International Journal of Contemporary Business Literature

Article Type: Original Article

Navigating Success: Synergies between Angel Investors and Human Resources in Enhancing New Venture Performance

Zahra Batool[1*]

[1]*Zhongnan University of Economic and Law, Wuhan, China. Email: zb8708605@gmail.com*

Received: 21-04-2023, Revised: 16-12-2023, Accepted: 19-12-2023

ABSTRACT

The success of newly founded businesses has become a crucial and complex subject in today's unstable markets. Similarly, success of new venture in Pakistan is of the crucial task and its success is quite limited in Pakistan. Initial capital investment is a major challenge in Pakistan. Therefore, the purpose of this study is to examine the effect of business angel on new venture performance (NVP). Therefore, the relationship between business agnel, human capital and NVP was considered. A quantitative approach was followed in which primary data were collected by conducting a survey. Partial Least Square (PLS) was used for data analysis. It is found that business angels have vital contribution to the success of new ventures in Pakistan. The promotion of human capital is possible through business angels leading to an increase in NVP. This study has valuable insights for the people starting new ventures by focusing on business angels and human capital.

Keywords: *Business Angels, Human Capital, Venture Performance, Business Industry, Smart PLS.*

Publisher: ASIAN ACADEMY OF BUSINESS AND SOCIAL SCIENCE RESEARCH (PRIVATE) LIMITED
Publishing Address: 81-G Defence Rd, Dream Gardens, Lahore
Publishing Country: Pakistan

Volume 3: Issue 1

*** Contact Correspondence:** *zb8708605@gmail.com*

How to Cite: Batool, Z. (2023). Navigating Success: Synergies between Angel Investors and Human Resources in Enhancing New Venture Performance. *Int. J. Contemp. Bus. Lit. 3*(1), 53-60.

INTRODUCTION

The success of newly founded businesses has become a crucial and complex subject in today's unstable markets (Kristensen & Westlund, 2004; Sarfraz et al., 2021). As a result, numerous research in both developing and developed countries has been done. To put it more simply, some studies have concentrated on the variables that may lead to business failure, others have focused on achievement, progress, and efficiency. However, in comparison to more developed, mainly Western countries, emerging economies have a lower rate of new venture expansion and accomplishment. New venture failure has been the subject of one area of research, while new venture success has been the subject of another (Messersmith et al., 2018). Insufficient institutional backing, an inadequate resources, a lack of assistance, a lack of financial capital and environmental instability are all major factors of new venture failure (Anwar, 2018). External relationships, appropriate finance, effective approach, and personnel resources on the other hand, are all variables that contribute to the success of a venture (Adomako et al., 2018) & (Milosevic, 2018). SMEs are important contributors to a country's GDP. SMEs are defined differently around the world. SMEs are classified primarily based on three factors: the total assets, the number of workers, and the sales value. Table 1 illustrates the most common definitions of SMEs from all across the world.

Table 1: Definitions of SMEs.

Defined By	Max. No. of Employees	Max. Annual Sale/Turnover
State Bank of Pakistan1	250	Rs.75-850million
SMEDA(Pakistan)2	250	Rs.250.5million
World Bank	300	$15.5million
MIF-IADB*	100	infinite

"1SBP = State Bank of Pakistan" divided SMEs into three categories: trading, services, and manufacturing. The services industry includes businesses with a workforce of 20 to 50 people and yearly sales of up to Rs.150 million. Businesses with 50 to 100 people are classified as trading, while businesses have a workforce of more than 50 but less than 250 and annual turnover value of more than Rs.175 million but less than Rs.800 million are classified as manufacturing.

According to a World Bank report from 2009, Pakistan has 3.2 billion SMEs, accounting for 95 percent of all enterprises and contributing over than 40% of the country's gross domestic product. SMEDA, which was founded in October of 1998, offers a variety of programs and policies to help SMEs thrive and flourish. As a result, SMEs' survival in such areas is critical for poverty alleviation and economic progress. Previous studies, for example, have made significant contributions by incorporating numerous methodologies and aspects into the analysis of entrepreneur growth and achievement (Messersmith et al., 2018). Rare studies, however, have looked at the effects of Business Angels, human capital, considering the effect of human capital on the success of new ventures in underdeveloped economies. There is a compelling need to look at the factors that can assist SMEs in emerging markets to survive and thrive in the long run. To put it another way, SMEs in developing economies donate a significant amount of GDP and aid to alleviate poverty (Degong et al., 2018). Despite this, numerous new ventures in developing markets fail to prosper over time (Anwar & Ali Shah, 2020). As a result, this study assists new ventures in establishing a long-term viable position and enhancing their performance in a vibrant market. The success of newly founded businesses has become a crucial and complex subject in today's unstable markets.

