in small or medium-sized enterprises are not only investors; they also participate in the management, marketing of planning of business strategy of the company, by which they greatly encourage company development. Venture capital investors make the investment decision based on personal assessment on the basis of business benefits of the respective enterprise on the market. Investors tend to invest in an enterprise that, according to their own judgment, promises a high profit rate from the investment in the period from five to seven years. In a risky investment, investors usually study several hundreds of options before they decide on the enterprise they would invest in. In all risky investments, the return period of the invested funds cannot be determined, which is the main difference compared to bank loans. In practice, every bank tries to ensure payment of their loans, and succeeds in most cases, while on the other hand, a risky investment cannot guarantee such a security to the investor. It should be noted that there are several venture capital funds in Croatia such as: the Questus fond, SEAF, Copernicus Adriatic Venture Fond (CRANE 2009).

4.3 Use of „Business Angel“ Funding

Unlike venture capital funds that invest other people's funds in business activities, „business angels“ invest their own funds in production projects. As described in detail in the first part of the text, „business angels“ are mostly current or former businessmen who try to conduct business activities through another company and in co-operation with another entrepreneur. In addition to financial
investment, „business angels“ also bring to the new company their knowledge and experience. „Business angel“ investments are characterised by reduced bureaucratic procedure and fewer criteria, which separates them from bank operations or venture capital funds. „Business angels“ make their investment decisions based on their own knowledge and experience (Rončević & Kolaković 2008, 102). Like any rich individuals, „business angels“ do not like to stand out, are hard to reach and to arrange business with. In the investment analysis, a „business angel“ devotes special attention to the developmental phase of the project and, accordingly, the amount of necessary funds. At the very beginning of the development of a new idea, and beginning of operations of a new enterprise, funding is usually provided by the owner himself with the help of family or friends. In this first phase, this way of raising funds is acceptable and essentially meets all the financial needs of the new enterprise, as the real need for financial resources is relatively small at that point. Further development of the enterprise and increased volume of business activities require bigger investments, which also increases the need for new funds. In practice, there are various types of enterprises in which „business angels“ operate from the beginning. Their investments in the first phase of company business are associated with a variety of other forms and activities related to non-financial assistance. This assistance of „business angels“ is professionally called „smart money“, because, except for financial assistance, they provide advice to the new enterprise in the creation of the business strategy and other business activities in the new enterprise, such as making of business plans, finding new qualified employees, etc (The Nordic case 2003).

The next developmental phase is also development of the new enterprise, and this phase requires much greater funds, because further development of the planned project highly depends on the amount of new financial resources. In this phase, development of the new enterprise is nearly always limited in the manner and amount of funds available on the market. Assistance of „business angels“ is required in this particular phase; they then become the most important source of financing, and enter the project after the owner has invested and exhausted his own capital, and needs additional capital to cover the costs of research, marketing and production.

In the later phases of enterprise development, especially if „business angel“ investments were not sufficient, and the project caused a high level of development and investments, entrepreneurs try to find other sources of financing, and this is when they turn to investment and pension funds, insurance, etc.

Many entrepreneurs want to know how to obtain the necessary information that would direct them to sources of funding, but also who possesses such useful information. In this regard, it should be noted that in theory and legal practice all these problems have been elaborated on, but in reality, entrepreneurs and their enterprises face many bureaucratic obstacles and barriers.

Types of „business angels“ operating in the modern international economy (Kako pronaći ulagača za inovativni projekt, 2009):

a) Young individual investors who do not establish their enterprises, but invest in projects of various entrepreneurs and develop the new business with them;

b) Expert consultants who want to gain greater personal income, because in the new position, they know they can have a much stronger impact on promotion and new financial position;

c) Enterprises that gained greater financial profit in their business activities through diligence – they look for other small enterprises that would develop further with their financial support;

d) Entrepreneurs who are outside the active employment, and feel capable for new business challenges;

e) Entrepreneurs who already own a successful enterprise, but want to implement a new business project.
All active enterprises need stable sources of funding for their business activities, and while large enterprises have almost unlimited support from the state and financial institutions, this is not the case for small and medium-size enterprises. It often happens in practice that small and medium-sized enterprises, when they exhaust their own sources of financing, face various problems in future operations. Table 1 shows funding of individual developmental phases of enterprises.

