

CRITERIA FOR THE SELECTION OF VENTURE PROJECTS BY THE BUSINESS ACCELERATORS

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Abstract: *The present paper considers a business accelerator which is a new market infrastructure institution for the Russian venture capital market. This institution is well established abroad and is actively conquering the Russian market, expanding opportunities for funding and accelerating the innovations commercialization process, as well as contributing to the evolution of financial-economic processes in general. Despite the fact that at the present time, venture capital infrastructure increasingly complicates, there is a lack of various institutions able to provide quick and quality support to venture projects. Such an institution is a business accelerator. The authors defined the function of business accelerators and their role in the venture capital market, considering both the micro and the macro level, and presenting original classification of business accelerators according to the eight classification criteria. In addition, the authors propose to introduce the concept of "black accelerators". In the framework of conducted studies, the authors identified key criteria for the selection of venture projects by the business accelerators with a view to further support.*

Keywords: *Business accelerator, venture project, innovation, types of business accelerators, venture projects selection criteria.*

1. INTRODUCTION

Venture capital infrastructure is constantly expanding and becoming more complex both in Russia and globally. There are growing number of various institutions that contribute to the development of innovative activities, expanding the opportunities for searching investors and creditors, and accelerating the commercialization process of innovative ideas. However, even with the active involvement in the noted processes of government agencies and partial funding of innovative projects at the expense of federal, regional and local budgets, there is the lack of financial resources to implement innovative ideas both in the Russian and international financial market. Besides, there is a lack of various infrastructure institutions that will facilitate obtaining financing and developing innovative activities in general.

Any innovator faces with the extremely acute problem of obtaining the financial resources necessary for the development of an innovation project. Serious problem here is that many innovators are first of all the inventors having entrepreneurial

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experience just to some extent, while for potential investors more important is exactly the entrepreneurial component, rather than the technical details of the innovative development. Certainly, any innovator can be engaged in the independent search for investors, though it is advisable to address professional consultants and institutions, which would efficiently and relatively quickly provide the necessary assistance, i.e. improve the project from a commercial viewpoint, arrange meetings with potential investors, help with legal matters, etc.

Currently, the venture capital market is relatively saturated with the various institutions providing innovators a particular support. Commonwealth of business angels as well as individual business angels, venture capital funds, business incubators, business accelerators, institutes for promotion of small entrepreneurship and innovation activities, technology parks, science parks, and other institutions – they all are involved in the venture capital process and liaise with innovators. It is appropriate to focus particularly on the study of the business accelerators which are relatively new infrastructural institutions of the Russian venture capital market.

2. THEORETICAL AND METHODOLOGICAL BASIS OF THE ARTICLE

When working on this article the authors based on research works and applied research and development carried out by Russian and foreign scholars and practitioners on the concerned issues in the field of innovation, venture investment, and financing. These include monographs, scientific articles, as well as proceedings and abstracts of different conferences. The authors use the dialectical cognition method and systematic approach to the study of the problem, as well as general scientific and special research methods and analyses, in particular, comparative analysis, synthesis, analogy method, classification, historical and logical methods, tabular and graphic techniques, which supplement the text and contribute to its integral perception.

The information base includes the official statistics of foreign and Russian information resources, as well as data retrieved from the official websites of research agencies, institutes and other organizations that collect, process, and systematize information about functioning of the venture capital market in general, and business accelerators in particular.

3. RESULTS

3.1. The Essence of the Business Accelerator

Business accelerators provide innovators and their team versatile support of technical, legal, organizational, financial, economic, and in some cases, psychological nature. Studied venture capital institutions offer comfortable office space, advice,

training, legal and accounting support, mentoring, as well as information, logistics and public relations (PR) support. A business accelerator can organize specific training including lectures, seminars, workshops, master classes and business games aimed at developing special knowledge and skills in startup project team members. Special attention is paid to the aspects most important to potential investors from the viewpoint of business model in general, the financial plan and marketing strategy, as well as legal literacy in the framework of the intellectual property rights protection.

Business accelerators tend to work mainly with projects that do not require large capital investments and are at the seed or startup stage of development. They are not interested in fundamental, high-cost projects that require significant time resources, are not subject to commercialization, and have no clear potential market for products. Business accelerators accept applications for participation in acceleration programs from both individual innovators – private persons, including an individual entrepreneurs, and entire innovators teams. In this case the advantage is given to the teams that have already registered legal entity. Acceleration cycle usually lasts about 3-6 months, more rarely – a year. Some business accelerators accept applications year-round, while others have certain time frames for application submission and consideration. In the light of specific features of the Russian market, it is advisable for business accelerators to accept applications continuously rather than be limited to certain periods.