LITERATURE REVIEW

Measures that are both subjective and objective can be utilized to assess a company's performance. Data from a questionnaire and a self-reported interview are used in the subjective measure. Accounting records are most important objective measure. Financial statements can also be used as objective measure. The stock exchange, and the state bank are also considered as sources of information, which can be used to create objective measures. For a variety of reasons, subjective measures of firm performance will be used.

1. The general public does not have access to financial statistics on SMEs. Owners, CEOs, and top managers are unwilling to share honest financial information about their companies.
2. Previous research has revealed that there is a close link between the subjective and the objective Performance indicators for businesses.
3. When compared to objective metrics, subjective metrics encompass a wider range of aspects of a company's performance.

The performance of the firms (both financial and non-financial performance) can be assessed. By posing the question to owners and managers, "How well does your company perform in comparison to its major competitors set on the parameters listed below, such as return on assets, return on equity, shares of market, and return on investment, customer’s satisfaction and customer’s demand etc.” (Khan et al., 2019).

NVP research appears to be at conflict with itself when it comes to identifying and measuring NVP (Adomako et al., 2018; Buccieri et al., 2020; Giddy, 2020; Theodosiou et al., 2018; Yang & Gabrielsson, 2017), which is divided into three main categories. Financial performance is a success indicator that is based on results, is the narrowest definition of performance. Financial performance refers to the attainment of economic goals, such as international turnover volume, international sales growth, and profitability. The broadest definition of performance refers to an organization's or an individual's overall effectiveness. By incorporating levels of analysis, important measures were taken. Performance-measurement framework for the international arena, which directs on multiple statistics and multiple data sources. Some experts have lately claimed that the usefulness of performance indicators is influenced by the INVs' stage of development and industry (Huang et al., 2021). Figure 1 depicted the study framework.

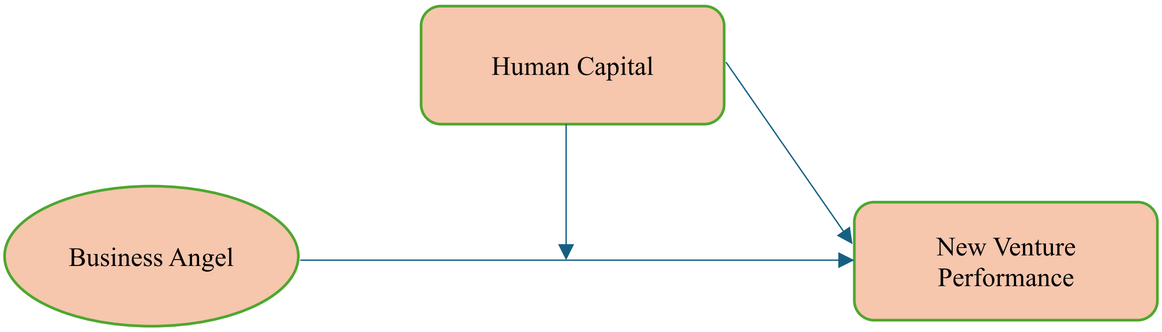

Figure 1: The Relationship Between Business Angel, Human Capital and NVP.

High-net-worth individuals who assist enterprises with informal risk capital, known as business angels (BAs), are viewed as essential sources of entrepreneurial capital. In many developed countries, Business Angels (BAs) are playing a gradually vital role in financing start-ups. A typical BA uses the wealth they've accumulated via their own entrepreneurial activities to deliver risk capital, as well as assistance and support, to new businesses. Angel investors are seen as an important part of monetary system of the country for small businesses, having helped companies like Innocent Smoothies become household brands. Angel investors can assist recycle entrepreneurial income within local economies and have a favourable impact on venture development, existence, and employment. They are especially important in poorer areas where formal venture capital (VC) is scarce, and they can act as "huge catalysts" for new enterprise creation, allowing communities to pursue alternative growth routes. As a result, ensuring that businesses in underserved areas have access to BA funding is an essential policy priority (Cowling et al., 2021).