Table 1: Funding of Individual Developmental Phases of Enterprises

<table>
<thead>
<tr>
<th>Developmental phase</th>
<th>Idea, conception and birth phase</th>
<th>Start-up</th>
<th>Growth phase</th>
<th>Development phase</th>
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<tbody>
<tr>
<td>Means of funding</td>
<td>Own capital of entrepreneur/founder</td>
<td>Business angels</td>
<td>Business angels</td>
<td>Venture capital</td>
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<td>Business activities</td>
<td>Business plan, sales</td>
<td>Business strategy development</td>
<td>Marketing promotion</td>
<td>Development of marketing strategy</td>
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Source: Cvijanović et al. (2008, 67)

According to the above-mentioned developmental phases of an entrepreneurial venture, funding sources and other investment activities can be presented as follows (Benjamin & Margulis 2005, 35):

a) Seed active phase is the phase in which funding enables the first phase of development of a new project, which is research, assessment of adequacy of the project, fitness, development of the initial concept of the new project, all before the beginning of the next, start-up phase. The seed phase is usually funded from the 3F financial sources (founder, family, and friends). Some of venture capital funds may appear as investors, corporate investments, that recognise the connection of the new project with production, but this kind of investment is rare in practice. In case a project needs smaller financial investments, „business angels“ can also appear with their investment. Each of the described sources of capital is grouped in the so-called private equity;

b) Start-up active phase – includes funding of the next development phase of the project, and also includes its initial marketing. Some venture capital funds can appear as investors at this stage of development, but also some corporations who try to link their businesses with the new promising entrepreneur. „Business angel“ investments are in most cases considered a common investment;

c) Active growth phase – includes financing of development and growth (expansion) of the enterprise, and refers to the period of realisation of profit or revenues. It is common that some banking institutions are included in this entrepreneurial development phase;

d) The effect of substitute capital in a small or medium-sized enterprise – if a new enterprise finds itself in a bad financial situation, the financial state in the enterprise can be improved by providing the opportunity to another enterprise to buy the shares of the newly-established enterprise and to reduce the outstanding debt. This may lead to changes in the ownership structure – a buyout – in the newly established enterprise, and in particular to majority control over its operations. This type of investment is usually made in companies that operate in the market for a long time, i.e. mature companies. In this active phase, various investors, in particular „business angels“, can leave the equity positions of the respective enterprise, while in practice, there are data that indicate that many „business angels“ retain their share and work together with the enterprise in which they previously invested their financial resources.

In cases where all the necessary investments, one's own, family and friends', in an enterprise cannot pull the enterprise out of difficulties, and the interest of small and medium-sized enterprises is of no interest to venture capital funds, this is when „business angels“ come in with their informal business investments. They are an important source of funding for various projects in developed European countries, but also consultants to new and growing enterprises. „Business angels“ fill this financial gap between entrepreneurs and financial institutions and help to further develop the entrepreneurial project. From the legal point of view, „business angels“ are natural persons possessing their own
financial resources. They are mostly people with some managerial experience, some of them sold their own business, but still try to participate in business activities. Most „business angels“ are familiar with business activities of a newly-established enterprise, the market for a new product, infrastructure, and human resources policy in the production sector, and their investment is usually made at an earlier stage of development of the enterprise. In business circles, this newly founded enterprise is deemed to have good production potential and perspective, but subsequently finds itself in an equity gap (Kako pronaći ulagača za inovativni projekt, 2009).

