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# The entrepreneurial recycling process: a key driver in entrepreneurial ecosystem emergence and growth

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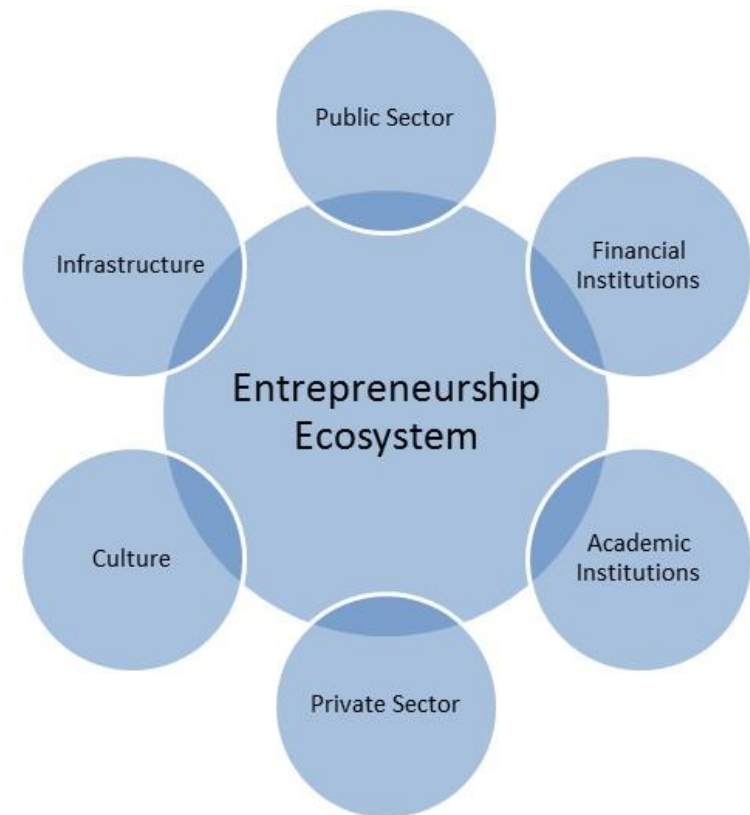
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## Introduction

- Much of the research on Entrepreneurial Ecosystems (EEs) is static
- How do they emerge and grow
- Need a time dimension
- Need a focus on process





## Entrepreneurial recycling

- Entrepreneurial recycling is a key process in the emergence and growth of EEs
- What is entrepreneurial recycling?
  - “The recycling of the wealth created by successful entrepreneurs along with their associated learning”
  - Normally follows an exit event, typically the sale of their business
  - Other equity stakeholders in the business may also engage in recycling – e.g. senior management team, investors (business angels, VCFs)



## Examples of the process

- Mason and Harrison (2006 – Regional Studies) – case studies of entrepreneurial recycling in Scotland.
  - Serial entrepreneurs:
    - **Ron Hamilton: Award (sold to Bausch and Lomb) and Daysoft**
    - **David Sibbald: Atlantech (sold to Cisco) and Sumerian Networks**
  - Business angels
    - **Ian Ritchie: OWL (sold to Panasonic) (as a BA he has personally invested in over 40 start-ups)**
    - **Martin Ritchie: Spider Systems**
  - Venture capital fund
    - **Eddie Anderson: Objective Software Technology and Pentech Ventures**
  - Institution builders
    - **Martin Ritchie: Connect Scotland**
  - Entrepreneurial philanthropy
    - **David Sibbald**



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- Entrepreneurial recycling not confined to the lead entrepreneur
  - e.g. Spider Systems –
    - **all four founders have become serial entrepreneurs and business angels;**
    - **two senior managers have also become entrepreneurs**
- Entrepreneurs may have to work for the acquiring company for a period of time (often a requirement of the sale) before they are free to engage in recycling activities. But this up-skills them.



## Impacts on the entrepreneurial ecosystem

- Current research on EE in Atlantic Canada which demonstrates the transformative effect of entrepreneurial recycling on a regional entrepreneurial ecosystem
- Case of Radian6
  - Founded in 2006
  - Quickly became the pre-eminent company in the world analysing social media
  - Sold in 2011 to Salesforce.com for US\$276m in cash and US\$50m in stock
    - IRR of 142%
    - Multiple of 228
    - A 'mega' exit by any definition
    - Won the CVCA's 2011 'Deal of the Year Award'







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- By attracting Salesforce.com it has established the fastest growing software company in the world to set up shop in New Brunswick – Creating leading edge jobs, developing top tech and business talent.
- The entrepreneurs have engaged in further business start ups, angel investing and philanthropy (e.g. funded a chair in social entrepreneurship at UNB)
- Rewarded a group of angel investors who have gone on to form East Valley Ventures which has made over 30 investments in businesses in the Maritime Region,
- It helped to finance Propel ICT the regional accelerator which is now based in all four provinces in Atlantic Canada: has graduated 49 start-ups since 2011