Business angels have emerged as a prominent and well-known source of capital for new businesspersons in recent decades, as many old-style industries in Western countries have reduced their capacity and new business ideas based on advanced technology and innovations have emerged with low initial investment. To finance investment and running costs, the majority of these technology start-ups must rely on personal money, such as those from family. Financial constraints can be caused by a lack of funds, a lack of history, or a high level of risk, which can result in the loss of company concepts. In this regard, BAs occupy a middle ground between the 3Fs on the one hand and the recognized and established venture capitalists' segment and banks on the other. Mason and Harrison (2008) to capture the core of 'business angels'. It is a consultant or contributor of the board of directors (Zinecker et al., 2021). Business angels make money by selling their investments. They make early-stage investments, usually with a minority share, and rely on the entrepreneurs they back to drive revenue. However, they only make a profit when their shares are sold. This necessitates a 'liquidity event,' which usually occurs when their investee company is acquired by another company. Furthermore, they expect a significant profit. This is because early stage investing is high risk, therefore they need some of their investments to create a significant return to offset the failure of their other investments, which either fail or perform just well enough to keep the company afloat but not well enough to attract a buyer (Botelho et al., 2021). In the 1980s business operated secretly and singly, as yet undocumented. As a result, aligning supply and demand was extremely challenging, resulting in a significant equity imbalance that harmed the start-up ecosystem. The rise of business angel networks (BANs), which first debuted in the United States in the 1980s and extended to Europe in the 1990s and 2000s, was a significant change. Through events, newsletters, and both physical and virtual meeting venues, BANs make angel investors more apparent to entrepreneurs. They normally do an initial screening of proposals before exposing them to their members, but they do not invest themselves or advocate investments to affiliate members. BANs develop angel training programmes, organise coaching and training sessions for angels (Bonnet et al., 2021).

Early-stage sources of funding, which are usually given by an entrepreneur's personal network to aid their firms, are referred to as human capital (Khattak et al., 2021). Each business idea has its own set of financial realities, and each entrepreneur has its own set of risk-taking abilities, network, resource mobilization capability, and awareness of how money works. Human capital includes education and health, expertise, healthcare, and other enhancements to knowledge and health, as well as cumulative work and other habits, such as dangerous addictions like smoking and drug use. The economic situation is significant; marketing is considerable; finance is important; and governmental agency help is important. None of these, however, will be sufficient to launch a new business. For that, we'll need someone who can bring all of the ideas together in their heads, believe in innovation, and the motivation to persist until the work is completed. We need a psychological perspective on new venture creation to understand the person, process, and choice scare resources, less support, insufficient financial resources, environmental unpredictability, and insufficient structural supporting are all major factors of new venture failure. A solid connection with outer bodies, appropriate funds, effective tactics, and human resources are, on the other hand, factors that lead to venture success. Finally, it is hypothesized that:

H1: *Business angel has positive influence on NVP.*
H2: *Human capital has positive influence on NVP.*
H3: *Human capital moderates the relationship between business angel and NVP.*

METHODOLOGY

The population of this study is made up of all SME's working in Pakistan. Because the current study is focused on employees of SMEs, therefore, the unit of analysis is the individual. This study acquired a sample size of 265 at a statistical power of 0.95 through computing the suitable sample size using four various predictors, the medium effect size convention of 0.15, and a significance level of 0.05. The current study investigated the relationships between business angels and new venture performance, as well as the mediating impact of entrepreneurial finance and the moderating role of human capital. Using basic random sampling techniques, data were collected from the managers/Business Angels/owners of newly founded businesses in Bahawalpur via a self-administered survey questionnaire. This sampling technique quickly creates typical groups of population and ensures that everyone within the population group has a uniform chance of being selected. Furthermore, this method delivers information with a lesser risk of errors, as well as it is inexpensive to generalize the results from the sample (Thornhill, 2008).There were two key components of the questionnaire. We requested managers/Business Angels/owners about their educational backgrounds, age, and the size of their companies in the first section, and we asked them about the important variables in the second area: Business Angels, Entrepreneurial Finance, Human Capita, and new venture performance. Because of their awareness and grasp of strategic actions, only top managers/owners and accountable managers were requested to participate in the survey.

DATA ANALYSIS AND FINDINGS

The acquired data is evaluated using the partial least squares (PLS) in this study. The analysis was broken into two key components using smart PLS 3. The measuring model was assessed in the first stage in which all the factor loadings were found higher than 0.5. Factor loading, alpha, composite liability (CR), convergent validity, discriminant validity, and AVE were used to analyze the measurement model. Factor loading should be more than 0.5 (Jauhar et al.,2016). Factor loadings are stated in Table 2.

Table 2: Factor Ladings.

	Business Angel	Human Capital	New Venture Performance
BA1	0.757		
BA10	0.892		
BA2	0.798		
BA3	0.795		
BA4	0.792		
BA5	0.739		
BA6	0.793		
BA7	0.786		
BA8	0.723		
BA9	0.825		
HC1		0.892	
HC2		0.737	
HC3		0.791	
HC4		0.826	
HC5		0.891	
NVP1			0.806
NVP2			0.808
NVP3			0.894
NVP4			0.726
NVP5			0.791
NVP6			0.717

Note: NPV = New Venture Performance: HC = Human Capital: BA = Business Angels

According to literature, an acceptable value greater than 0.7 is appropriate for CR and 0.5 for AVE (Hair, 2010; Hair Jr et al., 2020; Shair et al., 2021). Results of Alpha, CR and AVE are given in Table 3. Alpha and CR are used to examine the construct reliability of business angel, human capital and NVP. It can be observed that Alpha and CR are higher than 0.7 and AVE is higher than 0.5 which confirmed the convergent validity. Discriminant validity is also important (Alarcón et al., 2015; Hafkesbrink, 2021; Henseler et al., 2015; Stöber, 2001) which is reported in Table 4.

