Business Angels Funding Startups in Morocco: Competitive Advantages and Investment Embedded in Regions and Regional Institutions

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EXECUTIVE SUMMARY

Some people are funding businesses being started by others, although most people are not. What kinds of people are likely to fund startups; which background attributes such as gender, age, education, and income promote investing? Investing, moreover, occurs in the context of a region and its institutions. Which regions promote investing, and how do their local institutions affect investing? These questions are addressed by a survey of a representative sample of 13,956 adults in the areas of Morocco, asking about their background and investing, combined with data on institutions in their regions. We find that being male, older, educated, and rich promotes investing. However, background effects differ from region to region, depending on local institutions. Notably, a culture of risk-willingness in a region reinforces wealthy people's inclination to invest and enhances less educated people's propensity to invest. These findings contribute to contextualizing business angels' endeavors as

embedded in regional ecosystems.

1. INTRODUCTION

Amazon, Linkedin, PayPal, Body Shop, Innocent Smoothies, Firefly, and others, are so many examples of companies that have benefited from business angel financing and have ultimately become rather successful companies in their field.

If some people are funding businesses being started by others, most people are not. What kinds of people are likely to fund startups; which background attributes such as gender, age, education, and income are promoting investing? Research in many countries around the world has shown that men, older, educated, and wealthy people are especially likely to fund startups. Is Morocco similar? The first question is, in Morocco, are attributes such as being male, older, educated and wealthy are promoting investing?

In a global economy characterized by uncertainty and constant change, the success of newly established businesses depends on the sources of finance needed to ensure their growth and sustainable development and to cope with growing competition. Yet corporate finance remains a huge challenge at both the theoretical and practical levels. Indeed, the various international works and reports that have dealt with entrepreneurship clearly state that financial constraint are considered among the most important obstacles facing companies, and access to appropriate financing to support activities engaged in innovative projects is a critical and necessary element.

The newly born start-ups are funded by personal funds (formal and informal sources), those coming from the '3 Fs' (i.e., family, friends, and fools), and/or bank debt Colombo & Grilli (2007). While informal sources can be limited, formal sources are generally considered unsuitable for start-up or newly established firms (Carpenter & Petersen, 2002). Newly created companies are not in a position to respond favorably to the requirements of banks. Their unpredictable history does not allow them to access bank financing Binks (1996). The work of Storey (1994); Binks (1996); and Mason and Harrison (2000) express the existence of major challenges for newly created companies, which they call entrepreneurial ventures, in securing long-term external financing. A viable alternative for financing entrepreneurship is to attract "business angels", i.e., individuals who offer venture capital to unlisted companies in which they have no previous formal or family links. Many studies explain the contribution that business angels have as a gateway to other types of funding entrepreneurship Christensen (2011).

It is important to note that in many works; there is no difference between business angels and informal venture capital, that the two expressions are used as synonyms i.e., the concept of business angel investment has the connotation of an informal

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