

Innovation Nation

Placing innovation
at the heart of the
UK's economic
rebuild

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Foreword

It is exciting to see so much attention from every corner of the UK around research and development. Through this unprecedented time, we have seen many consultations, surveys and opinions on what innovation is and its role in rebuilding the UK economy. A voice that tends to be subservient to academic and political commentary is that of SMEs, so we have focused our research on considering innovation through the eyes of this community. In our everyday business, we see a real and practical application of innovation that creates prosperity, value and opportunity for the next generation, so it is vital that we have this opinion documented, shared and feeding into the wider conversation.

I have a couple of key takeaways from the campaign. Firstly, before we talk widely, we need a common definition of innovation that transcends sectors, geography and generations. As it stands, the Government and those administering funding for SMEs are convinced that this definition already exists, but this isn't the case and needs urgent clarification if support schemes are to be a greater success. Secondly, we need to take intellectual property much more seriously and those who influence business in the UK, including government, board members and professional advisors need to place it higher on the agenda. With so few conversations around R&D ever touching on IP and patent box, SMEs are missing out on a huge opportunity for commercialisation of their hard work and risk losing the competitive advantage they've built.

We've not yet experienced the full economic fallout that is to be expected from COVID-19, but we are already in the worst recession in living memory. We have an opportunity to really push innovation to the heart of the rebuild whilst simultaneously addressing the much-coveted levelling up agenda. The importance of innovation for the future of the UK cannot be overstated.

Very best,
Luke



Luke Hamm
Chief Executive Officer
GovGrant

Introduction

Innovation in business is vital, especially in times of stress. With the UK entering a record-breaking recession, the SMEs that fuel so much of its economic growth need to embrace all the potential it can bring.

Even before the pandemic, new thinking and fresh ideas helped the UK's 5.8million SMEs¹ to flourish. This group, which powers 99.9% of the UK economy², is essential to the country's financial health. Ensuring these businesses can keep ahead of the game is more important than ever.

SMEs, which power 99.9% of the UK economy, are essential to the country's financial health

To assess the state of boardroom innovation in various parts of the UK, GovGrant engaged more than 500 SME decision-makers across a range of sectors.

We wanted to understand the factors driving strategic decision-making around investment in innovation and where businesses asked for advice. We also wanted to find out their views around protecting their intellectual property and how they could commercialise their best ideas.

As a result, GovGrant has launched a campaign to highlight the importance of innovation to UK businesses and how boards and executives can embrace it every day.

Despite a very tough economic environment, targeted support that encourages and enables innovation should empower businesses to help the UK grow its way out of recession and thrive once more.

1. <https://www.fsb.org.uk/uk-small-business-statistics.html>
2. <https://www.fsb.org.uk/uk-small-business-statistics.html>