Various scientific studies verified the previously presented professional estimates that many enterprises do not only have problems with the use of financial capital, but that for successful business performance, they need a variety of tips and knowledge that are in business practice much more important than financial capital alone. Many promising enterprises failed because of competition gap - they lacked specific professional know-how in their business activities which they at the time could not acquire or provide. In practice, such problems are most effectively addressed with the help of „business angels“ who enter this newly-established enterprise with their extensive experience and professional knowledge from earlier points in life, which allowed them to acquire significant seed capital which they later invested in a newly-established enterprise developing a new project. By their financial investment, they significantly contribute to growth and development of the new enterprise through participation in its management. It is well-known in the European economy that „business angels“ are significantly involved in economic production activities, and their investments are much higher than those of venture capital funds, also according to the value of investments (Benjamin & Margulis 2005, 47).

From the perspective of the European economy, „business angels“ should be viewed as important economic factors although they are less known in non-professional social circles, because they tend to keep their business activities away from the public and the media, because they do not want to be disturbed with various offers for future investments. In this respect, „business angels“ are joining various associations or networks where they, as professional individuals, participate in various offers of financial supply and demand in the market ebang.org or crane.hr. Although most „business angels“ are connected through these networks, interested entrepreneurs trying to develop a successful project have a big problem: matching gap, or how to connect with an appropriate „business angel“ who would endorse their entrepreneurial activity.²

5 Organisational Structure of a Business Angel Network

Every business angel network needs to link different networks in order to successfully connect entrepreneurs and business angels aiming to implement a specific production project and launch it on the market. Although in practice there are many different business angel networks, they are all organised and operate in a similar manner. Each business angel network consists of several important factors, and each factor has a special role in the functioning of the whole, which is shown on Picture 1.

² Matching gap – the process of connecting an entrepreneur who is looking for funding and a „business angel“ looking for a chance to invest.
**Structure of a Business Angel Network**

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<tr>
<th>LEADING ANGEL</th>
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<td>MPA MANAGER</td>
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<td>LONE WOLVES</td>
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**CRITICAL GROUP**

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**BUSINESS ANGEL GROUPS**

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<td>PA GROUP 2</td>
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<td>PA GROUP 3</td>
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Source: Gullander & Napier (2002, 22)

Picture 1 shows the structure of business angels starting from the leading angel who is considered the most qualified person in the network and operates with the objective of the best possible development of the respective business angel network. He closely co-operates with other people, like the MPA manager and „lone wolves“. The manager is in the network of persons who have the authority to manage the network, committees and groups of business angels, and they all operate as a close-knit group of investors who collaborate and operate within a particular investment. Lone wolves are members of no particular business angel network, but act as external private organisational investors in individual projects (Gullander & Napier 2002, 24.)

The leading angel in practice is the leading individual who operates within a business angel network and runs the business of the entire group. He is the most qualified individual in the group and has great business influence by which he attracts other business angels, and his task is to develop the respective group in the best possible way and direct the entire network in a particular business direction. His activities should not be confused with those of the leading financial investment angel. The leading angel of the network works closely with the network manager, and they jointly develop the network and plan its further development. The leading angel represents the network in the media or to other networks. The leading angel is so important for the network, that his abandoning of the respective network constitutes a major problem in terms of its future activities. This especially appears as a problem at an earlier stage of network development, because he is the only one with sufficient knowledge of business angel activities and the way they function, as well as the connection with other groups of business angels (Benjamin & Margulis 2005).

MPA manager – promoter is the manager of an individual business angel network who was appointed to this position with the sole intention to successfully lead and manage the respective network. He can be chosen from different organisations such as incubators, research institutes, banks, and other organisations. His task is to carry out administrative work within the organisation of a specific network; it refers to arranging meetings, sending invitations, counselling members on various operational issues, etc. The manager holds the network together, organises and co-ordinates in order to carry out business activities. It is common practice that managers are not employed full-time within the network, because they usually work in another workplace, such as incubators and institutes.
Group of business angels is in practice a group of investors who meet regularly, co-operate, and accept or reject financial business offers of various entrepreneurs. If we exclude the operations of national business angel networks, according to the obtained research results, in most business angel networks, there are about twenty active members. The size of a business angel group or network can be significantly changed in practice. According to some research, there are some active networks that went through the stage of development and should gather about fifteen members in order to operate successfully. On the other hand, some research indicate that for successful operation of a business angel network, the respective network should gather at least one hundred members. Each of these organisational schemes has its supporters and opponents, because each assessment depends on the amount of financial resources available for a specific investment. It sometimes happens in practice that only a few business angels can invest more financial resources than many business angels. In any case, the minimum number of related business angels could amount to fifteen, and the maximum number about a hundred active members in an organised network (Benjamin & Margulis 2005).

