

Assessing the impact of Covid-19 on Innovate UK award holders

Survey and case-study evidence Wave 1 – June/July 2020:

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About the Enterprise Research Centre

The Enterprise Research Centre is an independent research centre which focusses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Queen's University School of Management, Leeds University Business School and University College Cork. The Centre is funded by the Economic and Social Research Council (ESRC); Department for Business, Energy & Industrial Strategy (BEIS); Innovate UK, the British Business Bank and the Intellectual Property Office. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of Innovate UK or the other funders.

About the Innovation Caucus

The Innovation Caucus supports sustainable innovation-led growth by promoting engagement between the social sciences and the innovation ecosystem. Our members are leading academics from across the social science community, who are engaged in different aspects of innovation research. We connect the social sciences, Innovate UK and the Economic and Social Research Council (ESRC), by providing research insights to inform policy and practice. Professor Tim Vorley is the Academic Lead. The initiative is funded and co-developed by the ESRC and Innovate UK, part of UK Research and Innovation (UKRI). The support of the funders is acknowledged. The views expressed in this piece are those of the authors and do not necessarily represent those of the funders.

We gratefully acknowledge the support of Cristian Gherhes, Geeta Nathan and Debbie Johnson with this report.

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EXECUTIVE SUMMARY

- This is the first in a series of benchmark reports on the impact of Covid-19 crisis on the status of Innovate UK award holders. The analysis is based on an on-line survey of 334 IUK award holders conducted between 5th and 19th of June 2020 and in-depth interviews undertaken between 29th of June and 13th of July.
- Around two-thirds of firms had experienced some form of disruption during the pandemic with cash flow being the most common disruption experienced by four fifths of award holders. Around a third of firms responding to the survey had seen revenues fall by more than 50 per cent during the April to June period with a further third experiencing falls of more than 25 per cent (Table 2.2). These impacts appear more significant in micro and small businesses and those in the services sector.
- Around 1:9 firms stopped all of their R&D activities with a further 65 per cent stopping some or reprioritising certain R&D projects. Around 1:9 increased their R&D activities during the Covid-19 crisis.
- Around a third of firms see the Covid-19 crisis making little difference to their future R&D and innovation investment. Around a third of firms are planning to reduce R&D and innovation investment by more than 50 per cent over the next three months.
- In general terms firms had either maintained current levels of collaboration or seen it decline often due to the inability of partners to access laboratory or other facilities. Around 1:3 firms collaborating with universities said they had reduced levels of collaboration over this period. Few firms are planning to increase their level of spend with around two-thirds planning no change and 1:6 planning to reduce spend by more than 50 per cent.
- Around two-thirds of firms regarded their IUK project as 'progressing, but behind the planned schedule'. Around 10 per cent of projects were described as 'paused'. Only a small proportion of projects (1.3 per cent) were 'stopped permanently'. Project delays were more likely among larger firms and those in the manufacturing sector.
- The main reasons for disruption to projects were access to buildings or facilities due to the lock-down and the availability of collaborating partners. Together these were reported by around half of all respondents. Disruption to revenues was also a significant reason for project disruption among micro-businesses and among those in the broad hospitality, transport and finance sector.
- Around two-third of firms suggested future R&D plans remained unchanged. The other third of firms were slowing down or cutting back on their projects. Only a small proportion of firms (3 per cent) saw their project either stopping or being cancelled (Table 3.7).
- Cash flow and the availability of finance were seen as the most common challenges facing firms over the next three months with 45 per cent of firms also highlighting weak demand for products as a significant issue.
- The majority of firms indicated that they would benefit from additional financial support from IUK. Perhaps surprisingly only around 1:5 firms suggested that such support would be useful although this proportion rises to 1:3 among micro-businesses working on IUK awards.