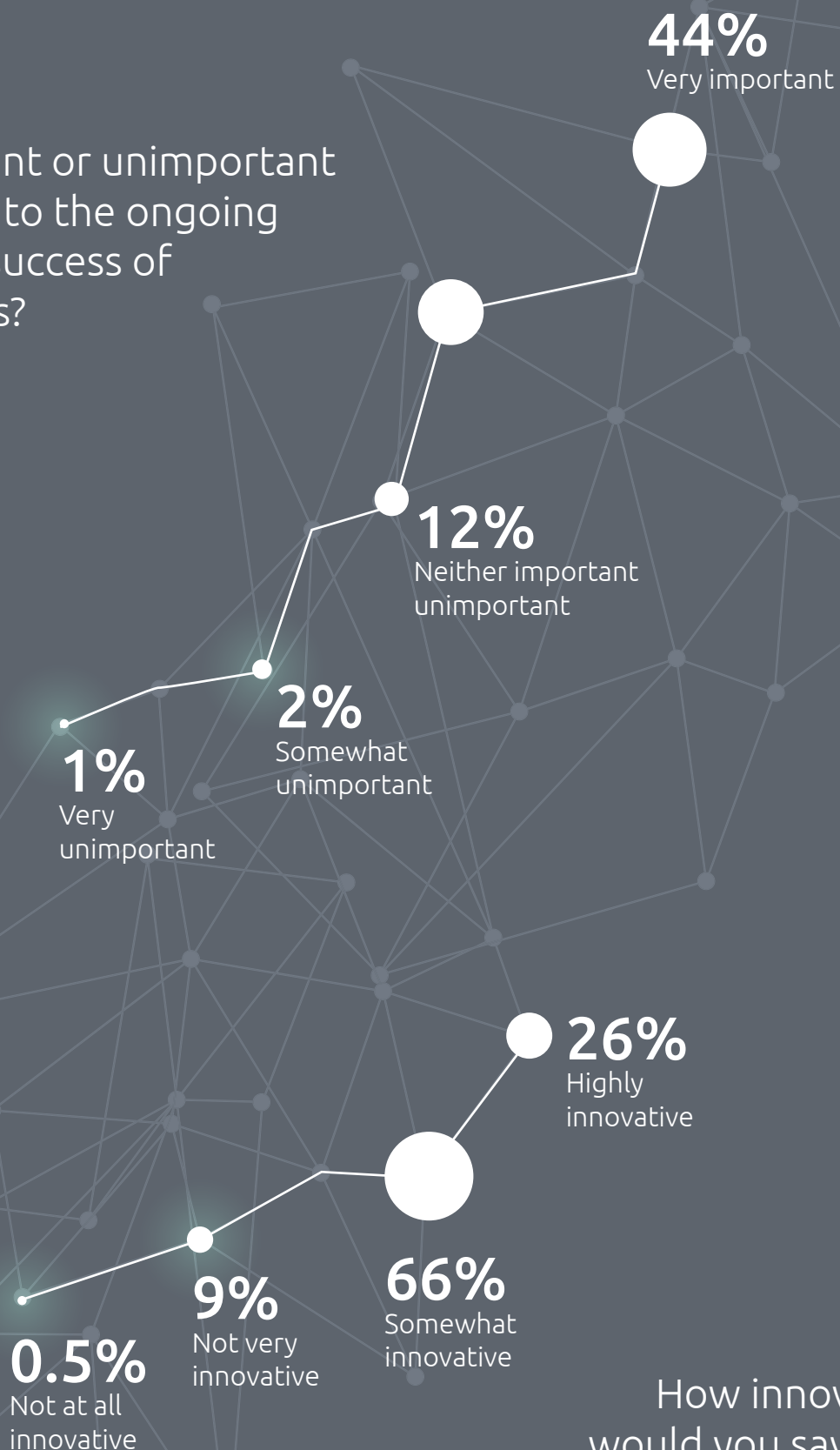


The background of the entire page is a dark blue to teal gradient. Overlaid on this is a complex network of thin, light blue lines connecting numerous small, semi-transparent circular nodes. The nodes are scattered across the frame, with some appearing more prominent than others. The overall effect is one of a digital or biological network, suggesting connectivity and innovation.

Innovation in 2020

A snapshot of UK business

How important or unimportant is innovation to the ongoing growth and success of your business?



How innovative would you say your businesses current activities are?

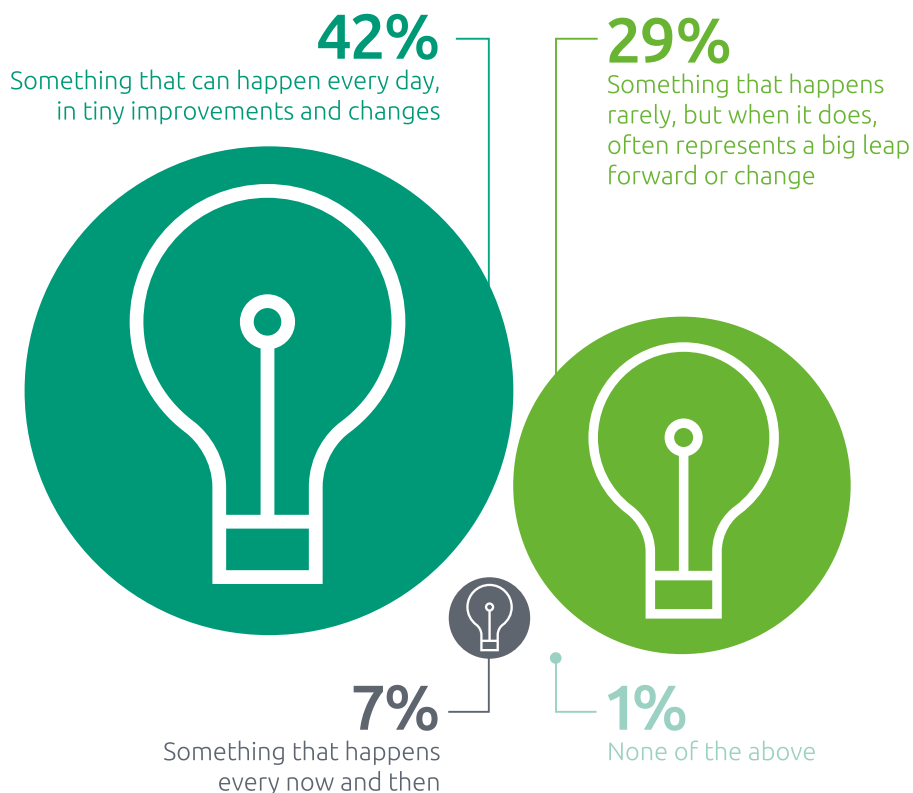
The big picture

While an encouraging 85% of businesses believe innovation is important to their growth, just 26% feel their current activities could be regarded as 'highly innovative'. But our detailed analysis found that these statistics belie a more promising picture.

One of the challenges we recognise for UK business is that the definition of "innovation" is different for each one, and this was confirmed when we spoke to business leaders.

For example, there is a significant disparity between what policymakers see as research and development and how it is interpreted in the boardroom. This gap only expands when turning to the definition of innovation.

Which of the following statements best describes your view of innovation in business?



When preparing this campaign, we wanted to test the perception of innovation within UK boardrooms. We wanted to know if, to them, it meant uniquely big leaps or the small incremental developments that happen every day.

Some 42% of respondents said they viewed innovation as tiny and continual changes that happen daily, with the rest saying that it either happened rarely (but made a considerable impact) or innovation occurred sporadically.

This finding is hugely encouraging as we understand – and aim to promote – how small, frequent updates can make a massive impact to overall performance. We acknowledge, too, that embracing innovation, even less regularly, can lead to real improvements.

It is important that businesses realise that even if rare, innovation can make a fundamental difference to their operations as it is going to be a key lever to growth in coming years.

