



The Strategic Counsel

**A Report to
Institute for Competitiveness and
Prosperity**

**Assessing the Experience of Successful
Innovative Firms' in Ontario**

September 2004



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I. Introduction and Methodology



Introduction and Methodology

Gregg, Kelly, Sullivan & Woolstencroft: *The Strategic Counsel* is pleased to present to Ontario's Institute for Competitiveness and Prosperity this report of findings from a study among successful innovative companies.

The methodology developed and implemented for this study was, initially, to be primarily quantitative. Nonetheless, because the same interviewer completed the vast majority of these interviews, and because she is an experienced market-research professional, many of the findings are qualitative and are used to explain the answers of the founders/executives more fully where possible. In addition, most of the founders/senior executives were engaged by the questions, and provided substantial description, qualification and analysis outside of the bounds of what could be recorded by the survey. As a result, some of the findings in this study are *qualitative* (that is, they cannot be counted), and provide richness of response to the conclusions throughout.

The results discussed and presented in this report are based on a total of 27 interviews with senior executives and owners of Ontario companies who have been successful in developing, bringing to market and selling innovative products and/or services. These interviews were arranged and completed between August 10 and September 17, 2004. Each interview was approximately 20 minutes long, and was based on the questionnaire appended to the end of the report.

In total, 60 names were provided for recruitment, and from that sample 27 interviews were completed. This number of interviews from a total respondent base of 60 is higher than is typical with senior executives, especially those from small and growing companies.

NB: Please note that the data in the tables which follow are derived from a sample of 27 successful leaders of innovative businesses. Even though the population of these leaders is relatively small, the information in this analysis is based on a small sample and should be considered *directional and not conclusive*.



II. Analysis of Research Results



Analysis of Research Results

A. Introduction

This research project grew out of a specific hypothesis about successful innovative companies in Ontario. The Institute for Competitiveness and Prosperity has hypothesised that:

“We are concerned that much of the policy proposals are being developed by business [those] who have not succeeded in creating a sustainable commercial enterprise built on innovation. The diagnoses and resulting prescriptions offered by these individuals may be based on a poor understanding of what drives success in innovation and commercialization. We suspect that their analysis leads too often for calls of increased venture funding or for government support. We hypothesize that successful companies had much less difficulty with financial and technical support. They began with a solid technological or business proposition grounded in a real consumer need. Financing and technological support was less of an issue for them than other issues such as marketing and distribution strategies, general managerial talent, development of a sustainable business model.

[...]

While the Institute agrees that [traditional] sources of support are important [e.g., research funding, venture-capital funding], we are concerned that other areas of support, e.g., availability of managerial talent or highly-focused venture capital expertise (by stage of financing or technology) are also important. In addition, policy tends to ignore areas of pressure – the presence of highly-capable rivals and sophisticated customers who are driving start-ups to succeed. We hypothesize that the experience of successful start-ups includes this broader range of needs.”



Analysis of Research Results

B. Research Objectives

The research which was used to gather the data presented in this report was developed to answer the questions raised by this hypothesis. In other words, the survey instrument and the interviews with founders and senior executives from successful, innovative firms in Ontario were conducted to investigate these questions:

1) Relative to other important needs, how important is getting and retaining financing?

- a) Is financing not an issue? Is there need for more money, or is there a need for the money that is currently available to be “smarter”?
- b) Are Canadian venture capitalists providing the money and advice that innovative firms need? That these firms *expect*? Is financing and advice available at the stages innovative companies need it?
- c) Are Canadian venture capitalists as effective, expert (knowledgeable) and “connected” as those in the United States?

2) What is the relative importance of access to strong managerial and scientific/technical talent in the various stages of business evolution, from start-up to successful, established commercial enterprise?

- a) Is appropriate talent difficult to find? If the answer is “yes”, why do Canadian companies find attraction and retention difficult?
- b) What is the connection, if any, between financing and the ability to attract managerial talent?
- c) How important are “clusters of innovation” to finding appropriate talent?
- d) How important to a company’s success is classical business training of managers? How important is general business-management experience? How important is *sector-specific* business experience?

3) Do Canadian companies face serious, competitive disadvantages when compared to their competitors in other jurisdictions?

- a) If they feel their competitors have clear advantages, what are they?
- b) What are the most significant causes of those competitive advantages and disadvantages?

4) What key piece of advice do those from successful businesses have for innovative firms who are just beginning?

- a) That is, what was most important on the road from start-up to successful commercial enterprise?



Analysis of Research Results

The answers to these questions provided by the founders and senior executives are discussed below.

The conclusions described below indicate together that the formula which leads innovative companies to “success” is multi-faceted and complicated. Success in innovative enterprise is complex, and these findings based on interviews with 27 founders/senior executives of successful, innovative companies suggest that, while there are clear factors that are more important than others, there is no “silver bullet” for success.

C. An Analysis of Findings

1. Financing is the *Sine Qua Non* of Innovative Companies

The survey asked founders/ senior executives to provide the relative importance at start-up, and then in the future, of these three business challenges:

- a. Securing debt and equity financing at each stage of the company’s development
- b. Attracting and retaining general management, product management and sales and marketing talent
- c. Attracting and retaining scientific and technical personnel

A key learning from this research project was that financing, while it was not necessarily the most important factor for success, was for all innovative firms the key piece of the puzzle of success; without proper financing these innovative companies cannot develop their ideas, get customers, or attract managerial talent. Unless the company is appropriately funded – at start-up and through various stages of growth and maturity – the consensus was simply that it would have difficulty doing the very things needed for success. Without money, nothing can happen.