Table 3: Alpha, CR and AVE.

	Alpha	rho_A	CR	AVE
Business Angel	0.777	0.777	0.798	0.527
Human Capital	0.755	0.755	0.805	0.548
New Venture Performance	0.778	0.759	0.801	0.528

Table 4: Discriminant Validity.

	Business Angel	Human Capital	New Venture Performance
Business Angel			
Human Capital	0.664		
New Venture Performance	0.745	0.59	

The structural model was calculated in the second stage. In this second section, SmartPLS bootstrapping was used to assess the moderation effect; additionally, SmartPLS bootstrapping was used to analyze both direct effect along with moderation effects (Fattah & Setyadi, 2019; Hameed et al., 2018; Hameed & Naveed, 2019; Rihatno & Nuraini, 2023; Ringle et al., 2012). Results are highlighted in Table 5. According to the results, angel business has a positive effect on NVP. Human capital has a positive effect on NVP. All the hypotheses are significant. The moderation effect of human capital strengthens the connection between business angel and NVP as shown in Figure 2.

Table 5: Results.

	Beta	T Statistics	P Values
Business Angel -> New Venture Performance	0.193	3.895	0
Human Capital -> New Venture Performance	0.359	3.371	0.001
Moderating Effect 1 -> New Venture Performance	0.249	3.615	0

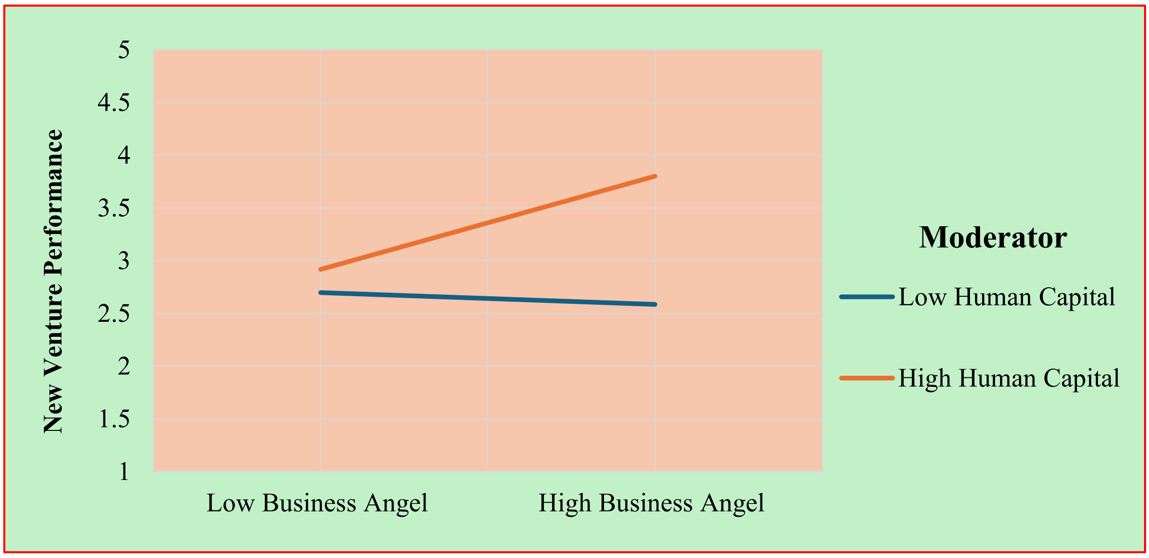

Figure 2: Moderation Effect.

CONCLUSION

Although prior studies have largely discussed Entrepreneurial Finance and NVP, no one of the studies considers influence of Business Angel and Human Capital to heighten business performance of SMEs in Pakistan. To address this problem, the relationship between business agnel, human capital and NVP was considered. A quantitative approach was followed in which primary data were collected by conducting a survey. It is found that business angels have vital contribution to the success of new ventures in Pakistan. The promotion of human capital is possible through business angels leading to an increase in NVP. This study has valuable insights for the people starting new ventures by focusing on business angels and human capital. This study has the number of ramifications for governments, various legislators, and owners as well as managers of recently founded businesses. Because by using the results of this study, policymakers, owners, and managers can promote NVP and increase the success rate of new businesses.

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