

# Ousting the Founder

Is Canada too quick to replace Founder CEOs with Professional CEOs?



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# Ousting the Founder

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Canadian founders have the right backgrounds to grow successful world-class companies.

Our reluctance to scale may be attributed partially to our tendency to replace talented Founder CEOs with Professional CEOs.

Commentators have long criticized Canada's inability to scale high-tech companies to world-class size. According to the Centre for Digital Entrepreneurship + Economic Performance, "Canada continues to struggle to produce the type of sustainable, high-growth firms in knowledge-intensive sectors that policy-makers have identified as crucial to the country's economic future." (deepcentre, *A Lynchpin in Canada's Economic Future: Accelerating Growth and Innovation with a World-Class Business Acceleration Ecosystem*, 2015).

Although Canada has created an ecosystem that produces many startups, few of these companies grow to become Unicorns. These are defined as privately held companies with valuations in excess of \$1 billion dollars. Certainly, we have had world-leading companies such as Blackberry and Mitel, and more recently Unicorns such as HootSuite and Kik Interactive. But most of our successful startups are sold before they reach world-class size. Overcoming this growth hurdle is crucial to positioning Canadian companies favourably in global markets.

In this study, we expand on our first study of attitudes by looking at the professional history and experience of technology startup leaders to determine whether specific aspects of their backgrounds limit their willingness or ability to scale a company under their leadership. The analysis is guided by one question:

- Is Canada limited by the amount of CEO talent needed to lead and grow successful technology companies?

Our findings, while limited in scope by the nature of the data available, suggest that:

- Canadian Founder CEOs are just as experienced as Founder CEOs of Unicorns in terms of prior experience as serial entrepreneurs.
- Our Professional CEOs are more experienced than Unicorn Professional CEOs in terms of prior experience as founders and as CEOs of venture capital-backed companies.
- Founder CEOs outperform Professional CEOs in Unicorns and Canadian companies.
- While Canadians replace Founder CEOs with Professional CEOs 47% of the time, Founder CEOs are only replaced 18% of the time in Unicorn companies.

Our conclusion is that Canadian founders have the right backgrounds to grow successful world-class companies and that our reluctance to scale to that level may be attributed partially to our tendency to replace talented Founder CEOs with Professional CEOs.

This is by no means an exhaustive or academically rigorous study. Our intention is to add to the conversation about innovation and identify some factors why we lag much of the developed world and what we can do about it.

# Unwillingness to Scale

Numerous articles in the press have commented recently on Canada's inability to scale technology companies. However, this should not be construed as a failure or inability but as a reluctance to scale. According to a recent CB Insights report, Canada ranked fourth in the world by the number of tech exits in 2015 (CB Insights, *2015 Global Tech Exits*, 2015).

Among the 152 worldwide Unicorns—these are defined as private companies with a valuation of over \$1 billion—Canada is represented poorly. Only Hootsuite and Kik Interactive have made the list (CB Insights – Feb 15, 2016). Given Canada's research capacity and technology strengths, two out of 152 is a rather low number. We have the ability to start companies, but we tend to sell them before maturity.

While commentators have long written about Canada's lack of Unicorns and large public technology companies, not enough has been done to figure out how many we should have, why we do not have as many as we should, and how to effectively support our current base of companies on their path to scale.

Given Canada's emphasis on startup creation over the past ten years, why have we failed to produce the Blackberrys of this generation?

Because rapidly growing technology companies are grown from the top by driven and visionary CEOs, we wanted to look at whether the nature of our technology CEOs has any bearing on the success of Canadian technology startups. This study examines the role that a founder has in the development and growth of a technology business and looks at whether Canada has the right talent to grow world-class companies and whether we are deploying that talent effectively.

As part of this survey, we compared leaders of successful technology companies to individuals in leadership roles within venture capital-backed Canadian companies to identify any differences and potential learning points based on those differences.

We used Unicorns as the basis for comparison. These are technology companies that are typically very young, still private, largely venture capital-backed, and have a valuation in excess of \$1 billion.

Public companies are not included in our study because the demands of running a public company are different, and there are too few public technology companies in Canada to make a study worthwhile. We also decided to compare the leadership qualities of Unicorn CEOs to CEOs of Canadian companies that had received similar backing from venture capitalists.

This enabled us to study 142 Unicorns from around the world and compare them to 118 private Canadian technology companies that had received venture capital financing between 2009 and 2012. Since this is considered enough time for a private firm to grow into a Unicorn, the selected Canadian companies were comparable in age to the Unicorns. The Canadian companies were identified through a screening of CB Insight's database of venture capital-backed companies and were sourced from across the country.

Then we divided the current CEO leadership into two categories: Founder CEOs and Professional CEOs and attempted to address the following questions:

1. Are Canadian Founder CEOs less experienced than Unicorn Founder CEOs?
2. Are Canadian Professional CEOs less experienced than Unicorn CEOs?
3. Is there a difference in the success rate of Founder CEOs versus Professional CEOs?
4. How does Canada's founder replacement rate compare with that of unicorns?

# Are Canadian Founder CEOs less experienced than Unicorn Founder CEOs?

To determine whether past experience is a factor in achieving results, we looked at the professional histories of all of the Founder CEOs on our list of Unicorns and venture capital-backed Canadian technology companies. Specifically, we looked for two things: experience as a founder of another company and experience as a CEO of a venture capital-backed business.

Our findings did not show a significant difference between Canadian and Unicorn Founder CEOs. In fact, among our selected group of company leaders, Canadian Founder CEOs had just as much experience as Unicorn Founder CEOs in terms of creating and running companies.

About 40% of founders in both groups are considered serial entrepreneurs and have a track record of starting at least one other venture prior to their current role.