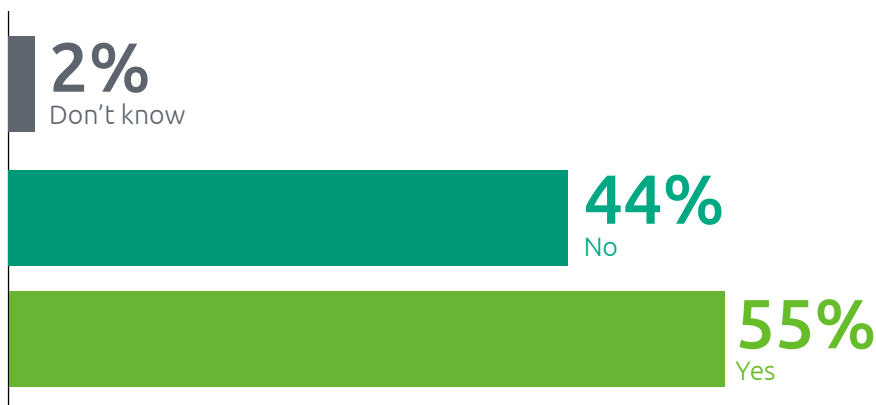
Small, frequent updates can
make a **massive impact** on
overall performance.

Challenging the status quo

To encourage more businesses to embrace and recognise innovation as a driver of growth, many businesses need to address their approach.

At present, some 43% of UK businesses do not have anyone at a board level who is responsible for the commercialisation of intellectual property and innovation. Often the responsibility ultimately lies with the finance director, meaning it is handled at the end, not the start of the process. This is a key element to be addressed by businesses as it holds the key to monetising fresh ideas.

Do you/your company have someone at Board level who is responsible for the commercialisation of your intellectual property and innovations?



With a quarter of businesses investing between £500,001 - £1m in their innovation each year, businesses would drive greater value from this if they had more specific roles and strategy in place. The UK Government has recognised the importance of innovation and has committed £22bn through its R&D Roadmap to be allocated by 2025³. But it is clear from our findings that businesses across many sectors need further support to recognise both how they can individually push forward on innovation, with the backing of government support.

3. <https://www.gov.uk/government/publications/uk-research-and-development-roadmap>



While government incentives are not a motivator for innovation, **they are a critical enabler for businesses.**

Sector breakdown

Architecture,
Engineering & Building



Fintech



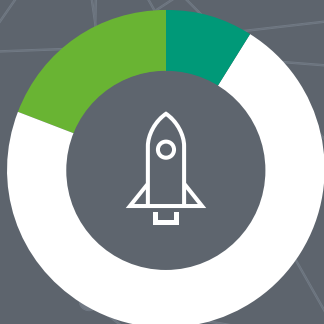
Healthcare



IT & Telecoms



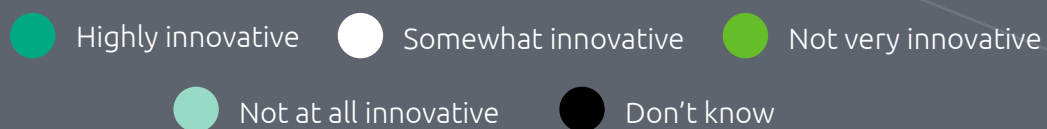
Manufacturing



MedTech



Pharmaceuticals



While government incentives are not a motivator for innovation, they are a critical enabler for businesses.

Given the huge variances between the industrial sectors, it might not be a surprise to discover they take a different approach to innovation. Yet, remarkably fintech, at 70% of respondents, claimed to be the least innovative, with engineering & building recording the highest response at 92%.

However, no more than a third of respondents in any sector felt their current activities were “highly innovative,” with just 23% of manufacturers and 9% in medtech claiming to be so.



No more than a third of respondents in any sector felt their current activities were “**highly innovative,**” with just 23% of manufacturers and 9% in medtech claiming to be so.

Roundly, significant barriers were cited by all sectors as to why they failed to embrace and action innovation. IT & telecoms, manufacturing and pharmaceuticals all responded that demand was the biggest barrier while fintech and medtech both regarded a lack of opportunity as standing in their way. Engineering & building and healthcare picked out expertise and cost as the biggest barriers, respectively.

However, when there is a willingness to innovate, barriers can be removed, and with each sector setting itself different targets and measurements for innovation, there is huge scope for directed support from government and industry bodies.

Regional breakdown

Despite around a third of UK SMEs operating in London and the South East⁴, innovation outside of these regions is strong. Some 92% of businesses in the West Midlands said they were innovative, with the same number citing it as important to their success, while in the North West the number was 85%.

However, business leaders in each region cited either cost or a lack of governmental support as the main barriers to investing in further research and development or creating an environment that was conducive to innovation. Elsewhere opportunity and expertise were missing, leaders said.

Yet, we can draw positives from our findings. It seems there is more appetite outside of London to invest in and commercialise innovation, which should help UK businesses – with the right support in place – to bounce back.

4. <https://www.fsb.org.uk/uk-small-business-statistics.html>

Regional breakdown





Accessing and improving government support

Creating an economic environment in which businesses feel supported is key to the UK Government's drive to encouraging widespread innovation.

Unfortunately only 15% of businesses strongly agree the UK Government is currently doing so.