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- Enabled an early stage institutional investor to extend its local investment activity: its original investment of \$326,973 returned \$9.25m.
- Encouraged other ICT start-ups: the sector has grown 8% in New Brunswick
- Established New Brunswick as an ICT centre
- Signalling effects to other out-of-region investors



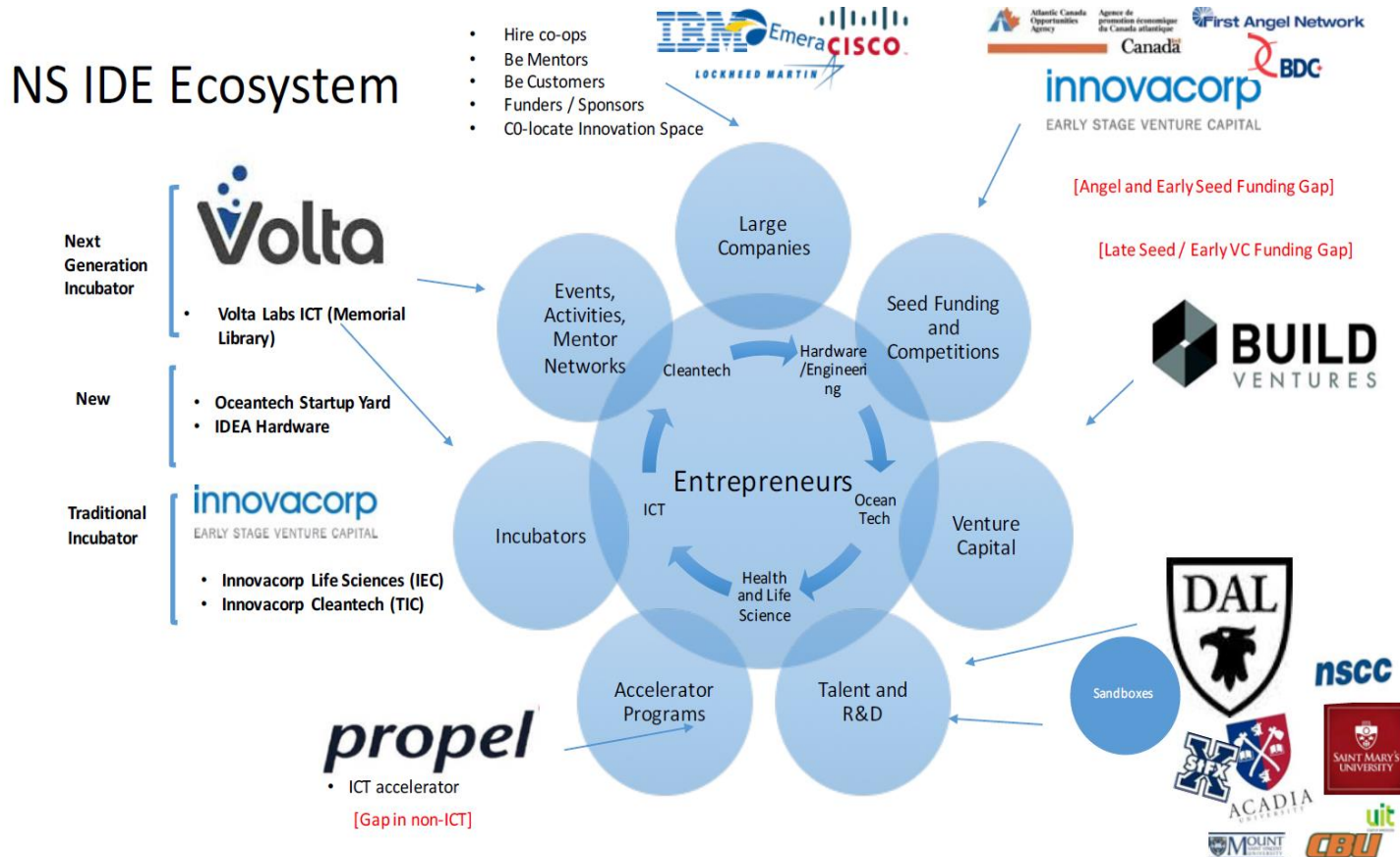


## Another Canadian example

- Halifax-based GoInstant sold to Salesforce.com for \$76m
  - Young company – 20 employees
  - Acquired less than a year after raising \$1.7m in VC
- Jevon MacDonald
  - Serial entrepreneur – his latest company has raised \$15m in VC
  - Institution builder – co-founder of Volta Labs in Halifax – a “start-up house”
  - Active angel investor
  - Thought leader
  - Role model
- Gavin Uhma
  - Serial entrepreneur
  - Founded a start-up immersion course at Cape Breton University: four start-ups came out of the first cohort.
  - Role model
- Innovacorp – Government of Nova Scotia VC fund got a significant return on 9 its \$100,000 investment which has been re-invested