This is not to say that access to financing is and was the only concern of these entrepreneurs. Indeed, for a very few access to financing was *not* a significant roadblock, and from the beginning their concern was with other business challenges. For many, however, securing financing was the most difficult challenge they faced, either at the beginning, at various stages of the company’s development, or even to this day *and* looking forward. For several, securing financing was a constant concern, as the following Tables suggest:



Analysis of Research Results

Rank in Difficulty of Challenges that Faced the Company When Moving Towards Commercial Success

	Total (n=27) ^c %		
	Rank 1	Rank 2	Rank 3
Securing debt and equity financing at each stage of the company's development	56	41	4
Attracting and retaining general management, product management and sales and marketing talent	22	44	33
Attracting and retaining scientific and technical personnel	22	15	63

Q.10a-c Your company has been successful in converting an innovative product or service idea into a successful, commercial venture. I want to ask you specifically about three areas that may have represented significant challenges for your company. So, I am going to read you a list of three specific areas that many start-up companies find challenging. After you have heard all three, I would like you to rank them from one to three, where number "1" represent the most difficult challenge your company faced when navigating successfully from start-up to success. The first is ... (READ AND ROTATE)

Base: All respondents
c Caution, small base size

Rank in Difficulty of Challenges the Company Will Face in the Future

	Total (n=27) ^c %		
	Rank 1	Rank 2	Rank 3
Securing debt and equity financing at each stage of the company's development	26	56	15
Attracting and retaining general management, product management and sales and marketing talent	33	33	26
Attracting and retaining scientific and technical personnel	33	8	52
DK/NA/Ref	7	2	7

Q.12a-c And now, looking forward, I would like you to rank the same three areas from first to third in terms of the challenges you see in the future. Again, the area you rank as "1" will be the area you think will represent the most difficult challenge in the coming years.

Base: All respondents
c Caution, small base size



Analysis of Research Results

The Tables above also indicate, however, that this concentration on financing does not suggest that these founders/ senior executives do not face pressure from other business concerns. In fact, almost all indicated that it is difficult, and perhaps impossible to separate the financing question from other challenges they did and continue to face. Many of the founders and executives described how recruitment of the necessary business leaders/ managers is virtually impossible without a “strong” balance sheet. This research suggests that managerial talent is motivated primarily by “extrinsic” factors (i.e., “what’s in it for me?”) and that they are unlikely to take a risk on a company that is not already showing that it can and will be a success. Being well-financed is a strong indication that the company is trusted and that investors expect that it will do well; a strong balance sheet is fundamental to recruitment of strong business talent.

Does this emphasis on financing and acquiring it suggest that “making more money available” is an answer to this situation? Quite simply, the answer for founders/ senior executives of innovative companies is “no”. This research suggests that the answer is not “more money”, but rather “smarter money”. That is, while more money available to start-ups would be appreciated, the leaders of the innovative companies involved in this study suggested that the challenge of financing might be remedied best through venture capitalists who offer deeper experience, better understanding of the innovation marketplace and more services to the companies they finance. The senior executives/ founders we spoke to suggested that appropriately equipped *and experienced* venture capitalists would likely be more comfortable investing in innovative companies.

Having indicated this “wish-list” for local venture capitalists, the vast majority of those interviewed (88%) reported that they were “*satisfied*” with “*with what the venture capitalist fund did*” for the company (please see the Table “Overall Satisfaction With What VC Fund Did for the Business” on page 32 below). The discrepancy between a high level of satisfaction with what a relationship with a venture capitalist did for the business, and a feeling that better experience with, and knowledge of the sector would be beneficial, can be explained best through “low” expectations of what local VCs have to offer . Many see them simply as sources of money, and little else; if the money was forthcoming, they are likely satisfied with the experience. Most of the founders/ business-owners we interviewed expected nothing more and nothing less. This satisfaction does not suggest that they would not invite more sophisticated VC relationships, as they told us. But it does indicate that, for the most part, their expectations of a relationship with venture capital are being met.

2. The Innovation Market is Less Developed in Canada, and so too is the Venture Capitalism

There was a sense among the founders/ senior executives involved in this research project that the local VCs are simply less willing to finance what they deem to be “riskier” investments. While some cited a culture of risk aversion in Canada, these entrepreneurs tended to point to factors specific to the Canadian venture-capital industry.



Analysis of Research Results

- 1) The VC funds in Canada are not as big as they are in the United States, and, therefore, the venture capitalists in this country are more risk averse; they are less inclined to risk the money that they do have, and more likely to feel comfortable with lower-risk investments.
- 2) The VCs themselves lack the depth and experience to know a good idea when they see it. As a result of this, and of their desire to protect the venture fund's assets, Canadian VCs are less likely to support businesses they do not understand. As one founder put it, "*they do not assess value, they assess risk*" and, therefore, "*VCs wouldn't know a good idea from a bad idea, especially in technology*". The result of this is simply that according to the founders/senior executives in this study, it's harder to get financing from VCs in Canada.

