

Accelerators and Incubators as a Tool in Innovation Policy

1. What was your key research question and what is your major finding from the research?

The initial research question was “what is the role of accelerators in global innovation networks?” More specifically, are Canadian accelerators helping Canadian entrepreneurs and companies grow profitable, export businesses with global customers? Are they connecting client firms with global innovation networks, global supply chains and global customers? Are any accelerators addressing digital opportunities?

To address the role of policy, we focused on the Canadian Accelerator and Incubator Program (CAIP), a \$100M federal program that supported 16 Canadian accelerators. Some were focused on ICT and digital technologies; others were not. CAIP had two stated policy goals: to establish a critical mass and to boost “top” accelerators.

To establish “critical mass”, the government focused on incremental performance. Funded entities were expected to increase the scope and the amount of services they offered, improve success rates and create wealth. If an accelerator could not demonstrate incrementality, they did not get funded. Entities also had to attract matching funds to access the federal funding.

The policy goal of boosting “top” accelerators was compromised from the very beginning. While the external advisory committee was instructed to recommend only the best accelerators, the government insisted on regional distribution, which meant that some weaker players were funded to the exclusion of stronger ones in regions with larger populations and critical mass. Interestingly, the incrementality and the matching fund requirements turned out to be a corrective. In the early years, many of the recipients were not able to use all of their allocated funds due to one or both of these requirements. The other recipients were allowed to compete for some of the unallocated funds. In this way, the stronger accelerators were able to access more funding than their original allocation.

One of our research goals was to find out how the funded entities measured success and whether their measures differed from those of the government funders and the client firms. The most common measure of success reported by the funded entities was the amount of financing raised by client firms. Another key metric of interest to the government was number of jobs. However, survival of graduate firms, and hence persistence of jobs, was not considered. We found that a few of the accelerators tried to help their client firms connect to global customers, investors and partners; but most provided cookie-cutter programs on entrepreneurship, business plans and pitching to investors.

Given that it takes more than a decade for a startup to reach significant revenue, the objective of increased wealth creation was largely unaddressed. Amount of investment dollars raised served as a proxy for wealth creation in most of the interviews we had.

Our interviews uncovered a tension between the two policy goals: on one hand, supporting “top” performers, and on the other hand, regional economic development or ecosystem building. Many of the accelerators felt constrained from focusing support on companies with

obvious growth potential by the requirement to mentor the more inexperienced players in their region or community. On the other hand, some accelerators embraced the role of ecosystem builder, especially those located in more sparsely populated regions. One recommendation offered by several respondents was to have two separate funding programs, one for the “Own the Podium” goal, as recently articulated by the Economic Strategy Tables, and another for regional economic development and ecosystem building. The new Regional Economic Growth Initiative (REGI), being led by the federal Regional Development Agencies, is structured along these lines.

2. What do your research findings mean for our understanding of Canada’s digital opportunity?

Canadian accelerators are proliferating and there is increasing competition for client firms. One result is the emergence of specialized accelerators that are focused on niche sectors. Canada’s digital opportunity could be well served by two kinds of innovation intermediary: one that specializes in helping entrepreneurs and firms developing digital products and services, and another that specializes in helping entrepreneurs in other industry sectors adapt to the digital future.

3. What are the key policy implications that flow from your findings?

1. The role of talent

The most valuable service that all the accelerators offered client firms was access to experienced mentors. Admittedly, some did a better job than others; but our interviews with client firms consistently showed that contact with experienced mentors was the most highly valued, primarily because experienced mentors had learned the necessary business skills that most tech founders lack.

While postsecondary institutions are well equipped to provide technical skills, Canadian institutions have fallen short in offering business learning opportunities and experience. Canada’s talent and skills strategy must engage experienced entrepreneurs and company executives from successful, profitable enterprises – not startups – in order to co-create effective policies and programs to support robust talent development and retention.

2. The importance of customers and markets

Many accelerators are too focused on technology and financing and not enough on customers. Customers and market share, especially export customers and markets, are key indicators of business success for Canadian firms. The prime concern must be connecting with customers and creating value for them. While markets are important, commerce involves a value exchange between a supplier and a customer, not a market. As Peter Drucker once famously remarked, “I never met a market that signed a purchase order.”

The importance of customers must be reflected in key performance indicators utilized to assess the success of government innovation support programs and the performance of recipients of government funding to support innovation and economic development. This

issue has implications for new programs, such as the Innovation Superclusters Initiative, where the government's stated KPIs fail to mention customers and market share. Again, we reiterate the need for policy makers to engage experienced leaders of Canada's scale-up firms in co-creating policies and programs and how to assess their success or failure.

3. The availability of capital

If Canada is to achieve the Economic Strategy Tables' goal of "owning the podium" within the next decade, we need policies that support firms that have passed the startup stage and have successfully scaled. A startup with revenue of \$1 million, growing at a compound annual rate of 20%, will take over 25 years to reach \$100 million in revenue. A \$200 million revenue firm growing at the same rate will take less than 8 years to reach \$1 billion in revenue. While policies to support startups are important, we need a consistent policy framework to support Canada's scaleup firms.

Accelerators typically target startup firms and coach them on product development and how to attract financing. Access to angel and venture capital can be critical for startups, especially in R&D-intensive industry sectors. For a scaleup firm that already has significant customers and sales, financing is often not the central problem. A major challenge is attracting and retaining the right talent as the company scales and takes on more business around the world.

For companies that want to scale quickly and need additional capital, venture capital is insufficient for two reasons: one, the checks VCs write are too small, and two, the capital is not patient enough as the VC business model necessitates exits – typically by selling. For firms that want to grow and keep control in Canada, large pools of patient capital, such as private equity or venture debt, are more attractive. The private equity sector in Canada is mostly involved in large infrastructure investments, but BDC is trying to attract some players into the tech space.

4. Access to knowledge (in terms of research, data sources and intellectual property)

There is a need to link support programs' outcome data with company performance over time. Several government departments, primarily Treasury Board, Statistics Canada and ISED, are collaborating to create these important data sets.

There are currently over 200 accelerators and incubators in Canada. The CAIP program supported 16 of them, one of which filed for bankruptcy last year. In Budget 2018, the government allocated dedicated funding to Canada's regional development agencies under the Regional Economic Growth Initiative (REGI). Part of their mandate is to support accelerators and incubators in their region. The program is structured to separate three policy goals: supporting high-growth scale-up firms; regional ecosystem development and community development. The separation of these three mandates is perhaps partly a result of lessons learned from CAIP.