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**Original Articles** 

# The Role of Angels in Technology SMEs: A Link to Venture Capital

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### **Abstract**

The presence of angels among early-stage financiers of new technology-based firms should improve chances of eventual venture capital financing. Reasons to expect that firms with private investment would have easier access to venture capital are discussed. This study presents findings that support this expectation. A total of 57% of the firms that had received private investor financing had also received financing from

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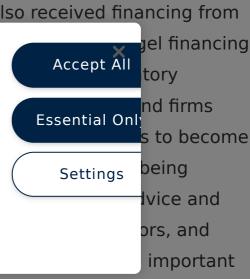
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accreditation role. Overall, this study provides empirical support for the expectation that involvement of angels can substantially increase the attractiveness of firms to institutional venture capitalists.

Q Keywords: Business angels venture capital technology SMEs non-financial contributions angels' preferences angel-founder relationships

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## Notes

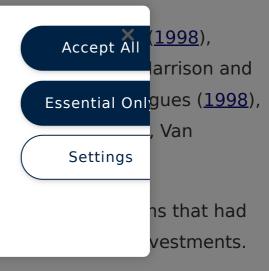
For example, Van Osnabrugge and Robinson (2000, p. 42) state, 'a potentially complementary relationship exists between business angels and venture capitalists'. In addition, Freear and Wetzel (1990) documented complementarities between the informal and formal segments of the risk capital market in the US in the sense that angels tend to invest in relatively early stages of firm development while institutional venture capitalists tends to be focuses more at later stages.

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In addition, Farrell did not control for sectoral or other potential determinants of success. Third, the time frame over which Farrell conducted her work was too short to provide definitive data even if she had controlled for other factors.

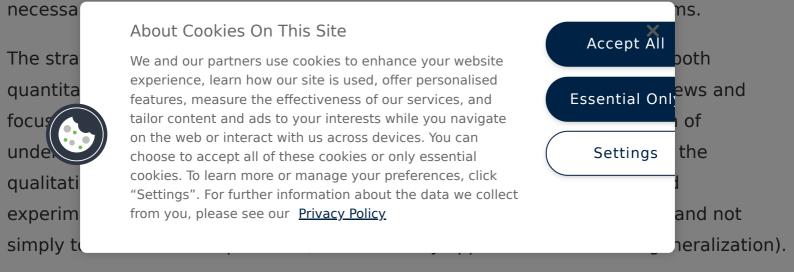
This database was developed in co-operation with the Ottawa Centre for Research and Innovation, and represents a comprehensive listing of businesses in the region's high-tech sector businesses in the Ottawa region.

The sampling frame provided not only contact data, but also rudimentary quantitative information on company size (number of local employees, total number of employees internationally) and on ISO certification. To assess the potential impact of non-response bias, this information was used in a logistic regression analysis to assess the degree (if any) of systematic differences between respondents and non-respondents. None of the independent variables were significant indicating that respondents and non-respondents did not systematically differ on these dimensions. The Cox and Snell R <sup>2</sup> was 0.003 and the Nagelkerke R <sup>2</sup> was 0.004.

There is some debate in the literature concerning the relationship between networking and success in entrepreneurial firms. The majority of the literature argues that weak tie networking is fundamental to success in entrepreneurial endeavors (Chell and Baines, 2000; Freel, 2000; George et al., 2001; Vanhaverbeke, 2001).

The measures of firm size (logarithm of number of employees) and the number of original founders were not statistically significant when added to the above logistic regression (p>0.10), nor were there any noticeable changes in the coefficient estimates of the remaining variables. Accordingly, these variables are not reported in Table 3.

It must be emphasized that the angels interviewed in the group discussions were not



The parallel is that of multiple experiments and involves a 'replication logic' where there is a 'literal replication' among similar CEOs and a 'theoretical replication' among different groups of CEOs with differences being interpreted in light of an existing or 'working' theory (Yin, 1994).

Fenn et al. (<u>1998</u>, p. 3) report that 'more than one-half of the sample (of high-tech firms in the United States that had gone public) received financing from angels'.



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