Yet most businesses acknowledge that there is some support in place, and they are satisfied with its results. Some 82% of respondents were aware of tax breaks for companies that invest in R&D, with just a fifth of them not yet claiming these. Of those that had used such tax credits, the move had produced the desired result, with 80% set to invest further.

Are you aware that the government offers tax breaks for companies that invest in research and development (R&D)?



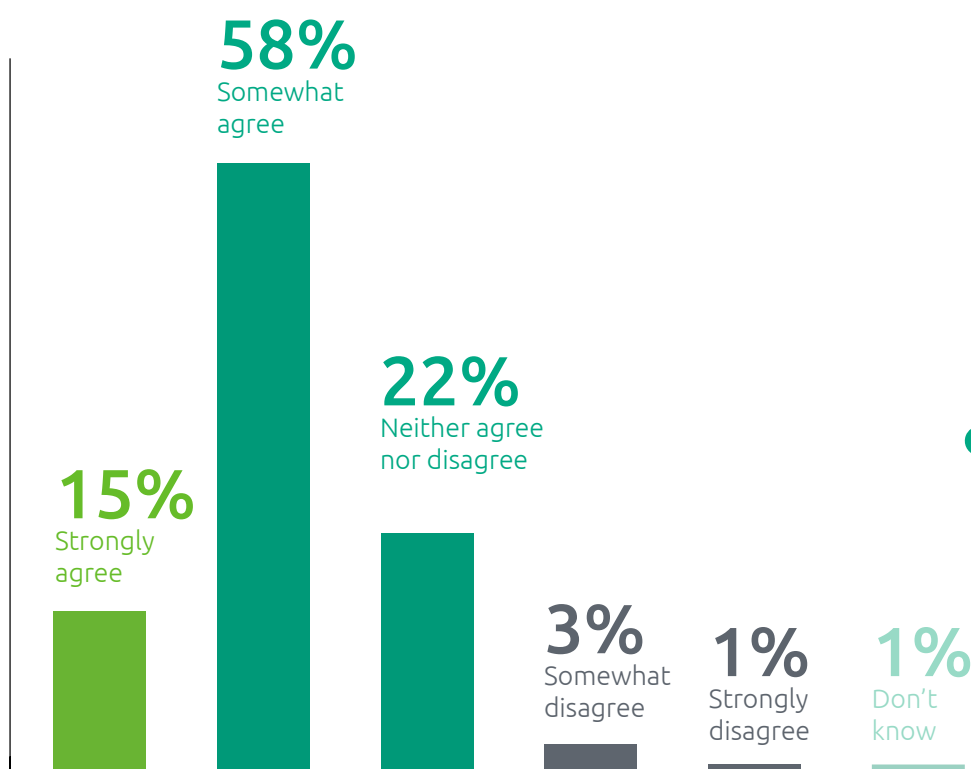
There remains disparity between the sectors, however, with 92% of fintech executives aware of tax breaks compared to 76% in healthcare. We also found 57% of UK business would borrow from private investors over accepting government loans, with 32% preferring the advice of their accountant on R&D projects.

With 79% of businesses saying they would be more willing to invest in innovation if support was given at the start of the process, there is potential to use HMRC or the British Business Bank as a deployment mechanism. We have seen how this can function well and quickly, as it is the means through which Covid-19 loan schemes have been distributed.

Alongside enabling more financial support for businesses, more work needs to be done to ensure they are educated about how they monetise and protect innovation and new ideas that could add commercial value.

It is important for the government to regain its status as a champion of UK business and see how funding, tax breaks and accessible advice can be a motivator rather than merely an enabler of positive, new ideas.

To what extent do you agree or disagree with the following statement
The UK Government is creating an economic environment in which businesses are encouraged to innovate?

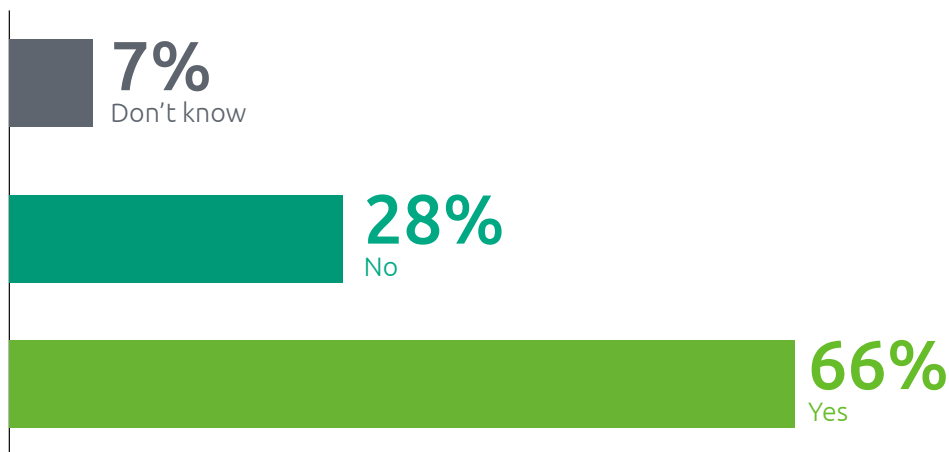


Patent process pending...

Our survey found a worrying lack of understanding and appreciation around IP protection and gaining value from patents.