Each venture project in business accelerator is assigned to curator. The main tasks of the curator are organizational issues, searching for and establishing the necessary contacts with various representatives of the business environment, facilitating participation in training programs and other activities conducted directly by the business accelerator and external organizations. The curator must be an expert in the field of the venture project or in several fields if the project involves several areas. Only such an approach will ensure efficient fulfillment of the project acceleration program.

Business accelerators actively provide consulting services: organize meetings of the innovators with mentors, who in most cases are professional entrepreneurs, business angels, top managers and CEOs of large companies providing expert support to the venture project. To save financial resources, business accelerators try to attract mentors on a free-of-charge basis. The latter quite willingly agree to such conditions, as have other non-monetary benefits from the cooperation: they can track industry development trends, be aware of all the most challenging and promising innovative ideas, and in the case of successful implementation of venture capital project, can gain new customers, partners, and employees. If the mentor is willing to engage with the business accelerator only on a non-gratuitous basis and wants to receive cash reward for his services, most often he is offered to sign a contract binding him to work at the business accelerator a certain number of hours a week.

Unlike the free-of-charge form of collaboration, non-gratuitous form reasonably imposes on the mentor additional obligations in terms of strict adherence to pre-submitted work schedule.

Thus, the business accelerator functions can be grouped as follows (Figure 1):

- financial and economic;
- consulting;
- training;
- legal;
- organizational;
- marketing;
- commercial, which includes getting profit by the business accelerator;
- evolutionary.

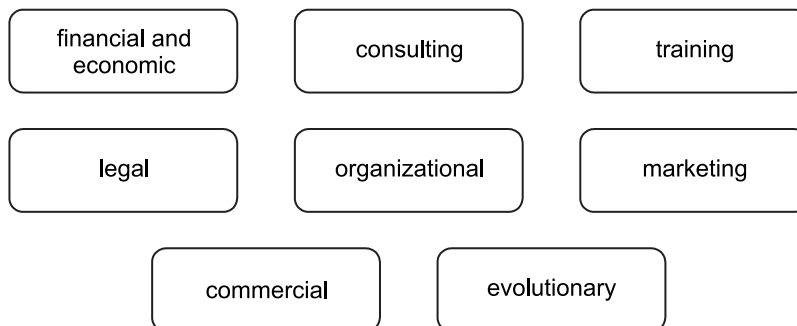


Figure 1: Business accelerator functions

With the aim of fulfilling one of the components of the financial and economic functions, *i.e.* attracting investors to provide financial resources to venture capital project, business accelerators arrange the so-called “DemoDay”, where residents of accelerator present their projects to potential investors. Days like this allow investors to see not only the innovative projects and product prototypes, but also to assess innovators and their entrepreneurial experience.

Within implementation of the marketing function, business accelerators apply the full range of PR techniques and use a variety of strategies, since sometimes it is quite difficult to bring the project to an innovative market due to the fact that the innovative products are often “unaccustomed” to potential customers. In order to achieve the desired effect, business accelerators often use combative advertising.

Business accelerators can provide their services for a certain fee or for free (Hitchhiking for investment: How to get into the international business accelerator).

However, in the vast majority of cases, they are not charitable entities, and therefore need to make a profit in the course of their activities, including future expansion and improvement. The commercial function of a business accelerator can be implemented in different ways. Some of business accelerators in return for their services take a stake in the project, which is taken for acceleration. It should be noted that in this case they do not seek to obtain either control or a blocking stake, though they will not be minority shareholders. In this case, the business accelerators will be portfolio investors. On average, business accelerators agree to 10-20% equity participation in the project with a maximum of 25%. In the market, there are business accelerators, which provide their services for a certain pre-set fee. In Russia, there are quite many of them that is associated with underdevelopment of the Russian venture capital market in general, and therefore, the desire of the noted infrastructure institutions to minimize their risks by receiving a fixed payment for services rendered. Besides, business accelerators can combine two options while implementing their commercial functions that will make them more financially sustainable and reduce the risks. It should be noted that business accelerators will almost never provide funding in the form of debt. A fee for filing applications may be another source of business accelerators' income. American business accelerator MassChallenge requests from innovators from \$49 to \$99 for filing applications for acceleration program (Pay the Application Fee). Business accelerators, being important players in the venture capital market, actively use modern means of communication and data transmission. Most business accelerators accept applications online, while some can even arrange pitching via the Internet.