## **% of Unicorn Founder CEOs who are serial founders**



## **% of Canadian Founder CEOs who are serial founders**



Although leaders in both groups have little experience as CEOs of a venture capital-backed company, Unicorn CEOs have a slight advantage in this regard.

## **% of Unicorn Founder CEOs who are serial CEOs**



## **% of Canadian Founder CEOs who are serial CEOs**



# Are Canadian Professional CEOs less experienced than Unicorn CEOs?

Another factor in our reluctance to scale companies may result from inexperienced professionals being hired as CEOs of Canadian companies. If our Professional CEOs are less experienced than Unicorn Founder CEOs or Unicorn Professional CEOs, then this lack of experience may contribute to scaling issues.

However, this is not the case. The statistics prove that Canadian Professional CEOs have more experience starting companies than Professional and Founder CEOs leading Unicorns.

## **% of Canadian Professional CEOs who were prior founders**



## **% of Unicorn Founder CEOs who were prior founders**



## **% of Unicorn Professional CEOs who were prior founders**



Our Professional CEOs also have more experience as venture capital-backed CEOs than both Unicorn Founder CEOs and Unicorn Professional CEOs.

## **% of Canadian Professional CEOs who were prior venture backed CEOs**



## **% of Unicorn Founder CEOs who were prior venture backed CEOs**



## **% of Unicorn Professional CEOs who were prior venture backed CEOs**



The numbers clearly indicate that Canada has a wealth of talent in our Professional CEO class, and this factor should not be contributing to our problems scaling companies. Our Professionals CEOs have a better base of experience as founders and as venture capital-supported CEOs than any other group we studied, and yet they are not building Unicorns and they are certainly not outperforming their Founder CEO compatriots, as discussed in the next section.

# Are Professional CEOs more successful at scaling companies than Founder CEOs?

We also wanted to determine whether Professional CEOs performed better than Founder CEOs in terms of scaling companies.

Since current valuations of Unicorns are publicly available, we were able to compare the valuations of Founder CEO-led Unicorns to those led by Professional CEOs. This first test shows that Founder CEOs have better valuation results (US dollars) than Professional CEOs, and by a wide margin:

Average valuation of Unicorns led by Founder CEOs



Average valuation of Unicorns led by Professional CEOs



Does this trend hold true in Canada as well? Given that all of these companies are private, that is difficult to judge. However, since these are all venture capital-backed firms, the amount raised through investors was used as a proxy.

It is clear that Founder CEOs outperform Professional CEOs at least in fundraising by a wide margin in Canada. The average amount raised by founders exceeds the amount raised by professionals by nearly 50%.

Venture capital raised by Founder CEOs



Venture capital raised by Professional CEOs



This result was surprising and in fact counterintuitive. Why would we be so quick to replace founders when the statistics clearly indicate that they outperform professionals? Determining an answer to this question requires further research.



# How does Canada's founder replacement rate compare with that of unicorns?

The next question we set out to answer was whether Canadian venture capitalists replace the founder of a company with a professional CEO at a rate that is different than that of successful companies. For this question, the answer is very clear: while 82% of Unicorns are led by their founders, only 53% of successful technology companies have founders in place as CEOs in Canada.

## **% of Unicorns run by Founder CEOs**



## **% of Canadian companies run by Founder CEOs**



As discussed in the previous section, the data suggest that Founder CEOs are more successful than Professional CEOs at raising funds, but in Canada we tend to replace founders. Despite the talent among the professionals who replace them, Canada has struggled to scale companies. As to why this happens, we need more research to explore this issue further.

# Methodology

To determine founder replacement rates, we examined 142 companies out of 152 companies identified by CB Insights that as of February 15, 2016 had valuations above \$1 billion and thus are accorded Unicorn status. (Data could not be obtained for ten companies on the Unicorn list, and they were excluded from our study.) We compared these Unicorns with 118 private Canadian companies that had received venture capital financing from 2009 to 2012. These businesses were identified from CB Insights' database. At the time of this report, they were still in business, they had not been sold, or had an IPO.

The names of CEOs and founders were obtained when available, from company websites and in some cases from other databases. The professional histories of current founders and CEOs were obtained from company websites and LinkedIn.

This study was not intended to be academically rigorous; nor was it intended to be all-encompassing about the topic of startup leadership. It was designed only to add to the conversation on innovation by looking at one factor that may influence Canada's ability to scale technology companies. We plan to complete further research on this subject in the future.

# About the Impact Centre

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Science to Society

We believe that science is the foundation for a better quality of life. Our vision is to be a place where you can connect with exceptional research, talent, training, innovative companies, and government to create products and services that benefit society.

## **Advancing Industry Innovation**

We leverage the expertise and resources of universities to create real products and solutions for our clients. Our core competencies are in the natural sciences and engineering.

We catalyze university research to create long-term impact for our industry clients. We accelerate research to market!

## **Enabling Student Startups**

The Impact Centre nurtures the creation and growth of student-led startups that are developing innovative products and services rooted in the natural sciences and engineering.

We provide training to help graduate students, recent graduates, and researchers transform their discoveries into real products and services that benefit society.

## **Training Innovators and Entrepreneurs**

The Impact Centre offers research and industry-relevant training for professionals and students at all levels. We deliver speeches, workshops, undergraduate courses, and coordinate internship placements.

Our initiatives help professionals, undergraduate students, graduate students and postdoctoral fellows develop career skills to enable them to be successful innovators and leaders.

## **Studying Innovation**

The Impact Centre explores questions at the intersection of science, business, policy, and society. We conduct research on all aspects of innovation, from ideation and commercialization to government policy and broader themes such as the connection between science and international development.

We study how companies of all sizes navigate the complex path between a discovery and the market and how their collective innovations add up to create a larger socioeconomic impact.

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