I. BACKGROUND

This is the first in a series of benchmark reports on the impact of Covid-19 crisis on the status of Innovate UK award holders. The analysis focuses on the impact of the crisis over the last three months and firms' plans for the next three-month period. Both firm level and project-level effects are considered. Data was derived from extensive survey work with IUK award holders and, where survey respondents agreed, more detailed interview follow-up.

The dynamic nature of the Covid-19 crisis and the imminent ending of a number of government support measures – particularly the furlough scheme – means that it is important to take into account the timing of the survey. The analysis is based on an on-line survey of 334 IUK award holders conducted between 5th and 19th of June 2020 and in-depth interviews undertaken between 29th of June and 13th of July. The on-line survey was distributed by Innovate UK but individual respondents' information has been treated as confidential to the research team. In-depth interviews were conducted by OMB Research Ltd.

In the report we distinguish between firms in terms of size band (micro (1-9 employees), small (20-50 employee), medium (50-249 employees) and large (250+ employees)) and three broadly defined sectors 'Manufacturing' which includes the primary and energy sectors (SIC 1-43), 'Hospitality' which includes hospitality, transport, and finance (SIC 45-68), and 'Business services' which includes most knowledge intensive service activities including R&D services (SIC 69-99).

The rest of this report is divided into three main sections:

- Section 2 focuses on the impacts of Covid-19 on firms finance and operations
- Section 3 focuses on firms' R&D and innovation activities and looks both at the firm-level and project-level impacts of Covid-19; and
- Section 4 focuses on firms view of the three months after the survey (i.e. July to September) and their support needs.
- Section 5 outlines next steps in undertaking Wave 2 of the study in September / October 2020

2. FINANCE AND OPERATIONS

Covid-19 has caused disruption to many firms over the last three months both directly and indirectly through the impact on customers and suppliers. In the survey IUK award holders were asked how the pandemic had impacted their business (Table 2.1). Around two-thirds of firms had experienced some form of disruption during the pandemic with cash flow being the most common disruption experienced by four fifths of award holders. These operation impacts are not surprising and highlight how firms were initially impacted and have subsequently sought to address these immediate challenges

Table 2.1: Effects of Covid-19 on IUK grant holders, % firms (N=276)

	Disrupted	Unaffected	Improved	Total
Staff availability	63.8	34.7	1.5	100.0
Cash flow	82.6	15.2	2.2	100.0
Production capacity	70.1	28.2	1.7	100.0
R&D capacity	76.8	20.7	2.5	100.0
Supply Chains	72.9	26.4	0.8	100.0
Availability of finance	60.8	22.2	16.9	100.0
Demand for products	74.6	15.1	10.3	100.0

This disruption to cash flow was in most cases due to the impact on revenues. Around a third of firms responding to the survey had seen revenues fall by more than 50 per cent during the April to June period with a further third experiencing falls of more than 25 per cent (Table 2.2). These impacts appear more significant in micro and small businesses and those in the services sector. In those businesses that regarded R&D activity as core/central/important, the impact was greater than in those businesses where R&D was part of a more diversified portfolio of commercial activity. In addition, liquidity issues were also most frequently regarded as critical in micro businesses, although access to finance was not cited as a frequently.