It is especially noteworthy that there was a perception among several of those interviewed that the situation is better in the United States, and, consequently for many of their competitors in innovation/ technology. The perception was that VCs in important US hubs (like Silicon Valley or Boston) were able to provide the companies there with financing more focused on their current needs (i.e., stage of the company) and more focused on the business of the firm being financed (i.e., they are more expert in the specific product/ service being offered, as well as the marketplace, the competition, etc.). On top of their knowledge, these VCs are also able to offer more complete business services and, perhaps more importantly, to provide a network of connections, contacts and other companies. Because similar clusters are less developed in Canada, VCs here are less able to offer the same resources, and access to a network of business leaders from similar companies.

This perception suggests that whatever positive feelings there are about American VCs, they are a product of the existence of geographically based "clusters" of innovation, and the networks, expertise and relationships they breed. Conversely, because these clusters are not as developed in Canada, and, therefore, the VCs do not have the opportunity to become as expert in specific innovative enterprises and marketplaces, there is a perception that the Canadian venture-capital market does not provide the benefits and extras available in other (mainly American) jurisdictions. More importantly, the lack of developed, strong clusters of innovation in Canada appears to some to lead to Canadian venture capitalists who are less experienced with innovation, and with successful innovative companies. They are, therefore, less knowledgeable about innovative companies generally, have less-developed networks, and are less able to provide the companies they finance with business advice. In other words, Canadian VCs know less about the world of innovation, and as a result, are probably more likely to finance what they know and what is familiar (i.e., non-innovative or non-technical enterprises).



Analysis of Research Results

The widespread perception that Canadian VCs are more risk averse appears to be a question of scale. The innovation clusters are less developed in Canada, the VCs are less experienced and knowledgeable about the sector, and, therefore, *relatively* less willing to provide money to companies which specialise in innovative products and services. This sample of innovative founders/ senior executives suggested that if the Canadian venture-capital marketplace were to become smarter and more experienced with innovative companies, they might become more tolerant of risk, especially if they became better able to assess the value of specific companies.

Finally, there was a sense among some of those interviewed that VC's and their money are to be avoided. The argument was that the goals of venture capitalist funds and of innovative business are often in conflict because VCs demand quick growth and return on investment, while slower, more evolutionary growth may be appropriate for the innovative company. This difference in goal, and the attendant "inflexibility" of the venture capitalists, led some to describe them in less-than-flattering terms.

3. Experienced Managerial Talent is Difficult to Find in Canada

Next to securing the appropriate financing and tied directly to that challenge, is the difficulty many companies face in attracting and retaining *experienced* managerial talent. This difficulty is widespread within the sample interviewed for this project (except among those that were acquired by large, multi-national firms), and rivals the challenge of securing financing as the most important barrier to success faced by innovative companies in Canada. Among this sample, there was a number who indicated that "technical" talent was difficult to attract and retain, but there was a clear sense among those interviewed that it was more difficult to find and keep *experienced* managers. This difference was due partly to "fit", which appeared more difficult to define and fulfil with "managers", than was the case with technical/scientific talent. In short, while both types of talent may be difficult to find and keep, the more pressing business issues at start-up and beyond appeared to be finding and keeping the "right" managerial talent (that is experienced, smart, and "appropriate") (Please refer to the Tables above).

There are many reasons for this difficulty in successful, innovative firms in Canada. The interviews conducted with founders/ senior executives for this project indicate that finding this talent is an issue of both "supply" and of "demand".



Analysis of Research Results

Supply: Founders and senior executives have difficulty finding the appropriate talent for senior roles in product management, and in sales and marketing. There appear to be at least two important reasons for this difficulty:

- 1) **The talent is not available:** Several of those interviewed indicated that the appropriate talent is not in Ontario. This lack of managers appears to be less about the number of people with an education in business, and almost exclusively about finding and attracting *experienced* business people who are capable of running a part of the company. While some acknowledge that education in business is important and useful, experience in business, and experience in the sector, appears more important to those who have founded and/or run successful innovative companies.

The perception is that the talent does not exist because the people with the necessary experience and talent simply do not exist in the Canadian marketplace. As one respondent noted, the lack of a “Procter and Gamble” or a “GE” and, as several others observed, of an economy that produces large numbers of experienced managers, means that Canadian business does not create a group of capable leaders who are willing and able to assume senior roles in Canadian companies.

- 2) **The talent that is produced within Canadian business tends to leave.** According to many of those interviewed for this study, these managers may go to the United States, or to some other location outside of Canada, where they are more likely to find the “extrinsic” motivators they want, especially:
 - Improved opportunity and possibilities for advancement
 - Better exposure within the marketplace and within companies
 - More developed and plentiful customers
 - and, better compensation

As noted above, and as the last point emphasises, the issues of financing and finding the appropriate managers are tied, primarily because managerial talent tends to be *less willing to take risk*. That is, the appropriate talent is *unlikely* to be attracted to companies with weak balance sheets because they see those companies as riskier than more established successful ventures. The founders/ senior executives in innovative companies perceive, therefore, that in many cases, attracting and retaining those managers who are experienced in sales, marketing and product management is too difficult – or too expensive – to attract to innovative companies.



Analysis of Research Results

As several of those interviewed suggested, a key point in this discussion is scale; the Canadian economy is not big enough to produce large numbers of qualified managers or to provide the opportunities necessary to retain those which are produced; there is more opportunity in the United States (or, as one entrepreneur noted, “*on the west coast*”).