While more than two thirds of respondents have sought IP advice in the past three years, less than a quarter of respondents thought the primary purpose of patents was to gain commercial value. Most respondents – some 38% – thought the primary purpose of a patent was to protect innovations.

Has your company sought intellectual property advice in the past 3 years?



We see that in almost every part of the economy IP is usually overlooked by business leaders. Within the sectoral breakdown, 44% of manufacturing business leaders claimed protecting it was important – the highest across all industries.



While there were 50,000 R&D tax claims made by the UK's SMEs in 2019, just

6,000

patents were granted.

While there were 50,000 R&D tax claims made by the UK's SMEs in 2019, just 6,000⁵ patents were granted. The number of patent applications in the UK had already dropped 8% between 2018-9⁶. This number includes those registered by academics and the general public, meaning just a tiny fraction of patent activity is related to commercial outcome.

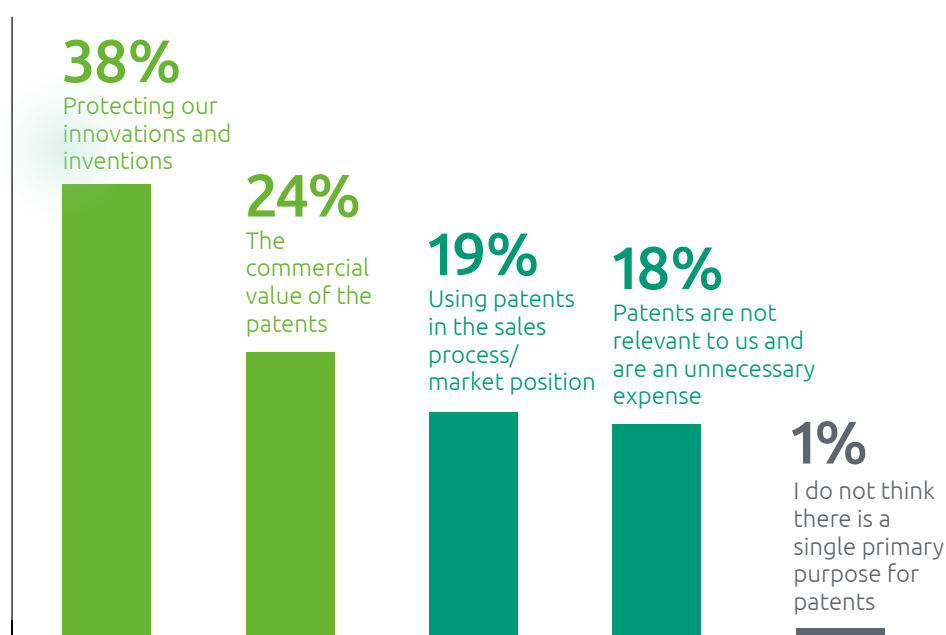
Even in sectors that might be expected to thoroughly understand both the process and benefit of the patent systems, registering them is usually neglected. Some 41% of fintechs and 27% of IT and telecom companies cited a lack of demand for new products for registering patents. This sits at odds with US giants in the same sectors that register thousands of patents every year.

Interestingly, there are some regional differences. In Scotland and Northern Ireland, some 58% and 57% of business leaders said it very important to maximise the value of their IP, much higher than elsewhere.

It is clear more needs to be done to educate businesses around patents and the value they can bring, and we think there is scope to address the cost, too. In 2018, the UK Government, through the Intellectual Property Office, amended the fee structure to discourage “trivial applications”⁷.

In our view, however, this needs to be examined as it is unlikely, especially in a poor economic environment, that a business will commit to a lengthy and expensive patent registering process with no surety of income or commercialisation at the end.

When thinking about patents, what do you think is their single primary purpose?



5. <https://www.gov.uk/government/publications/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019>

6. [https://www.gov.uk/government/publications/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019#:~:text=In%202019%20there%20were%2012%2C002,%2C%20and%20Japan%20\(563\).](https://www.gov.uk/government/publications/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019/facts-and-figures-patent-trade-mark-design-and-hearing-data-2019#:~:text=In%202019%20there%20were%2012%2C002,%2C%20and%20Japan%20(563).)

7. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/608560/proposed-changes-to-statutory-patent-fees.pdf

Putting innovation in the driving seat of the UK's economic recovery

What do you think are the barriers to innovation for your business?

42%

OPPORTUNITY

There is not the scope to innovate new methods, products or services

42%

COST

Innovating is too expensive

42%

DEMAND

We can meet customers' needs with our existing methods, products and services

42%

EXPERTISE

We do not currently have the necessary expertise within our team(s)

7%

NONE

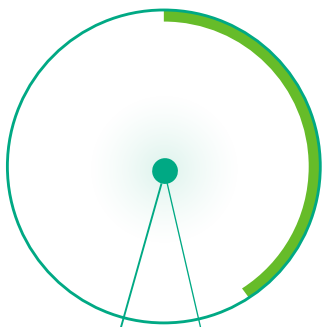
There is not the scope to innovate new methods, products or services

It is clear the UK economy faces a considerable challenge, but our survey and regular contact with businesses show they believe innovation holds the key to overcoming it.

However, 42% of businesses cited all the barriers of cost, opportunity and expertise as standing in their way.

The next steps, therefore, are to tackle these barriers and enable them to embrace and harness the power of innovation within their own organisations.