Table 2.2: Impact of Covid-19 on turnover between April and June 2020

	Micro N=167	Small N=60	Medium N=23	Large N=23	Total N=273	Manufact N=51	Hospitality N=53	Bus. Serv. N=155	Total N=259
Increased by more than 50%	0.6	0.0	0.0	0.0	0.4	0.0	1.9	0.6	0.4
Increased by up to 50%	0.6	1.7	0.0	0.0	0.7	19.6	13.2	0.0	0.4
Increased by up to 25%	1.2	0.0	0.0	8.7	1.5	2.0	0.0	1.3	1.2
Increased by up to 10%	0.0	0.0	4.3	0.0	0.4	0.0	1.9	0.0	0.4
No change	14.4	13.3	4.3	39.1	15.4	11.8	9.4	15.5	15.8
Reduced by up to 10%	4.2	11.7	13.0	8.7	7.0	13.7	13.2	7.7	6.6
Reduced by up to 25%	13.8	13.3	4.3	17.4	13.2	17.6	11.3	12.9	13.1
Reduced by up to 50%	9.0	15.0	43.5	13.0	13.6	9.8	9.4	13.5	13.9
Reduced by more than 50%	28.1	25.0	26.1	13.0	26.0	3.9	5.7	25.8	26.6
Revenues reduced to zero	13.2	6.7	4.3	0.0	9.9	0.0	0.0	9.0	9.3
Pre-revenue company	15.0	13.3	0.0	0.0	12.1	21.6	34.0	13.5	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The interviews revealed that, in some cases, Covid-19 has had a dramatic impact. Covid-19 has forced some companies to redirect cash previously earmarked for acquisitions towards covering other costs, take bounce back loans as a precaution, reduce spending, and even make staff redundant. In younger, R&D-intensive companies focusing on developing products for the market to generate revenues, Covid-19 has delayed progress due to remote working and lack of access to appropriate facilities.

In other cases, the negative impact on both suppliers and clients' businesses had a "double whammy" effect as companies were unable to fulfil orders or continue their R&D activities without necessary supplies while at the same time 'clients have pulled orders or delayed payment'. The interviews highlighted that there had been disruption to supply chains, most of these delays were to support the Covid-19 response or a temporary pause as opposed to a permanent breakdown of supply chains. Finally, those looking to secure additional private funding were also negatively impacted, with investors becoming more cautious or risk averse.

3. R&D AND INNOVATION ACTIVITY

The financial pressures of the Covid-19 crisis and operational issues related to social distancing and the lock-down have forced firms to revise plans for R&D and innovation. Around 1:9 firms stopped all of their R&D activities with a further 65 per cent stopping some or reprioritising certain R&D projects. Around 1:9 increased their R&D activities during the Covid-19 crisis. The interviews highlighted that for the majority of firms interviewed that Covid-19 has served to disrupt prevailing levels of R&D activity, and the view was one of 'getting back to normal' and 'ramping up operations'. That said there was little sense of certainty around when that would be.

Table 3.1: Impacts of Covid-19 on R&D and innovation: April to June 2020

	Micro N=174	Small N=71	Medium N=28	Large N=34	Total N=307	Manufact N=61	Hospitality N=56	Bus. Serv. N=169	Total N=286
Stopped all R&D activity	14.4	8.5	10.7	0.0	11.1	8.2	10.7	13.6	11.9
Stopped all non-critical R&D activity	13.2	14.1	17.9	23.5	15.0	13.1	5.4	17.8	14.3
Reduced & reprioritised	46.0	56.3	64.3	47.1	50.2	67.2	41.1	47.9	50.7
No change	15.5	11.3	10.7	14.7	14.0	8.2	26.8	13.0	14.7
Increased R&D activity	10.9	5.6	3.6	5.9	8.5	3.3	16.1	7.7	8.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

As part of the survey firms were also asked about their plans for investing in R&D and innovation over the next three months (Table 3.2). Around a third of firms see the Covid-19 crisis making little difference to their R&D and innovation investment. The vast majority of the remainder see it having a negative effect, with around a third of firms planning to reduce R&D and innovation investment by more than 50 per cent over the next three months. These effects are largely consistent across size bands and sectors.

The interviews further confirmed that the majority of businesses expect at least a temporary reduction in their R&D activity, with some shifting their focus on sales and support activities to generate revenues. As an interviewee emphasised, ‘everything has been “put on ice” due to the Covid-19 crisis’. In addition to cash flow concerns, access to facilities (e.g. labs) and work from home conditions have also hampered R&D (see below and Table 3.6 for more detail). However, those for whom R&D is at the heart of their operations expect to remain the same or further increase their R&D activity in the coming months. For some this is due to the need to extend project timelines but several of the firms whose activities were unaffected for the moment cited projects in later stages such that they did not require as intensive R&D attention. Several of these firms reported an intention to apply for further grants. As such, the level R&D activity in many cases will depend on the availability of grant funding in the short and near term.