Demand: Finding talented, experienced managers to join an innovative firm is complicated further by the needs of the company. It is not enough to find someone with the required background and experience (preferably in the sector), but that person must also fit the culture and current direction of the company. Many of those interviewed suggested that finding people was twice as difficult because it is important to find the person with the right experience and training, but it is equally necessary to find that background *and* a good fit with the culture and business direction of the company. Finding the right talent, therefore is not simply about the difficulties of supply, but equally is about finding the people and personalities required within the company *at the current stage of its development*.

4. Canadian Companies Perceive that Their American Competition Has More Advantages

There is a perception among the innovative company founders and senior executives interviewed that their competition, which is primarily in the United States, has some clear advantages over similar companies based in Canada. Much of this advantage was tied directly to powerful, effective clusters of innovation in the U.S., which do not exist, or are less-developed in Ontario. These clusters, like Boston or Silicon Valley, create a culture of “momentum” which encourages the companies in the cluster to be more innovative, more open to risk, and, consequently, more successful.

Just as importantly, the clusters and the “culture of success” that they breed, tend to perpetuate the cycle of business success. As they get large enough, they attract, and create, expert and connected venture capital, as well as talent in the management of business, and those who are more technically and/or scientifically inclined. Moreover, the perception among many of the founders/ senior executives involved in this research was that “infrastructure” is created to support this business, and to make success easier to attain.

These types of clusters do not exist in Ontario. The areas in the province that are deemed technological or innovation centres, like Ottawa or Waterloo, are seen as underdeveloped in terms of the business there, and at least two entrepreneurs pointed out the difficulties associated with “*no direct flights to Ottawa*” or the inability to get a family doctor in Waterloo.



Analysis of Research Results

A number of founders/senior executives also suggested that the scale of American businesses and the areas in which they operated meant that they had competitive advantage in three primary areas, namely:

- Access to capital
- Access to managerial talent to hire
- Access to local customers whose demands stimulate better performance

The perception among founders/ senior executives is that these advantages are the result, in large part, to the scale of the economy of innovation/ technology in the United States. The size and output of that economy give the companies in it clear advantages over those firms located in Ontario.

The founders/senior executives of Ontario-based companies also suggested that they recognise the advantages of proximity offered in the “clusters of innovation” in the U.S. These provide companies who operate within them with easier access to investors, to managerial talent to hire, and to customers. Being “close” to all of these gives the companies located there advantages that companies located in Ontario cannot match. As a result, some feel they are at a clear competitive disadvantage because of the lack of proximity.

5. The Advice Which Leaders of Successful Innovative Businesses Would Give to New Companies Does Not Relate to Finance

When asked what advice they would give to those developing an innovative product or service, it is noteworthy that almost all the advice offered did not touch on finance. This emphasis on other issues might suggest that, while finance is important, the drivers of success exist beyond securing money. The advice offered by the founders/ senior executives interviewed for this project was primarily this:

- 1) Never take your eye off the market – think first and always of your customers and their needs
- 2) Persevere; a successful business person must keep going, especially when it’s difficult
- 3) Be adaptable, and open to suggestion; it is important to “*know what you don’t know*”; There are smart people out there, and it’s important to use them.
- 4) Build and maintain relationships; doing so will lead to success



III. Survey Results



Role in the Company

	Total (n=27)^c
	%
The sole founder	26
A founder with partners	52
A hired executive, but not the founder	22

Q.1 And could you please describe your role in the company? Would it be...?

Base: All respondents

c Caution, small base size



Status of the Business

	Total (n=27)^c
	%
IPO	67
Acquired	26
Merged	7

Q.2 I'd like to begin by confirming the status of the business.
Our records indicate that NAME OF FIRM is.... Is this correct?

Base: All respondents

c Caution, small base size



Where Working Before Founding/ Joining Current Business

	Total (n=21) ^c %
A university	5
Owned another/different business	19
At another company as an employee	52
Other	24

Q.3 Thinking back to the period immediately before joining your current business, where were you working?

Base: Sole founder or founder with partners

c Caution, small base size



Undertake Development Work Prior to Starting Firm

	Total (n=21) ^c %
Yes	33
No	62
DK/NA/Ref	5

Q.4 And did you undertake any development work related to your current business at your previous employment, prior to starting this firm?

Base: Sole founder or founder with partners

c Caution, small base size



License Technology From Previous Employer?

	Total (n=21) ^c %
Yes	10
No	71
DK/NA/Ref	19

Q.5 Did you license technology that is part of your current business from your previous employer?

Base: Sole founder or founder with partners

c Caution, small base size



Stage of Product Development at Time of IPO/Merger/Acquisition

	Total (n=27) ^c %
On market	66
In development	30
Other	4

Q.6 At the time of the IPO/merger/acquisition was product on the market yet or was it still in the development phase?

Base: All respondents

c Caution, small base size



Year Firm Began To Organize

	Total (n=27) ^c %
1940's	4
1980's	19
1990 – 1994	18
1995 – 1999	41
2000 – 2001	18

Q.7 In what year did the firm *first* begin to organize?

Base: All respondents

c Caution, small base size



Is the Company Incorporated?

	Total (n=27)^c
	%
Yes	100
No	-

Q.8 And is (COMPANY) incorporated?