We believe we have identified how this can be done, usefully – and at speed.



42%

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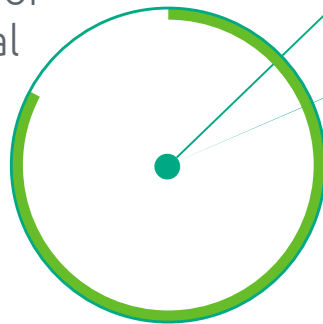
Cost - motivate, not just enable

For every business, cost – or keeping it under control – is always a major concern. But if expenditure ultimately helps or directly results in driving the company forward, it is money well spent.

Our survey showed that while 83% of businesses are aware of the potential commercial benefits successful innovation can bring, at least half this number see it as too expensive an activity to consider.

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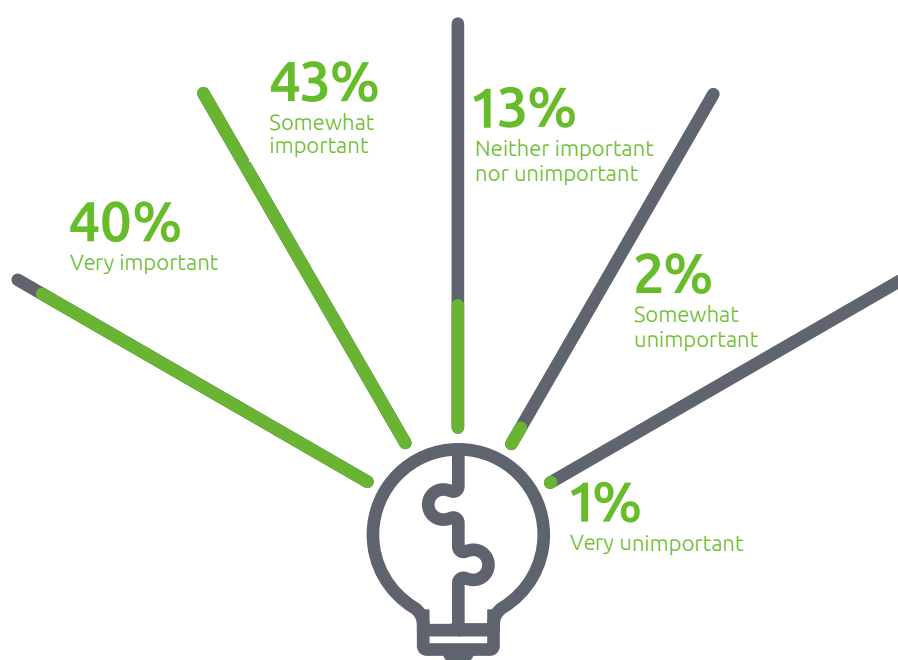


83% of businesses are aware of the potential commercial benefits successful innovation can bring, at least half this number see it as too expensive an activity to consider.

Indeed, throughout our survey, at every level of granularity, cost has been cited by businesses, which also indicates general poor awareness of existing government and commercial support.

An immediate change could be made in the patent application process, to make it less expensive and onerous – thereby levelling the playing field with companies in nations with smoother processes and against which our business compete.

How important or unimportant do you think it is for your company's innovative ideas, processes and products/services to be protected?



By doing this, we believe businesses would be able to more clearly see the commercial importance and value of innovation. It is a real concern that just 40% of businesses responding to our survey thought it was important for their IP to be protected. This highlights the lack of understanding that without recording their IP, they could lose any commercial potential from their hard work.

We believe the government could make impactful changes relatively quickly that would encourage more businesses to invest in innovation – starting with the current inability to claim for expenses around IP protection.

Our recommendation would be to expand the R&D tax scheme to include IP, to help businesses take the first step with costs covered, rather than try to claim them back. While there is an existing grant scheme available for IP audits⁸, the annual cash earmarked for businesses is small. On the other hand, around £5bn is paid out through R&D tax relief.

8. <https://www.gov.uk/government/publications/ip-basics/ip-basics>

It makes sense that the accessibility of funding and sharing of risk is extended to help motivate, rather than just enable companies to generate and monetise their fresh thinking.

Opportunity - clarity needed urgently

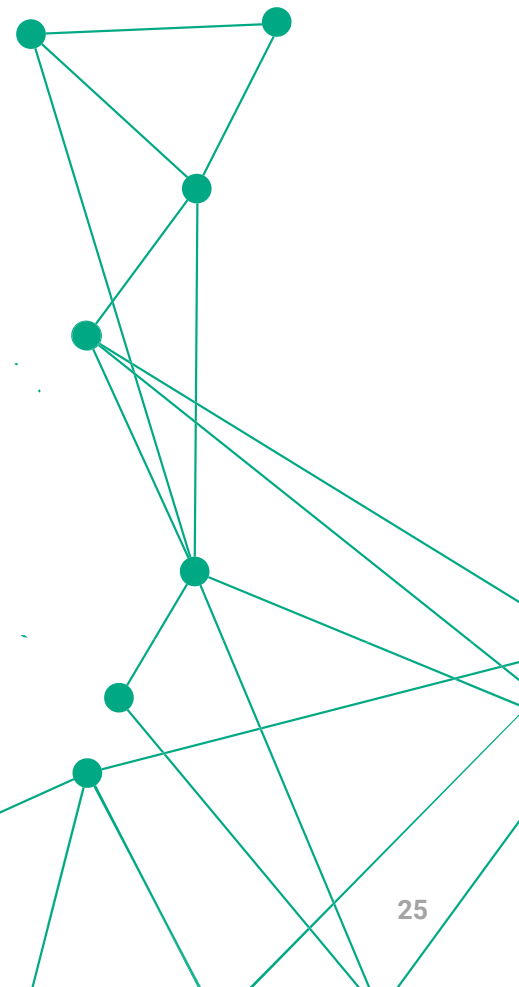
Unlike a physical balance sheet item such as cost, the barrier of opportunity is harder to define and this is something our community and the UK Government needs to grapple with as a matter of urgency.