Table 3.2: Plans for R&D and innovation investment in the next three months

Q16	Percentages					Manufact N=52	Hospitality N=58	Bus Serv. N=140	Total N=150
	Micro N=159	Small N=59	Medium N=22	Large N=23	Total N=263				
Increased by more than 50%	3.1	0.0	0.0	0.0	1.9	1.9	1.7	2.1	2.0
Increased by up to 50%	1.9	1.7	0.0	0.0	1.5	1.9	5.2	0.0	1.6
Increased by up to 25%	5.0	5.1	0.0	4.3	4.6	3.8	1.7	5.7	4.4
Increased by up to 10%	1.9	3.4	0.0	0.0	1.9	3.8	5.2	0.0	2.0
No change	34.0	30.5	22.7	39.1	32.7	28.8	41.4	31.4	33.2
Reduced by up to 10%	4.4	5.1	18.2	4.3	5.7	17.3	6.9	18.6	15.6
Reduced by up to 25%	10.7	25.4	27.3	13.0	15.6	7.7	5.2	5.0	5.6
Reduced by up to 50%	14.5	13.6	13.6	13.0	14.1	13.5	19.0	14.3	15.2
Reduced by more than 50 %	19.5	6.8	9.1	26.1	16.3	17.3	8.6	15.7	14.4
Investment reduced to zero	5.0	8.5	9.1	0.0	5.7	3.8	5.2	7.1	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Collaboration is often a key element of an R&D and innovation project. As part of the survey firms were asked whether as a result of the Covid-19 crisis they had collaborated more or less with a range of different partners (Table 3.3). In general terms firms had either maintained current levels of collaboration or seen it decline often due to the inability of partners to access laboratory or other facilities. Around 1:3 firms collaborating with universities said they had reduced levels of collaboration over this period. Of those firms interviewed were broadly consistent with the survey, with the majority of firms noting that the impact of Covid-19 has constrained and distracted from the ability of firms to collaborate on commercial activities. The overarching sense was that collaborations would recover in the medium term as the impacts of Covid-19 subside and or are better managed by partners. As an aside, there have been multiple instances of firms engaging in collaborations around the Covid-19 response, such as the ventilator challenge, and so it is not the case that collaborations have not been possible but rather they have not been prioritised.

Table 3.3: Collaboration with universities and other partners, % firms (N=254)

	Less	Same	More	Total
Other businesses within the group	20.4	61.2	18.4	100.0
Suppliers of equipment, materials	31.7	55.4	12.9	100.0
Clients or customers from the private sector	51.4	48.6	0.0	100.0
Public sector clients or customers	39.3	44.1	16.6	100.0
Competitors or other firms in your industry	35.5	44.3	20.2	100.0
Consultants, commercial labs	23.7	63.0	13.3	100.0
Universities or other higher education	35.0	49.8	15.2	100.0
Government or public research institutes	43.7	44.1	12.2	100.0
Other	31.7	55.7	12.7	100.0

Firms were also asked how the Covid-19 pandemic was impacting on the amount of money they were planning to spend on research projects with universities between March 2020 and September 2020. This question covers both the crisis period and the three months immediately after the survey (June 2020). Few firms are planning to increase their level of spend with around two-thirds planning no change and 1:6 planning to reduce spend by more than 50 per cent (Table 3). Interestingly, and supporting the above findings around cash flow, several of the firms interview highlighted their ambition to increase R&D spending depending on resources available. A number of the firms identified R&D spending as tied to revenues, and made reference to the recovery of revenues as being critical to re-establishing R&D to pre-Covid-19 levels. Notably, firms that emerged from or that report strong collaborations with universities were among the hardest hit by the pandemic in this sample due to their tendency to rely on university facilities and labs, which were shut down early and inaccessible. Access was certainly not their only challenge, but some of these firms reported significant R&D setbacks because they were unable to save perishable samples. While these kinds of issues most acutely affected a small number of firms these are likely to result in longer project delays and, as a group, may be among the more vulnerable to extended or reinstated closures.