Base: All respondents

c Caution, small base size



Year Company was Incorporated

	Total (n=27)^c
	%
1940's	4
1980's	22
1990 – 1994	15
1995 – 1999	41
2000 – 2001	18

Q.9 And, in what year was the company incorporated?

Base: All respondents

c Caution, small base size



Rank in Difficulty of Challenges that Faced the Company When Moving Towards Commercial Success

	Total (n=27) ^c		
	Rank 1	Rank 2	Rank 3
Securing debt and equity financing at each stage of the company's development	56	41	4
Attracting and retaining general management, product management and sales and marketing talent	22	44	33
Attracting and retaining scientific and technical personnel	22	15	63

Q.10a-c Your company has been successful in converting an innovative product or service idea into a successful, commercial venture. I want to ask you specifically about three areas that may have represented significant challenges for your company. So, I am going to read you a list of three specific areas that many start-up companies find challenging. After you have heard all three, I would like you to rank them from one to three, where number "1" represent the most difficult challenge your company faced when navigating successfully from start-up to success. The first is ... (READ AND ROTATE).

Base: All respondents
c Caution, small base size



Rank in Difficulty of Challenges the Company Will Face in the Future

	Total (n=27) ^c %		
	Rank 1	Rank 2	Rank 3
Securing debt and equity financing at each stage of the company's development	26	56	15
Attracting and retaining general management, product management and sales and marketing talent	33	33	26
Attracting and retaining scientific and technical personnel	33	8	52
DK/NA/Ref	7	2	7

Q.12a-c And now, looking forward, I would like you to rank the same three areas from first to third in terms of the challenges you see in the future. Again, the area you rank as "1" will be the area you think will represent the most difficult challenge in the coming years.

Base: All respondents

c Caution, small base size



Rating of Access to Various Resources

	Total (n=27) ^c %	
	% "Excellent/Good"	% Poor/Very Poor
Access to physical infrastructure, such as telecommunications and transportation networks	93 (93)	4 (4)
Access to laws that protect intellectual property and patents.	81 (81)	11 (11)
Access to qualified scientific or technical talent to hire	81 (81)	7 (7)
Access to local suppliers of technology your company needs	78 (93)	7 (8)
Access to capital	63 (63)	15 (15)
Access to suppliers of other expertise, such as specialized management consulting	56 (67)	7 (8)
Access to government supports <i>other than</i> finance	48 (48)	26 (26)
Access to managerial talent to hire	44 (44)	26 (26)
Access to university research and researchers, research labs and other research facilities	48 (81)	4 (7)
Access to government financial support	41 (48)	30 (33)
Access to local customers whose demands stimulate better performance	22 (26)	52 (56)

Q.14a-k Thinking specifically of your company, and of your local situation, I'd like you to think about access to various resources. Please rate your company's access to each of the following resources as either excellent, good, average, poor or very poor.

Base: All respondents

c Caution, small base size

() Re-percentage to exclude not applicable responses



Where Most Important Competitor Operates

	Total (n=27)^c
	%
In Ontario	4
In Canada, but outside of Ontario	3
In the United States	78
Somewhere else in the world, outside of Canada and the United States	15

Q.15 Thinking now of your most important competitor, please tell me if that competitor operates

Base: All respondents

c Caution, small base size



Access to Resources – Competitor Versus Your Company

	Total (n=27) ^c %	
	% Significant/Somewhat Advantage for Them	% Significant/Somewhat Advantage for You
Access to capital	85 (93)	4 (4)
Access to managerial talent to hire	74 (78)	4 (4)
Access to local customers whose demands stimulate better performance	70 (78)	4 (4)
Access to suppliers of other expertise, such as specialized management consulting	48 (52)	7 (7)
Access to university research and researchers, research labs and other research facilities	44 (52)	11 (15)
Access to local suppliers of technology your company needs	44 (48)	4 (4)
Access to qualified scientific or technical talent to hire	30 (30)	19 (19)
Access to government financial support	26 (44)	19 (26)
Access government supports <i>other than</i> finance	22 (26)	11 (11)
Access to laws that protect intellectual property and patents	22 (22)	4 (4)
Access to physical infrastructure, such as telecommunications and transportation networks	15 (15)	8 (8)

Q.16a-k Now I'd like you to think of your *most important competitor* and how their access to the same list of resources compares to your own. Please tell me whether their access to each resource represents a significant competitive advantage for them, somewhat of an advantage for them, neither an advantage nor a disadvantage, somewhat of an advantage for you, or a significant advantage for you over your competitor.

Base: All respondents

c Caution, small base size

() Re-percentage to exclude not applicable responses



Sources of Financing Before IPO/Acquisition/Merger

	Total (n=27) ^c %
An individual investor, sometimes called an angel investor	30
Venture capital fund	33
Debt financing	19
Other sources of financing	48
DK/NA/Ref	11

Q.18 I want to talk with you now about sources of financing.
In the period up to, but before the IPO/acquisition/merger what were the sources of financing for the company, was it...? (Accept as many responses as apply)

Base: All respondents

c Caution, small base size



Source of Funding That Was Most Important

	Total (n=11) ^c %
An individual investor, sometimes called an angel investor	28
Venture capital fund	45
Other sources of financing	27

Q.19 And which of these sources was the most important in assisting you up to the IPO/acquisition/merger/ stage?