Another function of the business accelerator, namely evolutionary function is that it contributes to the development of the venture capital market, improving schemes providing financial resources for implementation of innovative projects, promoting the commercialization of innovations and their transformation into intellectual property, increasing the financial literacy of potential and existing entrepreneurs, and expanding the development horizons of innovation activities in general. The evolutionary function of the business accelerator is evident through the association of relationships of a variety of structures of the venture capital market, both at national and international level.

From a legal viewpoint, business accelerator in Russia often has a legal form of a business entity or nonprofit partnership. In accordance with the chosen legal form, the business accelerator generates and provides all required documents and reports to the governmental authorities. On technicalities, business accelerator activity does not differ from activities of any other legal entity of the relevant organizational and legal form.

3.2. The Types of Business Accelerators

Business accelerators can be classified based on various grounds. The authors of the present study offer the following classification of business accelerators (Table 1).

Table 1
Types of business accelerators

<i>Classification criterion</i>	<i>The type of business accelerator</i>
Venture project implementation stage	- Full cycle - Incomplete cycle
The number of residents	- Large - Medium - Small
Goal	- Commercial - Non-commercial
Form of ownership	- Private - State - Municipal - Mixed
Organizational mode	- Traditional - Virtual
Work region	- Local - Regional - Country - Regional at the supranational level - International
Industry sector	- General - Specialized
Client base	- For legal entities - For individuals - Mixed

By convention, business accelerators are divided in two types – full cycle business accelerators and incomplete cycle business accelerators. First deal with acceleration of venture projects that pass the different steps of seed or startup stage of the lifecycle, including those in the “zero” point. Business accelerators of incomplete cycle invest in projects, which are carried out by working team of already registered legal entity having certain working prototype. Certainly, the second option is much less risky than the first one, however, if the business accelerator implements its commercial goal, among other things, through involvement in the capital of innovative company, than a full cycle option will be more preferable.

Depending on the number of innovative projects taken for acceleration on an instantaneous basis, business accelerators can be divided into large (over 30 projects), medium (from 15 to 30 projects), and small (up to 15 projects) ones.

As mentioned earlier, business accelerators can operate on free-of-charge and non-gratuitous basis that is, to be a commercial or non-commercial organizations.

In terms of ownership, business accelerators can be private, public or mixed. Surely, in Russia, similarly to other countries, private business accelerators are dominating. In case if the business accelerator is public, the selection of the projects for the acceleration program will be more thorough, and the priority will be given to the projects having not only commercial but also social component, as well as relevant to the development strategy of the country and having potential to improve the living standards of the population. To date, the Russian venture capital market lacks business accelerators fully owned by the state. Currently, municipal business accelerators are not functioning, although theoretically they may exist in the market. To date, the prevailing conditions of financial-economic activity, high market volatility, geopolitical instability and other factors indicate inexpediency of creating municipal business accelerators in Russia. Business accelerators with mixed form of ownership can be established in Russia on a different basis, including public-private partnerships. Such structures are demanded by the market and may be of interest to many innovators, since there is still a psychological effect of greater confidence to those structures involved in the financing process that are established at the state support. However, at the moment, all the business accelerators established in Russia are private.

By organizational mode, business accelerators are divided into traditional and virtual. Traditional business accelerators involve direct face-to-face meetings with the applicants presenting their projects for acceleration, as well as their periodic presence in the business accelerator in the future. Certainly, the traditional business accelerators actively use modern means of communication, though have also their own real office. Virtual business accelerators provide innovators their services only via the Internet, including the organization of conference calls, and are essentially a network platforms and virtual offices with remote access for work. This allows virtual business accelerators to be more mobile, to cover a larger number of projects, to choose the most challenging projects, do not depend on geographical location, as well as to assist in implementation of international projects. Virtual business accelerators have lower disbursements compared to traditional accelerators, because they have no need to purchase or rent office space and to maintain it, while ad hoc meetings can be organized in the most convenient locations. The establishment of virtual business accelerators as the most promising and commercially viable infrastructural institutions is currently one of the trends in the development of the Russian venture capital market.