Table 3.4: Planned spend on university collaborative projects, % firms: March to Sept 2020

	Micro N=118	Small N=40	Medium N=26	Large N=23	Total N=207	Manufact N=38	Hospitality N=46	Bus. Serv. N=120	Total N=204
Increased by up to 50 per cent	0.8	0.0	0.0	0.0	0.5	0.0	2.2	0.0	0.5
Increased by up to 25 per cent	0.0	2.5	0.0	0.0	0.5	0.0	0.0	0.8	0.5
Increased by up to 10 per cent	1.7	0.0	3.8	0.0	1.4	0.0	0.0	0.0	0.0
No change	64.4	72.5	38.5	73.9	63.8	68.4	69.6	61.7	64.7
Reduced by up to 10%	0.0	2.5	23.1	4.3	3.9	5.3	8.7	1.7	3.9
Reduced by up to 25%	6.8	10.0	11.5	8.7	8.2	5.3	4.3	10.8	8.3
Reduced by up to 50%	9.3	0.0	11.5	4.3	7.2	2.6	8.7	8.3	7.4
Reduced by more than 50 per cent	16.9	12.5	11.5	8.7	14.5	18.4	6.5	16.7	14.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The difficulties for partners in accessing facilities and firms' own re-assessment of their investments in R&D and innovation have caused a number of firms to re-think their current IUK supported projects. In the survey firms were asked about the largest (in terms of value) project they were working on supported by IUK and given a range of options which described the status of the project (Table 3.5). Perhaps unsurprisingly around two-thirds of firms regarded their project as 'progressing, but behind the planned schedule'. Around 10 per cent of projects were described as 'paused'. Only a small proportion of projects (1.3 per cent) were 'stopped permanently'. Project delays were more likely among larger firms and those in the manufacturing sector. A number of the firms highlighted that they were able to maintain progress in project delivery with limited overall impact by reworking the project plans.

Table 3.5: Project status in the light of Covid-19

	Sizeband					Sector			
	Micro N=141	Small N=50	Medium N=47	Large N=132	Total N=229	Manuf etc. N=50	Hospitality etc N=47	Bus Ser N=132	Total N=229
Ahead of the planned schedule	0.7	0.0	0.0	0.0	0.4	2.0	0.0	0.0	0.4
On-time according to the planned schedule	34.8	25.5	15.8	21.7	29.8	18.0	40.4	31.8	30.6
Paused due to the lock-down	8.5	18.2	5.3	4.3	10.1	8.0	10.6	9.8	9.6
Progressing but behind the planned schedule	54.6	56.4	73.7	73.9	58.4	70.0	46.8	57.6	58.1
Stopped permanently	1.4	0.0	5.3	0.0	1.3	2.0	2.1	0.8	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The main reasons for disruption to projects were access to buildings or facilities due to the lock-down and the availability of collaborating partners. Together these were reported by around half of all respondents from all sizebands and sectors (Table 3.6). A number of the firms interviewed highlighted issues of accessing facilities and labs to be detrimental to the ability to progress projects. More than the ability to access facilities and labs, interviewees were concerned with the uncertainty about reopening and restarting operations amidst social distancing. Disruption to revenues was also a significant reason for project disruption among micro-businesses and among those in the broad hospitality, transport and finance sector.