Base: Respondents who answered both individual investor and venture capital fund

c Caution, small base size



Importance of Areas of Support VC/ Fund Provided in Contributing to Business Success

	Total (n=18) ^c		
	% Important (5,6,7)	% Not Important (1,2,3)	Not Provided
Helping you to access additional sources of capital	72	17	6
Helping to develop a business strategy	50	33	-
Assisting you to build a management team	50	33	11
Assisting you in thinking about how best to commercialize the product/service	39	44	6
Providing managerial expertise	39	50	6
Providing information about the industry	27	56	11
Providing information about global markets for your product	27	50	11
Putting you in touch with expert suppliers of the services you would require in starting the business	23	68	11
Assisting you in building the company infrastructure	23	61	6
Adding value in the development of the product or service	17	67	11

Q.20a-j For each of the areas that the fund/ the investor provided support how important was this support in contributing to the success of your business. You can again respond by giving me a number between one and seven, in which one means you do not consider it was at all important to your success, and seven means you consider that it was extremely important to your success. If the fund/ the investor did not provide the service, please tell me. The first is...

Base: Respondents who received funding from a venture capitalist or angel investor.

c Caution, small base size



Overall Satisfaction With What VC Fund Did for the Business

	Total (n=18) ^c %
NET SATISFIED	88
Very satisfied	59
Somewhat satisfied	29
Not too satisfied	-
Not at all satisfied	12
NET DISSATISFIED	12

Q.21 Overall, how satisfied were you with what the venture capitalist fund/the investor did for you? Were you very satisfied, somewhat satisfied not too satisfied, or not at all satisfied?

Base: Respondents who received funding from a venture capitalist or angel investor.

c Caution, small base size



Stage At Which Funding Was Most Difficult to Access

	Total (n=27) ^c %
Seed stage	15
Start-up stage	22
Other early stage	4
Expansion	26
Acquisition/Buyout	11
Turnaround	4
DK/NA/Ref	18

Q.23 I'm going to read a list of the various stages of development that a business goes through up to the IPO/merger/acquisition. After I finish the list, please tell me the stage at which, in your experience, funding was the most difficult to access. The stages are...

Base: All respondents

c Caution, small base size



Level of Agreement with General Statements About Start-Up Technology Businesses

	Total (n=27) ^c %	
	% Agree	% Disagree
Developing a good business strategy was an important part of our success	93	4
Getting good management talent was a big challenge for our business	85	7
A good idea won't get funded if the business plan is not sound	85	15
Having management people with formal business education like a B Comm or an MBA was important to our success	48	31
A good idea and a good business plan will usually get funding	48	33
In our experience venture capitalists and our researchers communicated well with each other	37	48

Q.24a-f Now I'd like to read you a few statements and have you tell me, based on your own experience, if you agree or disagree with them. You can do this by telling me whether you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree. The first is ...

Base: All respondents



Highest Level of Education Completed

	Total (n=27) ^c %
Some/graduated college, technical or vocational school	4
Have a bachelor's degree from a university	44
A Master's degree in business	33
A Master's degree in engineering or technology	4
A Master's degree in some other discipline	4
A PhD	11

Q.27 And, finally, what is the *highest* level of schooling/education that you have completed?

Base: All respondents

c Caution, small base size



IV. The Questionnaire



SUCCESS FACTORS OF INNOVATIVE FIRMS QUESTIONNAIRE

Good morning. My name is _____ and I am conducting research on behalf of the Institute for Competitiveness & Prosperity or ICP.

ONLY IF WANT MORE INFO ON ICP SAY: ICP is an independent, Ontario-based organization whose primary purpose is to serve as the research arm of the “Task Force on Competitiveness, Productivity and Economic Progress”. This Task Force, led by Roger Martin, Dean of Rotman School of Management at U of T, has been mandated by the Government of Ontario to measure and monitor Ontario’s competitiveness compared to other jurisdictions.

First of all, I would like to thank you in advance for taking the time out of your very busy day to talk to us. The survey should only take about 15 to 20 minutes to complete.

Before we begin, would you like me to take a brief moment to explain the purpose of this study or shall we just begin?

With findings from this survey our client is seeking to understand better the experiences of Ontario-based companies that have managed to build successful, sustainable operations on innovation and who have also successfully navigated the transition from start-up to high-growth or maturity. The Institute for Competitiveness and Prosperity feels it is important to develop an understanding of the perspectives and experiences of the *leaders* of these innovative firms who have successfully steered their firms through the start-up stages.

Are you personally familiar with the company history and able to provide some perspective on the company’s development process?

YES: Great. Before we get started I’d like to take a few moments to assure you that this discussion and all findings from this research will remain strictly confidential. While a general report of findings will indeed be released, all information will be aggregated.

NO: Is there another person in the company to whom we should speak?



1. And could you please describe your role in the company? Would it be...(READ LIST)

The sole founder

A Founder with partners

A hired executive, but not a founder

Other (PROBE AND RECORD) : _____)

2. I'd like to begin by confirming the status of the business.

Our records indicate that RIM (SUMMARIZE STATEMENT ON SPREAD SHEET). Is this correct?