While an overall 42% of businesses cited it as an issue, there were stark differences between sectors and regions. What is clear, however, is that despite 85% of businesses believing innovation to be important to the UK's economic recovery from Covid-19, just 26% said they were actively embracing it – but we believe this may send a false message.

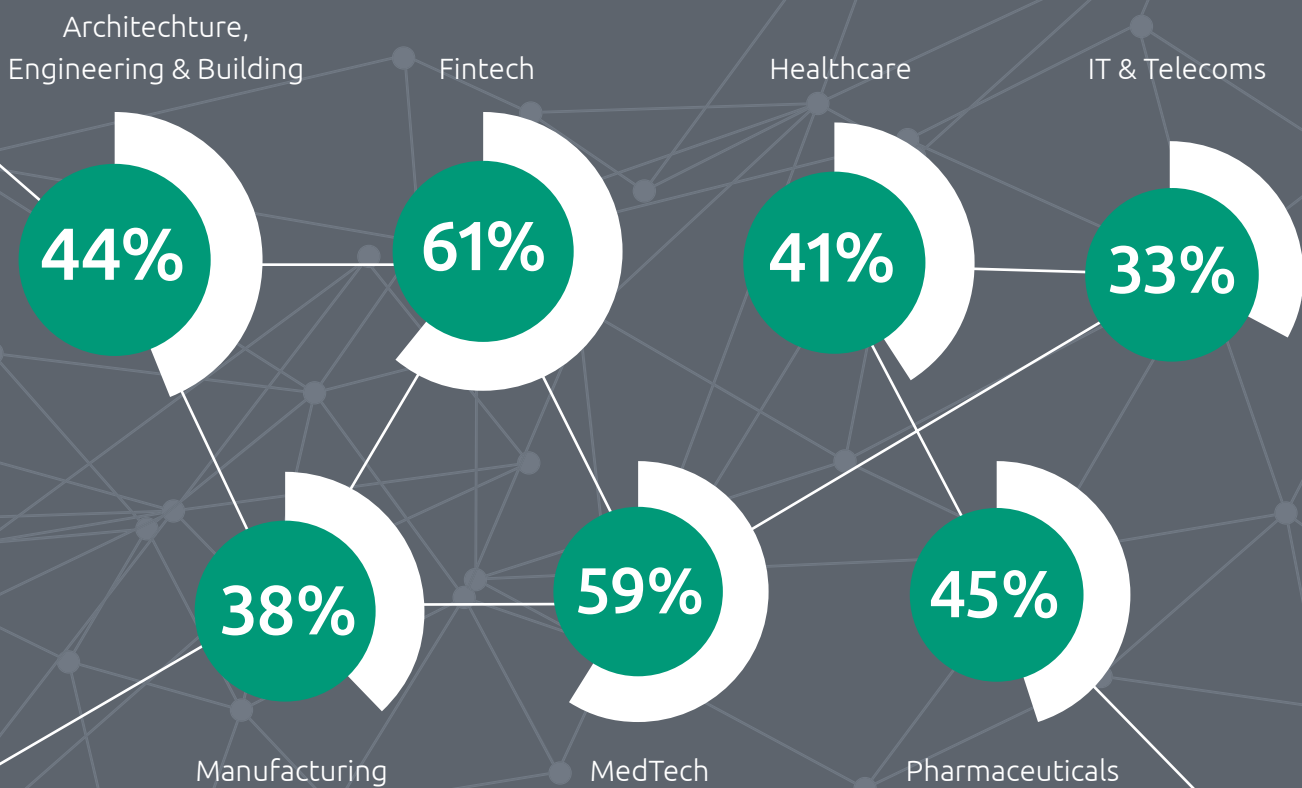
As we discussed above, perception of innovation needs addressing in the UK. It seems, various departments in government presume everyone has the same understanding of innovation, but this is not at all the case.

Unfortunately, this is the reason why much of the available government support is not working as planned. Despite some very good intentions, without universal terms of reference, many of these packages are failing to penetrate where they are needed. We welcome the opportunity to work with government to facilitate a discourse that would bring more businesses to the table and illustrate how wide-ranging innovation can be.

We feel this conversation needs to take place urgently, as the disruption brought by the pandemic, though extremely negative to some, opens up a huge array of innovative possibilities. It has drastically changed all aspects of life, including how we work, travel and spend our money, so businesses need to engage and objectively assess where they can take advantage.



Opportunity as a barrier by sector





Expertise - search for the hero inside

A perceived lack of expertise is potentially the easiest of the major barriers for business leaders to break down – it just needs a little faith and encouragement.