Table 3.6: Project disruption caused by Covid-19, % firms

Q20	Micro N=132	Small N=53	Medium N=19	Large N=23	Total N=227	Manufact N=38	Hospitality N=46	Bus. Serv. N=120	Total N=204
Access to buildings/facilities	22.0	26.4	15.8	34.8	23.8	15.9	6.5	29.7	22.0
Availability of collaborating partners	23.5	26.4	47.4	26.1	26.4	29.5	30.4	25.0	27.1
Customer demand	5.3	3.8	5.3	0.0	4.4	2.3	13.0	2.3	4.6
Furlough of project focused colleagues	6.8	13.2	10.5	21.7	10.1	20.5	4.3	8.6	10.1
Revenue	28.0	13.2	5.3	0.0	19.8	13.6	30.4	18.8	20.2
Social distancing	14.4	17.0	15.8	17.4	15.4	18.2	15.2	15.6	16.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Firms were also asked as part of the survey whether their future plans for their R&D and innovation projects had been impacted by Covid-19. Around two-third of firms suggested plans remained unchanged. The other third of firms were slowing down or cutting back on their projects. Only a small proportion of firms (3 per cent) saw their project either stopping or being cancelled (Table 3.7).

Table 3.7: Project changes in the light of Covid-19

	Micro N=134	Small N=51	Medium N=16	Large N=24	Total N=225	Manuf etc. N=48	Hospitality etc N=44	Bus Ser N=124	Total N=216
Progressing ahead of the planned schedule	2.2	2.0	0.0	0.0	1.8	4.2	0.0	1.6	1.9
Progressing as per the project plan	64.2	51.0	56.3	54.2	59.6	54.2	61.4	60.5	59.3
Slowing down or cutting back	31.3	43.1	37.5	41.7	35.6	37.5	31.8	36.3	35.6
Stopping or being cancelled	2.2	3.9	6.3	4.2	3.1	4.2	6.8	1.6	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In summary, the Covid-19 crisis has disrupted and delayed IUK projects due in part to the lack of availability of partners and firms' internal re-allocation of resources. Future effects remain uncertain but as of June 2020 around a third of firms were intended to reduce or slow projects. Only a small proportion envisaged cancellation. For a number of firms the impact of the pandemic on project delivery could be summarised by the response of one interviewee who referred to the challenges faced being one of 'mainly practical constraints'. None of the interviews referred to the pandemic having terminal impacts on project delivery.

4. FUTURE CHALLENGES

Looking forward over the next three months firms were asked how they saw the Covid-19 pandemic influencing their operations. Cash flow and the availability of finance were seen as the most common challenges with 45 per cent of firms also highlighting weak demand for products as a significant barrier. Notably, while firms' future outlooks were clearly influenced in ways, they hadn't anticipated by the onset of the Covid-19 pandemic they are also concerned about the impact of Brexit. Interviews suggested that many firms had some sort of contingency plans in place for Brexit it was unclear whether those planning processes would hold when faced with additional challenges related to Covid-19.

Table 4.1: How will Covid-19 influence your firm over the next three months, % firms (N=266)

	Improving	Same	Worsening	Total
Staff availability	22.1	56.5	21.3	100.0
Cash flow	11.2	32.7	56.2	100.0
Production capacity	16.4	54.7	29.0	100.0
R&D capacity	22.2	47.7	30.1	100.0
Supply chains	27.4	46.6	26.0	100.0
Availability of finance	13.9	35.0	51.1	100.0
Demand for products	28.8	26.1	45.1	100.0

Perhaps unsurprisingly given uncertainty around demand and cashflow, the majority of firms indicated that they would benefit from additional financial support from IUK (Table 4.2). Experience from the Financial Crisis suggests that in periods of uncertainty firms are also more likely to seek external advice and support. Interestingly, the enthusiasm of responses to this question varied significantly. Some firms indicated that they would be open to seeking help from IUK and trusted the organisation, but that it would depend on rates and terms, suitability of the instrument and fit with their mission. Some said they would consider it but were uncertain if the scale and focus would be appropriate or wondered if too many strings might be attached. Increasing, or turning to, private funding was also something that some firms were considering but respondents were less likely to cite this as source of bridge funding than government support. This route is seen as less attractive given a common perception that there would be increased/increasing competition for resources that were already scarce prior to the shock of the pandemic or because the stage of business development did not require that kind of resources. Equity investment was generally considered a more viable source of external support than loans although firms had varying degrees of experience with these kinds of arrangements.