Pre-IPO

IPO

Acquired

Merged

Other

ASK Q 3 TO Q 5 ONLY OF THOSE WHO INDICATE THAT THEY ARE "SOLE FOUNDER" OR "FOUNDER WITH PARTNER(S)" AT Q. 1. OTHERWISE SKIP TO Q. 6

3. Thinking back to the period immediately before joining your current business, where were you working? **DO NOT READ LIST**

A university

A hospital

A research institute

A student at a university/hospital

Owned another/different business

At another company as an employee

Other, specify _____

4. And did you undertake any development work related to your current business at your previous employment, prior to starting this firm?

Yes

No

DK/Refused



5. Did you license technology that is part of your current business from your previous employer?

Yes
No

6. At the time of the IPO/merger/acquisition was service on the market yet or was it still in the development phase?

On market
In development
In field trials (VOLUNTEERED)
Other, specify

7. In what year did the firm *first* begin to organize?

199 / 200 ___

8. And is (COMPANY) incorporated?

Yes (CONTINUE)
NO (SKIP TO Q. 10)

9. And, in what year was the company incorporated?

199__ / 200 ___

(Volunteered) This company is not incorporated/ We did not incorporate



10. Your company has been successful in converting an innovative product or service idea into a successful, commercial venture. I want to ask you specifically about three areas that may have represented significant challenges for your company.

So, I am going to read you a list of three specific areas that many start-up companies find challenging. After you have heard all three, I would like you to rank them from one to three, where number “1” represent the most difficult challenge your company faced when navigating successfully from start-up to success.

The three areas are: **(READ AND ROTATE)**

- a. Securing debt and equity financing at each stage of the company’s development RANK
- b. Attracting and retaining general management, product management and sales and marketing talent RANK
- c. Attracting and retaining scientific and technical personnel RANK

11. You ranked (NUMBER 1 RANK) as the most difficult challenge for your company’s progress from start-up to success. And in what way was this the most difficult challenge?

12. And now, looking forward, I would like you to rank the same three areas from first to third in terms of the challenges you see in the future. Again, the area you rank as “1” will be the area you think will represent the most difficult challenge in the coming years.

Again, the areas are: **(READ AND ROTATE)**

- a. Securing debt and equity financing at each stage of the company’s development RANK
- b. Attracting and retaining general management, product management and sales and marketing talent RANK
- c. Attracting and retaining scientific and technical personnel. RANK



13. You ranked (NUMBER 1 RANK) as the area you think will represent the most difficult challenge in the coming years. In what way do you foresee this as being the most difficult challenge?

14. Thinking specifically of *your* company, and of your local situation, I'd like you to think about access to various resources. Please rate your company's access to each of the following resources as either excellent, good, average, poor or very poor.

The first is **(READ AND ROTATE)**...

- a. Access to capital
- b. Access to managerial talent to hire
- c. Access to qualified scientific or technical talent to hire
- d. Access to university research and researchers, research labs and other research facilities
- e. Access to local suppliers of technology your company needs
- f. Access to suppliers of other expertise, such as specialized management consulting
- g. Access to local customers whose demands stimulate better performance
- h. Access to physical infrastructure, such as telecommunications and transportation networks
- i. Access to government financial support
- j. Access government supports *other than* finance
- k. Access to laws that protect intellectual property and patents

15. Thinking now of your *most important* competitor, please tell me if that competitor operates ...**(READ LIST)**

In Ontario

In Canada, but outside of Ontario

In the United States

Or somewhere else in the world, outside of Canada and the United States.



16. Now I'd like you to think of your *most important competitor* and how their access to same list of resources compares to your own. Please tell me whether their access to each resource represents a significant competitive advantage for them, somewhat of an advantage for them, neither an advantage nor a disadvantage; somewhat of an advantage for you, or a significant advantage for you over your competitor.

The first is...**(READ AND ROTATE)**

- a. Access to capital
- b. Access to managerial talent to hire
- c. Access to qualified scientific or technical talent to hire
- d. Access to university research and researchers, research labs and other research facilities
- e. Access to local suppliers of necessary technology
- f. Access to suppliers of other expertise, such as specialized management consulting
- g. Access to local customers whose demands stimulate better performance
- h. Access to physical infrastructure, such as telecommunications and transportation networks
- i. Access to government financial support
- j. Access to government supports *other than* finance
- k. Access to laws that protect intellectual property and patents.

ASK Q. 17 ONLY OF THOSE WHO ANSWER EITHER “SIGNIFICANT COMPETITIVE ADVANTAGE FOR YOUR COMPETITOR” (5) OR “SIGNIFICANT COMPETITIVE ADVANTAGE TO YOU” (1) TO ANY OF 16a TO 16k.

IF RESPONDENT RESPONDS “5” OR “1” ON MORE THAN 2 OF 16a TO 16k, CHOOSE TWO TO INVESTIGATE.

OTHERWISE, SKIP TO Q. 18

17. a. You mentioned that your competitor has a significant advantage because of (16a to 16k)? Would you please elaborate on why this is an advantage for your most important competitor?

17. b. You mentioned that you have a significant advantage over your main competitor because of (16a to 16k)? Would you please elaborate on why this is a significant advantage for your business over your most important competitor?



17. c. You mentioned that your competitor has a significant advantage because of (16a to 16k)? Would you please elaborate on why this is an advantage for your most important competitor?