Business accelerators can adhere to the geographical principle of operation and project support. In terms of the regional level accelerators are divided into local (which accept venture projects only from their area (administrative subject)), regional (operate and support projects in one or several regions of the country),

country level (accelerating innovative projects throughout the country), regional at the supranational level (dealing with projects in a particular region of the world), and international (accelerating venture projects from any country).

Business accelerators can be general and specialized depending on industry-specifics. The first ones do not have clear priorities for selecting projects in terms of their business nature, while the second ones are focused on acceleration of the projects within a clearly defined industry sector. Specialized business accelerators can function a bit more efficiently than general accelerators, because they possess a large amount of field-specific information in a particular area as well as close ties. At the moment, in the Russian venture capital market the most popular are the following areas: information technologies, biotechnologies, and industrial technologies (Figure 2) (MoneyTreeTM: Venture Capital Market Navigator).

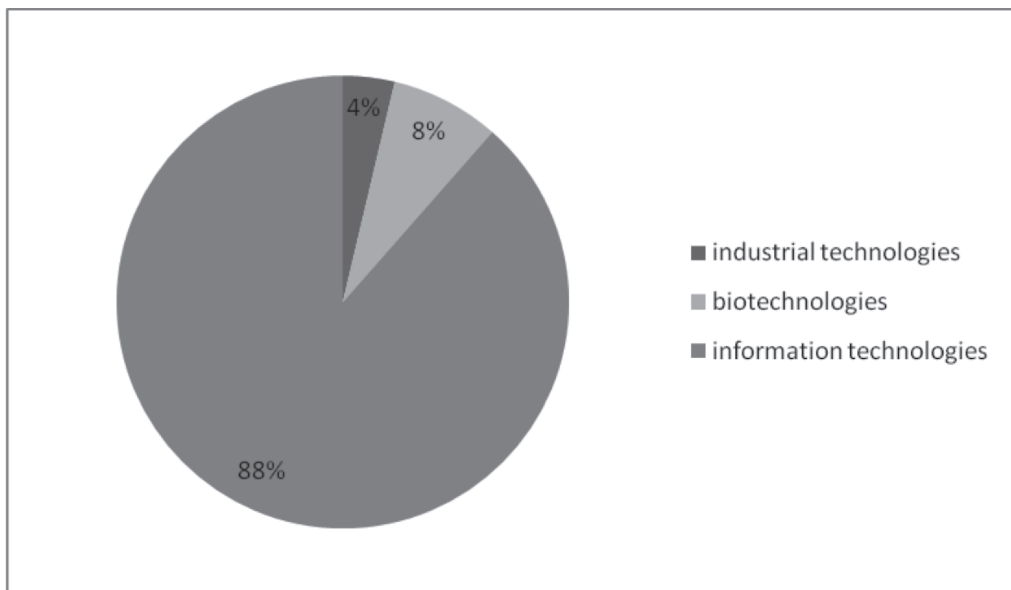


Figure 2: The most popular investment sectors in the venture capital market

The authors propose also another type of business accelerators, the so called “black accelerators” (similar to “black angels” (Hill and Power 2008)), whose primary goal is business smashup or acquisition (this primarily concerns innovation or exclusive intellectual property rights) rather than providing assistance in the development of business and profit earning from the growth of its value in future, or receiving just a fixed income.

3.3. Criteria for the Selection of Venture Projects by Business Accelerators

The selection process of venture projects for acceleration generally starts with an application and ends with on site presentation of the project to the business

accelerator representatives, and if necessary, other persons, for example, potential investors. The projects are subject to selection in a competitive environment. "Out of 500 submitted applications just 5-6 projects tend to be prospective (Business accelerator: a great future for innovative projects). To ensure that the project is included in the acceleration program, it must meet certain criteria. The authors have identified criteria which on their viewpoint are the most important. They are considered below.

In the initial evaluation of the venture project, the focus is made on enthusiasm of the project team and its strength, availability of big market, clear need for the product, and a bright innovative idea (Kotelnikov 2009). Further projects for acceleration are evaluated according to more complex scheme comprising of a set of interrelated criteria. Each project will undergo a thorough analysis with regard to each criterion and will be included in the acceleration program only in case if the majority of the criteria are met.

Technical Idea

When assessing the project, business accelerator analyzes the innovative idea underlying the venture project, namely, its novelty, the degree of project elaboration, whether it is of fundamental or, conversely, applied nature. The assessment can be made both by regular employees of the business accelerator, and invited experts, as well as jointly. The technical idea underlying the project should be implementable rather than pure academic, as well as patentable and marketable in the future.