Table 4.2: Would your firm benefit from additional financial support? % firms

	Micro N=147	Small N=56	Medium N=17	Large N=18	Total N=238	Manufact N=50	Hospitality N=50	Bus. Serv. N=131	Total N=231
No / not required	19.7	30.4	47.1	66.7	27.7	38.0	18.0	28.2	28.1
Yes	80.3	69.6	52.9	33.3	72.3	62.0	82.0	71.8	71.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In the survey firms were asked whether ‘in light of Covid-19, additional soft support (e.g. business advice or help with planning) from Innovate UK help the successful completion of your project?’. Perhaps surprisingly only around 1:5 firms suggested that such support would be useful although this proportion rises to 1:3 among micro-businesses working on IUK awards (Table 4.3). There was only limited reference to soft support in the interviews. One firm was just starting the Innovate Succeed programme, while some others has heard of and engaged with the KTN and the Catapult Network. There was no reference to other forms of soft / business support received, and this will be. More explicitly addressed in future interviews.

Table 4.3: Would your firm benefit from additional soft support? % firms

	Sizeband					Sector			
	Micro N=131	Small N=53	Medium N=19	Large N=23	Total N=226	Manuf etc. N=49	Hospitality etc N=43	Bus Ser N=124	Total N=216
No / not required	71.8	81.1	84.2	95.7	77.4	77.6	79.1	76.6	77.3
Yes	28.2	18.9	15.8	4.3	22.6	22.4	20.9	23.4	22.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Interestingly, despite uncertainties, many firms reported an intention to grow employment over the next 12 months with many of those new hires in R&D and innovation roles. Several of these included the caveat that expansion would depend on more funding, but many also suggested that new hiring was in line with existing plans that they intended to carry forward regardless. That said, the interviews further revealed that some businesses are worried about their ability to access people with the right level of skills, especially global R&D talent, due to both Covid-19 restrictions and Brexit. Other challenges mentioned include a combination of short-term and longer-term challenges such as delivering existing project and managing backlogs, securing new funding, getting staff back in the office, and ongoing uncertainty in relation to Covid-19.

These challenges are meaningful but not all firms have a negative vision of the future. While firms are certainly focused on managing through the Covid-19 crisis and with the potential fallouts from Brexit a significant number also thought new opportunities might emerge – particularly around enhanced demand, potential for automation, acquiring smaller firms, and streamlining operations. This suggests that scope exists for policy to help firms see beyond the crisis to identify emerging opportunities and to empower and enable firms to capitalise on them as they arise. However, while opportunities will exist and be important for long-term innovation and productivity growth, they may conflict with shorter-term goals related to employment and encouraging firm survival making finding an optimal balance all the more important in programme design.

5. NEXT STEPS

The survey and follow up interviews will be repeated in September and October 2020 , to understand how firms are reacting and responding to the Covid-19 crisis. In addition to the first wave of the survey of firms currently funded by Innovate UK, a version of the survey was also been rolled out to firms known to and supported by the KTN in July. In wave 2, the firms known to and supported by the KTN will be surveyed in parallel, and will provide a further comparison group.

In the second wave of the study the same firms will be invited to interview, although this may not be possible. The intention is to stratify the sample of interviewees where this is possible to ensure a spread of firm sizes and sectors. The topic guide for the survey and the interviews will be updated in early-mid September and circulated to the steering group for approval. The aim will be to provide both reflection of what has happened over the previous 3 month period and to understand planning over the next 3 month period.

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