17. d You mentioned that you have a significant advantage over your main competitor because of (16a to 16k)? Would you please elaborate on why this is a significant advantage for your business over your most important competitor?

18. I want to talk with you now about sources of financing.

In the period up to, but before the IPO/acquisition/merger what were the sources of financing for the company, was it: (**READ LIST, ACCEPT AS MANY RESPONSES AS APPLY**)

- An individual investor, sometimes called an angel investor
- Venture capital fund
- Debt financing
- Other sources of financing

IF MORE THAN ONE SOURCE MENTIONED IN Q18 ASK Q. 19, OTHERWISE SKIP TO INSTRUCTIONS BEFORE Q. 20.

19. And which of these sources was the *most* important in assisting you up to the IPO/acquisition/merger/ stage? (**ACCEPT ONLY ONE RESPONSE**).

- An individual investor, sometimes called an angel investor
- Venture capital fund
- Debt financing
- Other sources of financing

* IF VENTURE CAPITAL FUND OR ANGEL NOT MENTIONED IN Q18 SKIP DIRECTLY TO Q. 23

* IF VENTURE CAPITAL FUND AND ANGEL INVESTOR BOTH MENTIONED IN Q.19, READ INTRODUCTION. OTHERWISE SKIP DIRECTLY TO Q.20



Introduction: You told me that you received financing from both a venture capital fund and from an “angel” investor. For the next few questions, I would like you to think specifically of your experiences with a Venture Capital Fund.

20. For each of the areas that the fund/ the investor provided support how important was this support in contributing to the success of your business. You can again respond by giving me a number between one and seven, in which one means you do not consider it was at all important to your success, and seven means you consider that it was extremely important to your success. If the fund/ the investor did not provide the service, please tell me.

The first is ... (**READ AND ROTATE a to j**)

	<u>1to7</u>	<u>Not provided</u>
a. Helping to develop a business strategy	___	<input type="checkbox"/>
b. Adding value in the development of the product or service	___	<input type="checkbox"/>
c. Providing managerial expertise	___	<input type="checkbox"/>
d. Assisting you to build a management team	___	<input type="checkbox"/>
e. Putting you in touch with expert suppliers of the services you would require in starting the business	___	<input type="checkbox"/>
f. Assisting you in thinking about how best to commercialize the product/service	___	<input type="checkbox"/>
g. Providing information about the industry	___	<input type="checkbox"/>
h. Assisting you in building the company infrastructure	___	<input type="checkbox"/>
i. Providing information about global markets for your product	___	<input type="checkbox"/>
j. Helping you to access additional sources of capital	___	<input type="checkbox"/>

21. Overall, how satisfied were you with what the venture capitalist fund/the investor did for you? Were you very satisfied, somewhat satisfied not too satisfied, or not at all satisfied?

- Very satisfied (**SKIP TO Q. 23**)
- Somewhat satisfied (**SKIP TO Q. 23**)
- Not too satisfied (**CONTINUE**)
- or not at all satisfied (**CONTINUE**)

22. And why do you say that you were not too/not at all satisfied? (ANSWER TO Q21)



23. I'm going to read a list of the various stages of development that a business goes through up to the IPO/merger/acquisition. After I finish the list, please tell me the stage at which, in your experience, funding was the most difficult to access. The stages are: **(THE DEFINITIONS BELOW ARE PROVIDED FOR THE INTERVIEWER TO USE IF RESPONDENT SEEMS CONFUSED ABOUT THE STAGES OR STAGES – READ ONLY IF NECESSARY)**

Seed stage: A developing business entity that has not yet established commercial operations and needs financing for research and product development.

Start-up stage: A business in the earliest phase of established operations and needs capital for product development, initial marketing and other goals.

Other early stage: A firm that has begun initial marketing and related development and needs financing to achieve full commercial production and sales.

Expansion: An established or near-established company that needs capital to expand its productive capacity, marketing and sales.

Acquisition/Buyout: An established or near-established firm that needs financing to acquire all or a portion of another business entity for growth purposes, such as an Acquisition for Expansion Financing.

Turnaround: An established or near-established company that needs capital to address a temporary situation of financial or operational distress.

24. Now I'd like to read you a few statements and have you tell me, based on your own experience, if you agree or disagree with them. You can do this by telling me whether you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree. The first is **(READ AND ROTATE Qa TO Qf)**
- a. Developing a good business strategy was an important part of our success.
 - b. A good idea won't get funded if the business plan is not sound
 - c. Getting good management talent was a big challenge for our business
 - d. A good idea and a good business plan will usually get funding
 - e. Having management people with formal business education like a B Comm or an MBA was important to our success
 - f. In our experience venture capitalists and our researchers communicated well with each other



ASK THE FOLLOWING Q'S ONLY IF TIME ALLOWS:

25. In summary thinking through the stages you went through in becoming a successful company what were the most important factors in this success?

26. And if you were to give one piece of advice to anyone developing an innovative new product or service what would it be?



ASK EVERYONE:

27. And, finally, What is the *highest* level of schooling/education that you have completed? (DO NOT READ LIST)

Public or elementary school, (grade 1-8)

Some/Graduated high school

Some/graduated college, technical or vocational school

Some university

Have a bachelor's degree from a university

An Master's degree in business

A Master's degree in science

A Master's degree in engineering or technology,

A Master's degree in some other discipline

A Ph.D.

Thank you for your time and insight