By their very nature, companies operating and succeeding in a certain field are specialists in their area, meaning they must employ those with the expertise they claim to lack.

However, with 42% telling our survey they do not have the necessary personnel to innovate, we believe this links to the perception around the definition of opportunity. It is important that businesses know that fresh thinking and new ideas do not have to lead to an overhaul of their entire strategy or output, rather innovation can be responsible for minor changes that add up over time.

More needs to be done to publicise the expert support that is already - and often freely - available through industry bodies and trusted partners.

In addition, we see that more needs to be done to publicise the expert support that is already – and often freely – available through industry bodies and trusted partners. SMEs that are concerned about the cost of hiring and training existing staff need to be made more aware of the third-parties' help they can access at any time to help them draw out their own innovative tendencies.

The R&D roadmap talks about the importance of talent and creating an environment where the UK attracts the best talent. The results of our survey underline just how significant the talent agenda is to build a world class innovation economy.

The background is a gradient from dark blue at the top to a teal-green at the bottom. Overlaid on this is a complex network of thin white lines connecting small white circular nodes. The nodes are scattered across the frame, with some forming dense clusters and others standing alone. The lines vary in length and orientation, creating a sense of interconnectedness and flow.

Conclusion

Conclusion - time to act, time to innovate

The Covid-19 pandemic – or rather the economy's recovery from its impact – provides an opportunity for UK business to come back stronger than ever.

We hear from leaders, and our survey has also shown our community sees it too, there is huge appetite to take action.

Some 71% of businesses said Covid-19 represents an opportunity for innovation, with 26% citing it as “significant”. It is encouraging that business based outside London and the South East are also brimming with confidence around what this recovery could bring: Wales – 100%, Yorkshire – 84%, South West – 75%.

But the pandemic has also laid bare the issues our businesses have when thinking about how to grow and develop. Of the 100% of leaders in Wales who see the recovery as an opportunity for innovation, just 30% said they were highly innovative.

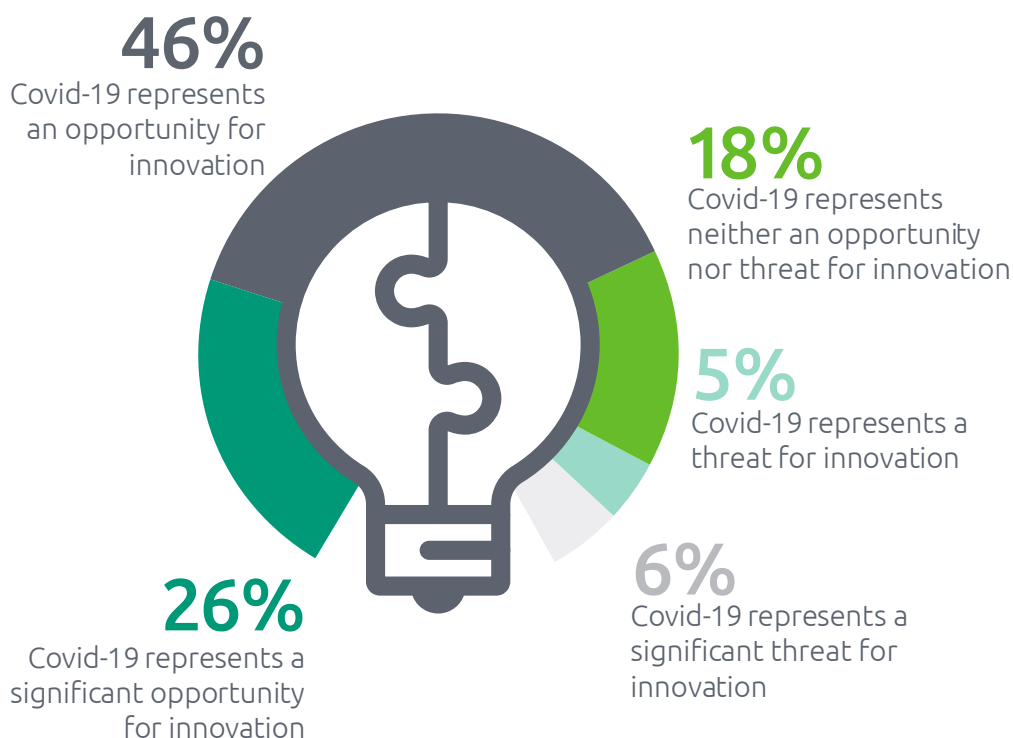
We hear from leaders, and our survey has also shown our community sees it too, there is huge appetite to take action.

We know, and this survey has shown, the disconnect there is between the perception of innovation by business leaders and how it relates to their own organisations. We believe this is something that can and should be addressed with the utmost urgency.

We recognise that just changing this mindset will not break down all the barriers our SMEs believe prevent them from innovating, but it is a vital first step to enable them to see how innovation has very real commercial implications and that it is something to be embraced. It will also help them to find and access existing help and support, and potentially add their voice to those pressing for more.

In the aftermath of the initial Covid-19 shock, UK business faces a significant crossroads. It is vital it makes the right decision, but it cannot, and should not do it alone.

To what extent do you think Covid-19 represents an opportunity or a threat to how innovative your business is able to be?



We know, and this survey has shown, the disconnect there is between the perception of innovation by business leaders and how it relates to their own organisations. **We believe this is something that can and should be addressed with the utmost urgency.**



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