Product

The product, which will be placed in the market in the framework of a venture project presented for acceleration, undergoes a detailed assessment. Business accelerators are usually interested, on the one hand, in a unique venture projects having no analogues, but, on the other hand, they prefer projects which are not brand new. The emphasis is made on the potential attractiveness of the product to the consumer. Experts estimate demand as well as examine the psychological aspects that may impede market promotion of the product. Brand new products will find it hard to fill their niche in the market. In this case, only a few products can quickly capture the market. This increases the risk of a business accelerator and does not meet one of its main requirements which is the rapid acceleration of the innovation project. Thus, the innovator must prove that potential customers will not need a long time to get used to new product or service.

Intellectual Property Assets

The advantage of the innovative project, when applying for the acceleration program, is the availability of product prototype. The ideal case will be the

availability of exclusive intellectual property rights secured in legislation, because in this situation it would be possible not only to organize the production process of innovative and unique product, but in case of need and economic expediency to conclude the contract on alienation of exclusive intellectual property rights or enter into the license agreement, thus obtaining the necessary funds for further innovation activity and improvement of existing products.

Business Plan

Thoughtful and clear business plan is a substantial advantage of the venture project in the competition. In the business plan special attention should be focused on the marketing plan, showing as widely as possible the possibilities of innovative product marketing. Also attention is paid to risk assessment, because “despite the fact that venture capital is subprime by nature, it is the risk, or more precisely – excessive risk that is the main constraining factor” (Askinadze and Maksimova 2012).

Funding Mechanism

Competitive advantage of the venture project, when assessed for acceptance into the business accelerator, is the ability of tranche funding as well as the availability of project “benchmarks” which can testify the success of the project. Business accelerators can directly provide innovative project a small amount of capital (one-time or several installments) for the initial support. The main problem is that after completing the accelerator program, the venture project needs to attract investment from third parties (venture funds, private investors, etc.).

Venture Company

Venture company is assessed in terms of its competitiveness undergoing SWOT and PEST analyses, allowing experts to comprehensively evaluate the company. Special attention is paid to the analysis of the cash flow plan accompanying the company activities. Some business accelerators assess the financial and economic status of the venture capital company if the latter is already in operation and make a forecast for its development in case of successful implementation of innovative idea.

If the application for project acceleration is proposed by team of already existing legal entity, the business accelerator evaluates the actual capital structure of this venture company, including the amount of funds invested directly by the innovators.

The business accelerator may have some questions and doubts in the case where the share in the capital structure attributable to team members is small and in fact they can't control the venture company. In this situation, a business accelerator, providing funding in return for share in the ownership capital, will be forced to continue working not only with team members but also with third parties, whose

investment objectives may not coincide with the goals of the innovative project founders and the business accelerator.

Team

Business accelerators give much attention to the team implementing the project. There is a set phrase: "Better to invest in a bad idea with a good team than in a good idea with bad team. Venture capital investment is about strong entrepreneurs. The success of the startup almost 90% is dependent on them" (Shekhovtsov 2012).

Special attention in the assessment of potential resident of a business accelerator is paid to the team, which will implement the venture project. The team should be balanced, fully independent and punctual. It is desirable that the team would involve lawyers, economists, and marketers, who could be directly engaged in the development of a strategy to bring the product to market. Availability among team members those with technical education is additional advantage (Pay the application fee).

Business accelerators usually sufficiently trust to the competence of the team in the technical part of the venture project implementation. That is why availability of competent technical specialist in the team is so important.

The team should be hard-working, stress-resistant and non-confrontational. Certainly, the team should have a leader, who needs to be not only charismatic person, but also possess entrepreneurial abilities, investment undersense, and venture intuition. In a personal meeting with representatives of the business accelerator, it is important to make a good impression, not drawing out a meeting to a great length (no longer than 5-7 minutes), and to present the venture project as fully and clearly as possible while also be concise. Since some business accelerators organize presentations through modern means of communication (the Internet), it is necessary to provide a web camera, a microphone, speakers and other necessary equipment. The startup team must be thoroughly prepared for presentation.

On the one hand, team members should be experts in their area of expertise, while, on the other hand, they should ensure interchangeability of the team members in the event of unforeseen circumstances.