# Significant elements in the Nova Scotia EE are the outcome of entrepreneurial recycling





## But why exit?

- Exit as strategy
  - Entrepreneur: build to sell
  - Investors: need harvest events
- Opportunistic
- To overcome growth constraints – e.g. finance, credibility
- Entrepreneur wants to sell
  - Stress
  - Escape
  - Career benefits
- Investor (angel) wants to sell
  - Investment fatigue



## Influences on entrepreneurial recycling

- The size of the exit is critical
  - Small acquisitions generate limited wealth – hence limited finance is available to be recycled
  - The companies which are small/young when they are acquired will have generated limited learning for their entrepreneurs and senior management team
  - May truncate ambition/vision of entrepreneurs in next venture
  - Small exits will have little signalling effects
- Who are the investors
  - Business angels and government VCs likely to recycle locally
  - VCFs could re-invest anywhere



## The most effective entrepreneurial recycling come from ‘Blockbuster’ entrepreneurs

- The case of (Sir) Terry Matthews – major role in Ottawa’s emergence as a major technology cluster
- Born in 1943 in South Wales (UK)
- Education and early work experience in telecoms
- Moved to Ottawa in the late 1960s to join Northern Telecom (Nortel)
- Started Mitel in 1972 with Michael Cowpland
- IPO in 1985 (NYSE) – sold to BT in 1985
- Matthews founded Newbridge Networks
- Cowpland founded Corel



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- Newbridge Networks sold to Alcatel in 2000 for \$7.1bn – Matthews stake was \$1bn
- Re-acquired Mitel in 2000 – took it private, reinvented it as a broadband company, went public in 2011, sold to a private equity company in 2016
- Involved directly and indirectly in starting over 100 new companies in the telecoms sector
  - His own companies: e.g. March Networks (IPO 2005), Bridgewater Systems (acquired in 2011 for \$215m), Ubiquity Software (acquired for \$150m), Convedia (acquired in 2005 for \$155m)



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- As angel investor (invested personally in over 80 companies)
- Via the Newbridge Networks affiliates programme
- Via his two venture capital companies – Celtic House and Wesley Clover
- Property investment
  - Golf course, hotel and office towers in Ottawa
  - Celtic Manor in South Wales
- Collaborated in funding an accelerator in Ottawa
- Created substantial wealth for others:
  - E.g. Mitel initially funded by family, friends and initial employees
  - \$1 share grew to \$2.5m
- Former employees of his companies have gone on to start<sup>15</sup> and join tech businesses.





## summary

- Matthews has played a huge role in Ottawa's emergence as a tech cluster in the 1990s and 2000s both directly and indirectly
- Critique
  - His early recycling was mainly focused on Ottawa but over time had a more geographically diverse focus
  - Many of his companies have had global operations
  - He has built and then sold the companies he created – many now have little or no presence in Ottawa. Good timing?
  - His expertise was in telecoms: Is he still relevant in a digital era?



## The other side of entrepreneurial recycling – what happens to the acquired business?

- Positive
  - It is able to grow as a result of the injection of managerial and financial resources by the acquiring company and access to its resources (e.g. distribution networks)
- Negative
  - hollowed out – relocation of its management activities to the acquiring firm's other locations, leaving just the R&D
  - Closed down and its activities are migrated to the acquired firm's other locations
  - Asset stripped – IP is moved away
- Outcomes depend on motivations for acquisition, size of acquired company and its geographical embeddedness



## Is there a role for Government?

- Government VCFs need to adopt an exit-centric approach to their investing
- Encourage business angels to adopt an exit-centric approach to their investing
- Treatment of tax on capital gains
- Develop post-exit 'aftercare support for acquiring companies



## Research Agenda

- Research on ER fits into two broader research themes
  - Entrepreneurial exits
  - Entrepreneurial ecosystems
- Various units of analysis
  - The (lead) entrepreneur
  - The wider team
  - The investors
  - The entrepreneurial ecosystem
- Some questions
  - Who recycles, who doesn't?
  - Motivations for ER, for type(s) of ER, for not doing ER
  - Types of exits that are most/least effective for ER
  - Relationship between extent of ER and the nature of the EE
  - Capturing the wider outcomes of ER for the EE (ripple effects)
  - Embeddeness of ER: can EEs import exited entrepreneurs from other locations to recycle?