The core group – this group consists of the leading angel, a network manager and a number of the most active business angels who are close friends or business associates in real life. This group manages, organises and provides activities of the business angel network. Also, this group organises hiring of specific employees and appointing them to responsible positions in the network, and they agree on various business activities within the network. For example, in a particular national business angel network, the most important positions are the advisory committee and the selection of directors who will continue to organise activities of the respective network.

The committees within individual business angel networks work in small groups or committees in which some specific business issues are discussed, such as the issue of ensuring quality investments in the network, how to organise team building activities for business angels and how to present and promote the network in public and the media. In practice, business angels run most of the committees themselves, and co-operate with a group of business angels at regular monthly meetings, or when necessary, and in line with business activities. This way of running business significantly reduces costs, and each business angel network has great knowledge and experience.

Partners – service providers – in their business practice, many business angel networks closely co-operate with various partners or service providers. These are usually various banks, law firms, venture capital funds, etc. Sometimes partners are also part of the business angel network where they join the work in the network or arrange meetings within a business angel group. The arranged meetings can be held in the premises of associate partners where each partner proposes the possibility of offering adequate financial resources he provided from his own business angel network. In other cases, the business role of individual partners can be more passive, and includes sponsorship of individual business angel network and establishing co-operation with the interested partners.

Private investors, lone wolves and other investors are part of the network which is often in business with other types of investors such as informal private investors who are not active members of a specific business angel network. Such private investors are in the business environment called „lone wolves“ who can operate as passive investors within an investment. Such investors may appear as partners of various investors at a later stage of development of a business project, as formal investors of venture capital who invested in an enterprise in which some business angels already invested, and later decided to withdraw from the investment. In the world of financial investments, „lone wolves“ make quite a big source of capital, and are always ready to invest their capital in a risky project, for various reasons. Such investors are members of no business angel networks, but are still in business with them. It is known in the business milieu that many investors tend to work only for themselves and take all the risk of such business activities on themselves, while such investors are top experts in their field and have extensive expertise and skills.
6 Conclusion

In relation to the set hypothesis, business angel activities take into account the following factors: source of funding, evaluation of candidates, determining the value of their investment, arranging their relations with the owner of the enterprise or entrepreneur, trying to lead successful negotiations with the owner of the enterprise, providing quality assistance to the entrepreneur in project development, and choosing an appropriate exit strategy in case of leaving the project. Unlike venture capital funds that invest borrowed funds in business activities, „business angels“ invest their own financial resources and business experience in production projects. Real financing of start-up entrepreneurs essentially depends on the amount of capital on the market and economic situation in the domestic market. Business-wise, it is entirely realistic that banking institutions are reluctant to invest in a project that is by its nature unrealistic and unprofitable, and in this regard do not like to risk their owners and depositors' money. Banks try to avoid joining small and medium-sized enterprises and replacing their equity with their credit arrangements, which confirms the auxiliary hypothesis. Investors share business risk with entrepreneurs, and are often personally involved in the management and operations of the company in which they invested their funds. The invested financial capital of a „business angel“ in practice does not pay interest, commission and similar charges for their activities in the enterprise, and enterprises can charge by selling their equity only at the end of their business activities (confirmation of the second auxiliary hypothesis).

If active future of „business angels“ is taken into consideration, this financial activity should keep its developmental perspective and develop the possibility of filling all the financial gaps between entrepreneurs and state financial institutions. This financial gap is particularly important if we take into consideration the possibilities of funding various projects offered by small and medium-sized entrepreneurs.

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