Application

Every business accelerator presents its own demands to the innovative project which are usually free and available on the website. It is necessary to accurately and correctly fill out an application for acceleration program, since incorrectly completed applications will not be considered, and an interesting and promising innovation project may not be properly qualified by business accelerator due to organizational faults.

Thus, business accelerators, when selecting the projects for participation in the acceleration program, evaluate a number of criteria, of which most significant are presented in (Figure 3).

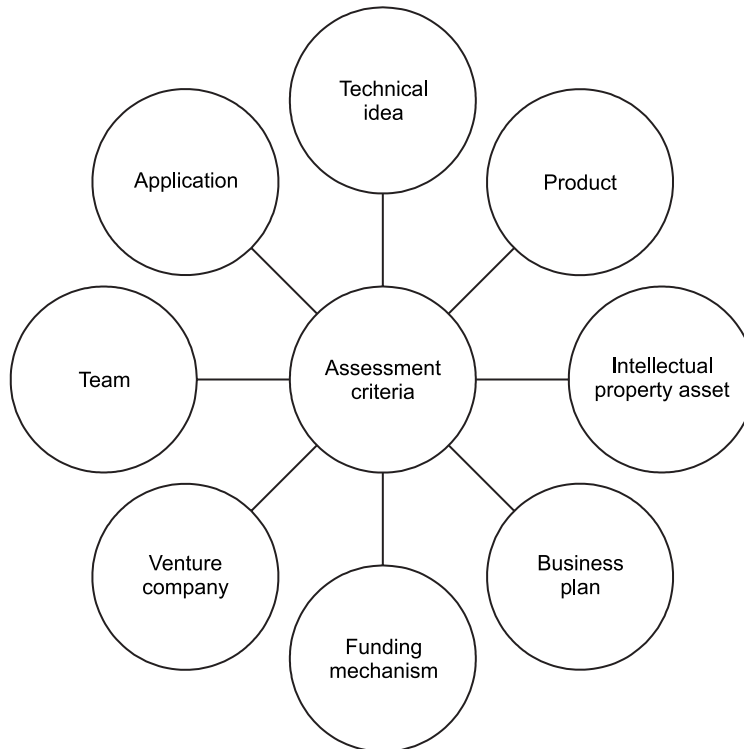


Figure 3: The venture project selection criteria

If an innovative idea and proper venture project based on appropriate business plan as well as the team of innovators will be highly assessed by the business accelerator representatives, the project may well be included in the acceleration program that will help it to get funding and possibly become the market leader in the future.

4. DISCUSSION

Innovations, being “superstars of entrepreneurship” (Drucker 2007), are vital for the Russian economy for its qualitative development and improvement of competitiveness in the global arena.

Currently, business accelerators are integral institutions of the venture infrastructure of the Russian market and their positions are becoming more stable, though there is still a lack of theoretical studies on this issue, as well as systematic science-to-practice developments.

Classification of business accelerators presented in the current work is quite comprehensive, however, taking into account the continuous improvement of the venture capital market and its adaptation to changing internal and external conditions, there may emerge new types of business accelerators which would need to be included in the presented classification and thus to complement it.

Each business accelerator has its own set of criteria for selecting venture projects in accordance with the work specifics. The authors have identified the most important criteria, which are crucial to virtually all business accelerators and have to be carefully addressed by the innovators. Of course, the presented list of criteria could be expanded in the future.

5. CONCLUSION

The authors considered business accelerators operation peculiarities as the infrastructural institution of the Russian venture capital market, defining the essence of the business accelerator and identifying its main features that allow the specified institution to function effectively and make a profit. Special attention is paid to the study of the commercial functions of a business accelerator.

The authors present classification of business accelerators on various grounds, describing the distinctive features of each kind of business accelerator. Classification of business accelerators allows better understanding the nature of their operation features. The authors revealed the basic tendency in the development of the business accelerators market in Russia that consists in the establishment of virtual business accelerators, which can operate effectively and provide supporting acceleration programs to innovative projects at lower costs as compared to conventional office-based business accelerators.

The authors present a set of venture project selection criteria. When reviewing the project and making decision on project involvement in the acceleration program, a variety of interrelated criteria are studied, analyzed, and evaluated by business accelerators.

The present study is not only of theoretical nature, but also has a distinct practical application, since it allows innovators to better align with the venture capital market, comprehend the capabilities of the infrastructure institution such as business accelerator, as well as provides a specific set of criteria, which should be thoroughly addressed by innovators when submitting project to the business accelerator.

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